EPH

Annual Report
2016

Energetický a průmyslový holding, a. s.

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www.epholding.cz

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2016

Energetický a průmyslový holding, a. s.

EPH

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

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Content

EPH

Introduction by the Chairman of the Board of Directors

Dear shareholders, business partners, colleagues, and friends,

For EPH, 2016 turned out to be a year of significant changes in both key pillars of its activities, the operation of energy infrastructure assets in the Central European region (EPIF company) and the production of electricity in Central, Western and Southern Europe, supplemented by the coal mining in Central Europe. Whereas for EPIF, the main event was the entry of a consortium of top global infrastructure funds as minority shareholder of the company, the electricity production segment experienced dynamic growth via acquisitions on several European markets. The shareholder structure of EPH also underwent significant changes.

As concerns economic results, 2016 saw further growth in EPH's economic performance. Consolidated revenues came to EUR 4 931 mil., consolidated EBITDA was EUR 1 520 mil. and the overall indicator of consolidated net leverage was on level of 2.9 of EBITDA multiple, given the Group's asset structure it is quite conservative level. All this was achieved while we also realised new acquisitions not reflected in the above noted consolidated data (shares in LEAG Holding and Slovak Power Holding).

Introduction by the Chairman of the Board of Directors

1. ENTRY OF MIRA-LED CONSORTIUM INTO EPIF

At the beginning of 2016, EPH formed the EP Infrastructure group (EPIF), combining firms owning and operating important parts of energy infrastructure in Central Europe. EPIF hence became a key subsidiary of EPH, focusing on transmission, distribution and storage of natural gas and the distribution of electricity and heating. The infrastructure operated by EPIF is not only robust, diversified in its markets and branches of the energy sector but also contracted over long-term and/or regulated. The combination of these characteristics contributes to the high stability of EPIF's financial results. Thanks to the high quality of its assets and its effective management, EPIF assured an above-average conversion ratio of operating profits into available cash flows. EPIF has become a unique infrastructure company in Central and Eastern Europe. In this regard and in the context of ongoing discussions on a change in EPH's shareholding structure, in the middle of the year, we decided to accommodate investor demands and to offer a minority share in EPIF to infrastructure investors. After careful consideration, EPH's management decided on the direct sale of a 31% share in EPIF to a strategic partner. This partner is a consortium of global institutional investors led and represented by Macquarie Infrastructure and Real Assets (MIRA). The remaining 69% share in EPIF remains within EPH, which at the same time keeps managerial control over EPIF. Resources thus gained were utilised in the acquisition of EPH's own shares as part of the change in the company's shareholding structure, whose further details are described below.

Looking at operational parameters, in 2016, the companies of the EPIF group transmitted more than 60 billion cubic meters and distributed almost 5 billion cubic meters of natural gas and further distributed nearly 6 TWh of electricity, delivered more than 23 PJ of heat and utilised practically 100% of their storage capacity for natural gas of 41 TWh.

2. CHANGE IN EPH'S SHAREHOLDING STRUCTURE

Parallel to the sale of a minority share in EPIF, changes were undertaken in the shareholding structure of EPH. The owners of EPH undertook a series of transactions that resulted in the successful exit of Patrik Tkáč and of J&T's private equity structures. EPH shares are currently held in the following manner: Daniel Křetínský owns 94% of EPH shares, while 6% are held by selected members of EPH management. The transaction with J&T's private equity structures has been entirely settled and all shares held were directly acquired by EPH. The sale of the shareholding ultimately controlled by Patrik Tkáč involves a transaction with deferred financial settlement and a strong earn-out aspect, with the company controlled by Daniel Křetínský as the counterparty. In this manner Patrik Tkáč remains significantly interested in the development of EPH's economic values. At the same time, the entire transaction was structured not to limit EPH's potential for further growth.

3. ELECTRICITY PRODUCTION

EPH aims to further strengthen its position in the production of electricity that has become one of basic human needs in developed economies and at the same time one of the least substitutable products of our time. Nonetheless, especially due to the enormous instability of the legislative and regulatory framework, a vast majority of European power plant capacities are operating at a loss. This has led to the practical suspension of investments into new electricity resources, with the exception of those with feed-in tariffs or other sources of regulatory support (renewable resources in particular). At the same time, environmental, economic and technological reasons will lead to the gradual closing of power production capacities. In our opinion, this situation may lead to the temporary valuation of existing sources but especially to a revision of market rules (market design), resulting in the transformation of the energy production segment into a semi-regulated sector. EPH wants to be prepared for this transformation and to support it with all available means. Part of this strategy will also be the construction of new resources under the supported semi-regulated environment in place of existing power plants about to be closed due to any of the above reasons. Such activities are completely in accordance with EPH's strategy, and represent a logical supplement to the operation of classic energy network infrastructures.

In 2016, in accord with this strategy and in a consortium with financial partner PPF Investments Ltd. (PPFI), EPH concluded the acquisition of the German lignite assets of Vattenfall. With a production amounting to about 60 TWh and an installed capacity of 8000 MWe, newly established LEAG, producing electricity in the Schwarze Pumpe, Boxberg, Jänschwalde and Lippendorf power plants, has become the third largest producer of electricity in Germany.

Introduction by the Chairman of the Board of Directors

In Slovakia, EPH also concluded the first phase of its entry into Slovenské elektrárne. Currently, we hold a 50% share in Slovak Power Holding (SPH). The remaining 50% of SPH are still under the ownership of the Enel group, whereas the transaction entails also covenants that provide for the possible takeover of SPH in its entirety by EPH. SPH currently holds 66% of shares in Slovenské elektrárne, which produces approximately 70% of all electricity on the territory of Slovakia. Up to 90% of all distributed electricity is produced without the emission of greenhouse gasses through nuclear, hydro and photovoltaic power plants and the co-firing of biomass.

EPH significantly improved its position in Great Britain by acquiring the Lynemouth power plant, whose conversion from coal-fired to biomass-fired is currently under way. Subsequently in the first half of 2017, EPH purchased two combined cycle gas turbine power stations Langage and South Humber Bank, with a total installed output of 2.3 GWe, from Centrica. After the transaction completion, these power plants will represent an addition to the current EPH portfolio of British power plants consisting of Eggborough and Lynemouth power stations as well as a development project in the location of Eggborough, including the construction of a new combined cycle gas turbine plant (CCGT).

Regarding the Group's current operational parameters, companies controlled or jointly controlled by EPH have produced 101 TWh of electricity and extracted 80 million tons of lignite in 2016.

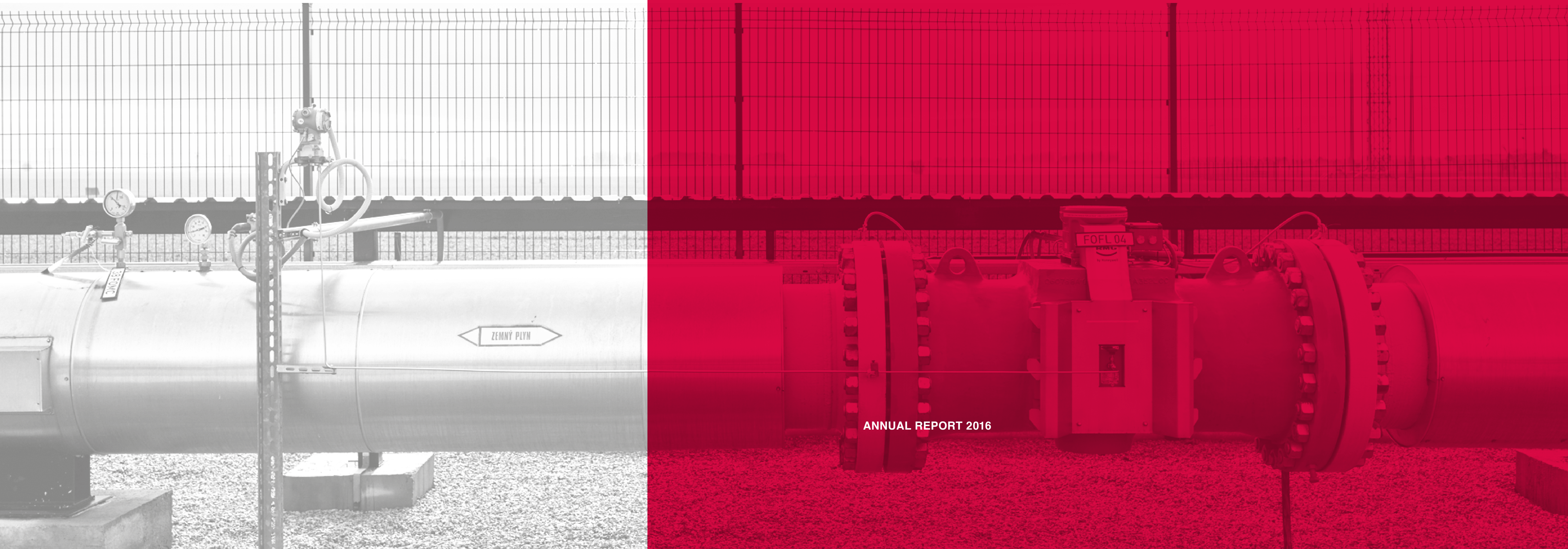
In conclusion, allow me to extend my sincerest thanks to our employees, investors and partners who participated in the realisation of our strategy. Their cooperation and support made our business activities possible. To all of them, we owe the successes we achieved this year.

JUDr. Daniel Křetínský

Chairman of the Board of Directors

EPH

Independent Auditor’s Report to the Consolidated Annual Report



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Czech Republic
+420 222 123 111
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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 2016, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies and other explanatory notes. Information about the Company is set out in Note 1 to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the financial position of the Company as at 31 December 2016, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Basis for Opinion

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

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 of Energetický a průmyslový holding, a.s. 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 and Audit Committee 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

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

Prague
27 July 2017

KPMG Česká republika Audit

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

Ing. Vladimír Dvořáček
Partner
Registration number 2332

EPH

Other Information

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EXPECTED DEVELOPMENT OF THE GROUP OF ENERGETICKÝ A PRŮMYSLOVÝ HOLDING, A.S. ("EPH GROUP")

In 2017, EPH Group intends to continue to develop its activities in all its segments, i.e. predominantly in the segments of power generation, mining, gas transmission, gas and power distribution, heating and gas storage.

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

OTHER INFORMATION ABOUT SUBSEQUENT EVENTS THAT OCCURRED AFTER THE REPORTING DATE

A MAJOR ACQUISITIONS

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

On 21 June 2017 Centrica plc agreed to sell its operational Langage and South Humber Bank combined cycle gas turbine ("CCGT") power stations, with a combined capacity of 2.3 GW, to EP UK Investments Ltd ("EP UK") for GBP 318 million (approximately EUR 362 million) in cash, subject to customary working capital and other completion adjustments. The transaction is subject to EU merger clearance and is expected to close during the second half of 2017.

B CHANGE IN EPH SHAREHOLDER STRUCTURE

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 ("EPIF"). The remaining 69% of EPIF remains with EPH, which will also retain management control over EPIF.

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

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

Other Information

C EPIF FACILITY AGREEMENT

On 21 June 2017, EPIF entered into a Term Loan Facilities Agreement between, among others, several banks as arrangers and lenders 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 1,950 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; and
- Facility E in an amount of EUR 200 million.

As of 17 July 2017, the total principal amount outstanding under the EPIF Facility Agreement was EUR 1,913 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.

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 as follows (disregarding the cash already held at EPIF, Czech Gas Holding Investment B.V. ("CGHI") and Slovak Gas Holding B.V. ("SGH") level):

- full repayment of the external bank financing of EPIF in the total amount of EUR 1,603 million, including accrued interests;
- payment of the other refinanced bank financing costs in the aggregate amount of EUR 7 million; and
- rest for the general purposes.

D OTHER SUBSEQUENT EVENTS

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

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

On 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 on the basis of 2016 profit) and set them off against the declared dividends of the same amount.

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

On 30 January 2017 EPH completed the transaction for purchase of 67.33% share in SPEDICA GROUP COMPANIES, s.r.o. Spedica group comprises several companies providing services in rail, sea and road transport.

In February 2017, Eggborough Power Limited was awarded a Capacity Agreement by National Grid plc. 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. The total level of profitably of this agreement will be determined by actual commodity prices in the period of delivery. No adjustment has been made to the reported results at 31 December 2016 in respect of this agreement.

On 10 February 2017 the subsidiary 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 and a total of 3,000,000 units at nominal of CZK 1,000 per unit have been subscribed from the second issue of bonds by EPH Financing CZ a.s.

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

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

On 1 April 2017 Stredoslovenská energetika, a.s. acquired a 100% interest in SPV100, s.r.o.

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 SPPI Group's effective combined direct and indirect share shall be approximately 72%). The completion of transaction shall take place upon receipt of all necessary regulatory approvals and is expected in the second half of 2017.

On 2 June 2017 Pražská teplárenská a.s. acquired additional 5% interest in its subsidiary Energotrans SERVIS a.s. and became a 100% shareholder.

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

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

BRANCHES

The EPH Group has the following organizational units abroad: EP ENERGY TRADING, a.s., organizačná zložka located in Slovakia and LokoTrain s.r.o., organizačná zložka located in Slovakia.

RESEARCH AND DEVELOPMENT ACTIVITIES

In 2016, 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

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

RISK MANAGEMENT POLICIES

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

INFORMATION ON ENVIRONMENTAL PROTECTION ACTIVITIES AND EMPLOYMENT RELATIONS

In 2016, the 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.

The EPH Group activities are regulated by a wide range of environmental regulations in the Czech Republic, Slovakia, Germany, Italy, United Kingdom, Hungary and the European Union. 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_2, sulphur oxides (SO_x), nitrogen oxides (NO_x), carbon monoxide (CO) and solid dust particles emissions ("SDP").

Although 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 operation of facilities, for which EPH Group seeks to minimise their impact on the environment, but also the Group's investment activities.

EPH Group will continue to maintain its compliance with the environmental legislative requirements. In particular, in 2016 the Group invested considerable amounts into the restructuring of several plants. Namely, Elektrárny Opatovice, a.s. ("EOP") has completed several investment projects that will reduce emissions of SO_2, NO_x and SDP by more than ten percent compared to previous years. Also reconstruction of three boilers has been completed, which will ensure that the new limits on NO_x emission are met. Together with the reconstruction, second desulphurization line was put into operation, allowing for a significant reduction of SO_2 emissions. Moreover, EOP already fulfils the new dust limits effective from January 2020, and expects to further decrease its dust particles emissions as a result of planned investments.

Pražská teplárenská, a.s. met all emissions limits for SDP, SO_2, NO_x and CO_2 in 2016. During 2016, several changes to integrated permits were issued. In the Malešice heating plant, these changes related to emissions measurement and to the reduction of the emission ceiling for CO_2 emissions that were transferred to United Energy, a.s. In the Holešovice heating plant, the changes related to the commissioning of the new THOL4 source into operation. Additionally, environmental monitoring plans for the reporting of CO_2 emissions were updated and approved by the Ministry of the Environment. These plans relate to the Malešice, Michle and Holešovice heating plants and the Krč heating station. In 2016, a successful audit of the environmental management was carried out. The audit stated the compliance with the requirement of ČSN EN ISO 14001 standard in all examined areas.

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

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

Pursuant to the Slovak Energy Act, Eustream, a.s. is annually required to elaborate and submit the National TenYear Network Development Plan to the Slovak Ministry of Economy and to the Regulatory Office of Network Industries (“RONI”). The last plan was submitted in the fourth quarter of 2016 and covers the period from 2017 to 2026. 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 the area of air protection, an important project was the modification of the Nuovo Pignone gas turbines by implementing the Dry Low Emissions technology, which ensured the compliance with the European Parliament and Council’s directive No. 2010/75/EU on Industrial Emissions.

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.

EPH Group enjoys a positive market image and a significant level of public and political support resulting from the fact that part of its production facilities operate in a highly efficient combined cogeneration mode that has much lower carbon footprint than a typical power plant. As a result, EPH’s plants save primary energy, avoid network losses, reduce emissions and improve the security of Europe’s internal energy supply.

EMPLOYMENT RELATIONS

The main strengths of the EPH Group include good relations with its employees and their loyalty. The Group maintains good and fair relations with the trade unions active within the Group companies through regular meetings and discussions on labour, social and wage related issues. Safety and quality management covers health protection at work, safety management systems, technology and human resources all of which are an integral part of the management of the EPH Group. The management believes that EPH Group as well as its companies and equipment are in compliance with all legislative requirements and best practice methods. Moreover, they are constantly striving to improve the level of safety of the Group’s operations by implementing measures focused on risk assessment, elimination, mitigation and prevention. EPH Group also provides general training programmes designed to ensure the safety of the Group’s employees. Additionally, when selecting and evaluating potential suppliers, the Group takes into account their approach to safety issues.

Prague, 27 July 2017

Daniel Křetínský

Chairman of the Board of Directors

Pavel Horský

Member of the Board of Directors

EPH

Report on relations

ANNUAL REPORT 2016

Report on relations

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

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prepared by the board of directors of **Energetický a průmyslový holding, a.s.** ("the Company"), with its registered office at Pařížská 130/26, Josefov, Prague 1, post code 110 00, ID No.: 28356250, 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 profit or the settlement of its loss.

The Report has been prepared for the 2016 accounting period.

II. STRUCTURE OF RELATIONS BETWEEN THE ENTITIES

CONTROLLED ENTITY

The controlled entity is Energetický a průmyslový holding, a.s., Pařížská 130/26, Josefov, Prague 1, post code 110 00, ID No.: 28356250 recorded in the Commercial Register maintained by the Municipal Court in Prague, section B, insert 21747.

CONTROLLING ENTITIES

EP Investment S.a r.l.
Registered office: 46A, Avenue J.F. Kennedy, L – 1855 Luxembourg, Luxembourg
Reg. No.: B 184488

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

OTHER CONTROLLED ENTITIES

The companies controlled by the same controlling entities are disclosed in note 38 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., ON CORPORATIONS

In 2016 the Company sold interests in Czech Gas Holding Investment B.V., EPH Gas Holding B.V., EP Commodities, a.s. and EP United Kingdom, s.r.o. and acquired interest in JTSD Braunkohlebergbau GmbH.

Apart from matters mentioned above, during the 2016 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 2016 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 8 September 2011 a loan agreement, including valid amendments, was signed by and between Energetický a průmyslový holding, a.s. as the creditor and Alternative Energy, s.r.o. as the debtor.

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

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

On 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 17 September 2013 a loan agreement, including valid amendments, was signed by and between Energetický a průmyslový holding, a.s. as the creditor and Czech Gas Holding Investment B.V. as the debtor.

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

On 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 4 April 2014 a loan agreement was signed by and between Energetický a průmyslový holding, a.s. as the creditor and Czech Gas Holding Investment B.V. as the debtor.

On 25 September 2014 a loan agreement 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 February 2015 a loan agreement was signed by and between Energetický a průmyslový holding, a.s. as the creditor and EP UK INVESTMENTS LTD as the debtor.

On 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 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 was signed by and between Energetický a průmyslový holding, a.s. as the debtor and 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.

Report on relations

On 24 November 2015 a loan agreement was signed by and between Energetický a průmyslový holding, a.s. as the debtor and Czech Gas Holding Investment B.V. as the creditor. On 24 March 2016 a debt was assumed based on a contract on debt assignment by EP Infrastructure, a.s.

On 1 December 2015 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 December 2015 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 4 January 2016 a loan agreement was signed by and between Energetický a průmyslový holding, a.s. as the creditor and EP United Kingdom, s.r.o. as the debtor.

On 1 March 2016 a loan agreement was signed by and between Energetický a průmyslový holding, a.s. as the creditor and EP Infrastructure, a.s. (formerly CE Energy, a.s.) as the debtor.

On 23 March 2016 a loan agreement was signed by and between Energetický a průmyslový holding, a.s. as the debtor and EP Infrastructure, a.s. (formerly CE Energy, a.s.) as the creditor.

On 31 March 2016 a loan agreement was signed by and between Energetický a průmyslový holding, a.s. as the debtor and EP Commodities, a.s. as the creditor.

On 4 April 2016 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 13 April 2016 a loan agreement 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 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 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 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 2 August 2016 a loan agreement was signed by and between Energetický a průmyslový holding, a.s. as the creditor and DCR INVESTMENT a.s. as the debtor.

On 30 August 2016 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 18 October 2016 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 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 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.

V. 1. 2. IN 2016 THE FOLLOWING AGREEMENTS ON THE SET-OFF OF RECEIVABLES AND PAYABLES WERE CONCLUDED:

On 4 January 2016 an agreement on the set-off of receivables was signed by and between Energetický a průmyslový holding, a.s. and Czech Gas Holding N.V.

On 1 April 2016 an agreement on the set-off of receivables was signed by and between Energetický a průmyslový holding, a.s. and Czech Gas Holding N.V.

On 4 April 2016 an agreement on the set-off of receivables was signed by and between Energetický a průmyslový holding, a.s. and EP Infrastructure, a.s. (formerly CE Energy, a.s.).

On 5 April 2016 an agreement on the change of a receivable due date was signed by and between Energetický a průmyslový holding, a.s. and EP Infrastructure, a.s. (formerly CE Energy, a.s.).

On 25 April 2016 an agreement on the set-off of receivables was signed by and between Energetický a průmyslový holding, a.s. and EP Infrastructure, a.s.

On 1 June 2016 an agreement on the set-off of receivables was signed by and between Energetický a průmyslový holding, a.s. and Przedsiębiorstwo Górnicze “SILESIA” sp. z o.o.

On 1 July 2016 an agreement on the set-off of receivables was signed by and between Energetický a průmyslový holding, a.s. and Czech Gas Holding N.V.

On 3 October 2016 an agreement on the set-off of receivables was signed by and between Energetický a průmyslový holding, a.s. and Czech Gas Holding N.V.

On 18 October 2016 an agreement on a multilateral offset and assignment was signed by and between Energetický a průmyslový holding, a.s., EP United Kingdom, s.r.o., EP UK Investments Ltd and Lynemouth Power Limited.

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

V. 1. 3. IN 2016 THE FOLLOWING AGREEMENTS ON THE ASSIGNMENT OF RECEIVABLES WERE CONCLUDED:

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

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

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

On 20 April 2016 an agreement on the assignment of receivable was signed by and between Energetický a průmyslový holding, a.s. as the assignor and EP Logistics International, a.s. as the assignee against LokoTrain s.r.o.

Report on relations

V. 1. 4. OTHER CONTRACTS VALID IN 2016:

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 2 February 2015 a framework agreement on the provision of guarantees was signed by and between Energetický a průmyslový holding, a.s. as the guarantor and EP Commodities, a.s. as the debtor.

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 1 February 2016 an agreement on a fee for security was signed by and between Energetický a průmyslový holding, a.s. and Lynemouth Power Limited.

On 15 March 2016 an agreement on the provision of supplementary equity contribution was signed by and between Energetický a průmyslový holding, a.s. and Czech Gas Holding Investment B.V.

On 24 March 2016 a contract on debt assignment was signed by and between Czech Gas Holding Investment B.V. as the creditor, Energetický a průmyslový holding, a.s. as the debtor and EP Infrastructure, a.s. (formerly CE Energy, a.s.) as the new debtor.

On 4 April 2016 a contract on debt assignment was signed by and between EP Energy, a.s. as the creditor, Energetický a průmyslový holding, a.s. as the debtor and EP Infrastructure, a.s. (formerly CE Energy, a.s.) as the new debtor.

On 22 April 2016 an agreement on the subscription of shares was signed by and between Energetický a průmyslový holding, a.s. as the subscriber and EP Infrastructure, a.s. as the issuer.

On 17 October 2016 an agreement on the termination of security was signed by and between Energetický a průmyslový holding, a.s. and Lynemouth Power Limited.

On 22 November 2016 an agreement on the provision of supplementary equity contribution outside the registered capital was signed by and between Energetický a průmyslový holding, a.s. and EP Power Europe, a.s.

On 15 December 2016 agreements on the provision of supplementary equity contribution outside the registered capital were signed by and between Energetický a průmyslový holding, a.s. and EP Power Europe, a.s.

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. 5. IN 2016 THE FOLLOWING OPERATING AGREEMENTS WERE IN PLACE:

On 24 November 2014 a joint action agreement was signed by and between Energetický a průmyslový holding, a.s. and the following entities:

CE Energy, a.s.
Czech Gas Holding Investment B.V.
DCR INVESTMENT a.s.
EPH Gas Holding B.V.
EP Investment Advisors, s.r.o.
Mining Services and Engineering Sp. z o.o.
NAFTA a.s.
Seatlle Holding B.V.
SEDILAS ENTERPRISES LIMITED
Slovak Gas Holding B.V.
SPP Infrastructure, a. s.
WOOGEL LIMITED

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

On 31 December 2014 an agreement on the settlement of mutual relations was signed by and between EP Investment Advisors, s.r.o. and Energetický a průmyslový holding, a.s.

On 2 January 2015 a technical assistance agreement was signed by and between EP Investment Advisors, s.r.o. and Energetický a průmyslový holding, a.s.

On 2 January 2015 a mediation agreement was signed by and between EP Investment Advisors, s.r.o. and Energetický a průmyslový holding, a.s.

On 30 June 2015 a sublease agreement was signed by and between EP Investment Advisors, s.r.o. and Energetický a průmyslový holding, a.s.

On 1 January 2016 a sublease agreement was signed by and between EP Investment Advisors, s.r.o. and Energetický a průmyslový holding, a.s.

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

On 13 April 2016 an agreement of the contract assignment was signed 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.

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 related entities, and no supplies or considerations were provided between Energetický a průmyslový holding, a.s. and 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 PARTIES

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

VI.

We hereby confirm that we have included in this report on relations between related parties of Energetický a průmyslový holding, a.s., prepared pursuant to Section 82 (1), the Corporations Act, for the accounting period from 1 January 2016 to 31 December 2016, all information regarding:

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

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

In addition, the board of directors of Energetický a průmyslový holding, a.s. certifies 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.

Prague, 30 March 2017

JUDr. Daniel Křetínský

Chairman of the Board of Directors

Mgr. Pavel Horský

Member of the Board of Directors

EPH

Consolidated Financial Statements and Notes to the Consolidated Financial Statements

ANNUAL REPORT 2016

EPH

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

PREPARED IN ACCORDANCE
WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS
AS ADOPTED BY THE EUROPEAN UNION

Consolidated statement of comprehensive income

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

	Note	2016	2015
Sales: Energy	7	4,743	4,440
of which: Electricity		*2,440*	*2,270*
Gas		*1,675*	*1,581*
Heat		*358*	*299*
Coal		*268*	*289*
Other energy products		*2*	*1*
Sales: Other	7	193	119
Gain (loss) from commodity derivatives for trading with electricity and gas, net		(5)	12
Total sales		**4,931**	**4,571**
Cost of sales: Energy	8	(2,321)	(2,089)
Cost of sales: Other	8	(118)	(59)
Total cost of sales		**(2,439)**	**(2,148)**
Subtotal		**2,492**	**2,423**
Personnel expenses	9	(503)	(442)
Depreciation and amortisation	16, 17	(554)	(540)
Repairs and maintenance		(62)	(60)
Emission rights, net	10	(60)	(52)
Negative goodwill	6	-	285
Taxes and charges	11	(60)	(54)
Other operating income	12	69	63
Other operating expenses	13	(356)	(241)
Profit (loss) from operations		**966**	**1,382**
Finance income	14	41	32
Finance expense	14	(310)	(261)
Profit (loss) from financial instruments	14	(63)	(49)
Net finance income (expense)		**(332)**	**(278)**
Share of profit (loss) of equity accounted investees, net of tax	19	312	5
Gain (loss) on disposal of subsidiaries, joint-ventures and associates	6	53	(1)
Profit (loss) before income tax		**999**	**1,108**
Income tax expenses	15	(199)	(270)
Profit (loss) for the year		**800**	**838**

	Note	2016	2015
Items that are or may be reclassified subsequently to profit or loss:			
Foreign currency translation differences from foreign operations	15	(1)	(68)
Foreign currency translation differences from presentation currency	15	(3)	110
Effective portion of changes in fair value of cash-flow hedges, net of tax	15	116	77
Fair value reserve included in other comprehensive income, net of tax	15	(26)	6
Other comprehensive income for the year, net of tax		**86**	**125**
Total comprehensive income for the year		**886**	**963**
Profit (loss) attributable to:			
Owners of the Company		431	494
Non-controlling interest		369	344
Profit (loss) for the year		**800**	**838**
Total comprehensive income attributable to:			
Owners of the Company		542	547
Non-controlling interest		344	416
Total comprehensive income for the year		**886**	**963**
Total basic and diluted earnings per share in EUR	28	**0.09**	**0.10**

The notes presented on pages 56 to 208 form an integral part of these consolidated financial statements.

Consolidated statement of financial position

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

	Note	2016	2015
Assets			
Property, plant and equipment	16	7,947	7,947
Intangible assets	17	292	275
Goodwill	17	106	137
Investment property	18	3	3
Equity accounted investees	19	712	247
Restricted cash	24	29	32
Financial instruments and other financial assets	33	129	151
Trade receivables and other assets	22	42	48
Deferred tax assets	20	56	63
Total non-current assets		**9,316**	**8,903**
Inventories	21	163	164
Extracted minerals and mineral products		175	184
Trade receivables and other assets	22	618	588
Financial instruments and other financial assets	33	433	309
Prepayments and other deferrals		21	94
Tax receivables	25	107	83
Restricted cash	24	1	256
Cash and cash equivalents	23	1,136	706
Assets/disposal groups held for sale	26	5	23
Total current assets		**2,659**	**2,407**
Total assets		**11,975**	**11,310**
Equity			
Share capital	27	208	208
Share premium	27	64	64
Reserve for own shares	27	-	(932)
Other reserves	27	(30)	(137)
Retained earnings		1,145	1,642
Total equity attributable to equity holders		**1,387**	**845**
Non-controlling interest	29	1,707	1,944
Total equity		**3,094**	**2,789**

	Note	2016	2015
Liabilities			
Loans and borrowings	30	5,441	4,851
Financial instruments and financial liabilities	33	65	32
Provisions	31	817	825
Deferred income	32	99	97
Deferred tax liabilities	20	1,044	1,119
Trade payables and other liabilities	34	120	121
Total non-current liabilities		**7,586**	**7,045**
Trade payables and other liabilities	34	812	753
Loans and borrowings	30	100	376
Financial instruments and financial liabilities	33	74	88
Provisions	31	232	171
Deferred income	32	23	12
Current income tax liability		53	61
Liabilities from disposal groups held for sale	26	1	15
Total current liabilities		**1,295**	**1,476**
Total liabilities		**8,881**	**8,521**
Total equity and liabilities		**11,975**	**11,310**

The notes presented on pages 56 to 208 form an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

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

	Attributable to owners of the Company												
	Share capital	**Share premium**	**Reserve for own shares**	**Other capital funds from capital contributions**	**Non-distributable reserves**	**Translation reserve**	**Fair value reserve**	**Other capital reserves**	**Hedging reserve**	**Retained earnings**	**Total**	**Non-controlling interest**	**Total Equity**
Balance as at 1 January 2016 (A)	**208**	**64**	**(932)**	**23**	**6**	**(78)**	**(4)**	**(54)**	**(30)**	**1,642**	**845**	**1,944**	**2,789**
Total comprehensive income for the year:													
Profit or loss (B)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**431**	**431**	**369**	**800**
Other comprehensive income:													
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**
Total other comprehensive income (C)	**-**	**-**	**-**	**-**	**-**	**(5)**	**(26)**	**-**	**142**	**-**	**111**	**(25)**	**86**
Total comprehensive income for the year (D) = (B + C)	**-**	**-**	**-**	**-**	**-**	**(5)**	**(26)**	**-**	**142**	**431**	**542**	**344**	**886**
Contributions by and distributions to owners:													
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	-	-	**-**
Total contributions by and distributions to owners (E)	**-**	**-**	**932**	**-**	**(4)**	**-**	**-**	**-**	**-**	**(928)**	**-**	**(572)**	**(572)**
Changes in ownership interests in subsidiaries:													
Effect of disposals	-	-	-	-	-	-	-	-	-	-	-	*(9)*	**(9)**
Total changes in ownership interests in subsidiaries (F)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(9)**	**(9)**
Total transactions with owners (G) = (E + F)	**-**	**-**	**932**	**-**	**(4)**	**-**	**-**	**-**	**-**	**(928)**	**-**	**(581)**	**(581)**
Balance as at 31 December 2016 (H) = (A + D + G)	**208**	**64**	**-**	**23**	**2**	**(83)**	**(30)**	**(54)**	**112**	**1,145**	**1,387**	**1,707**	**3,094**

The notes presented on pages 56 to 208 form an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

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

	Attributable to owners of the Company												
	Share capital	Share premium	Reserve for own shares	Other capital funds from capital contributions	Non-distributable reserves	Translation reserve	Fair value reserve	Other capital reserves	Hedging reserve	Retained earnings	Total	Non-controlling interest	Total Equity
Balance as at 1 January 2015 (A)	**208**	**64**	**(932)**	**23**	**6**	**(71)**	**(10)**	**(54)**	**(84)**	**1,150**	**300**	**2,241**	**2,541**
Total comprehensive income for the year:													
Profit or loss (B)	-	-	-	-	-	-	-	-	-	**494**	**494**	**344**	**838**
Other comprehensive income:													
Foreign currency translation differences for foreign operations	-	-	-	-	-	(22)	-	-	-	-	(22)	(46)	**(68)**
Foreign currency translation differences from presentation currency	-	-	-	-	-	15	-	-	-	-	15	95	**110**
Revaluation reserve included in other comprehensive income, net of tax	-	-	-	-	-	-	6	-	-	-	6	-	**6**
Effective portion of changes in fair value of cash-flow hedges, net of tax	-	-	-	-	-	-	-	-	54	-	54	23	**77**
Total other comprehensive income (C)	-	-	-	-	-	**(7)**	**6**	-	**54**	-	**53**	**72**	**125**
Total comprehensive income for the year (D) = (B + C)	-	-	-	-	-	**(7)**	**6**	-	**54**	**494**	**547**	**416**	**963**
Contributions by and distributions to owners:													
Decrease in share capital	-	-	-	-	-	-	-	-	-	-	-	(128)	**(128)**
Dividends to equity holders	-	-	-	-	-	-	-	-	-	-	-	(632)	**(632)**
Total contributions by and distributions to owners (E)	-	-	-	-	-	-	-	-	-	-	-	**(760)**	**(760)**
Changes in ownership interests in subsidiaries:													
Effect of changes in shareholding on													
non-controlling interest	-	-	-	-	-	-	-	-	-	(2)	(2)	(3)	**(5)**
Effects from acquisitions through business combinations (Note 6)	-	-	-	-	-	-	-	-	-	-	-	50	**50**
Total changes in ownership interests in subsidiaries (F)	-	-	-	-	-	-	-	-	-	**(2)**	**(2)**	**47**	**45**
Total transactions with owners (G) = (E + F)	-	-	-	-	-	-	-	-	-	**(2)**	**(2)**	**(713)**	**(715)**
Balance as at 31 December 2015 (H) = (A + D + G)	**208**	**64**	**(932)**	**23**	**6**	**(78)**	**(4)**	**(54)**	**(30)**	**1,642**	**845**	**1,944**	**2,789**

The notes presented on pages 56 to 208 form an integral part of these consolidated financial statements.

Consolidated statement of cash flows

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

	Note	2016	2015
OPERATING ACTIVITIES			
Profit (loss) for the year		800	838
Adjustments for:			
Income taxes	15	199	270
Depreciation and amortisation	16, 17	554	540
Dividend income	14	(6)	(4)
Impairment losses on property, plant and equipment, intangible assets and financial assets	13, 14	41	23
Impairment losses of investments in associates and joint ventures	14	13	-
Impairment losses of other financial assets	14	60	-
Non-cash (gain) loss from commodity derivatives for trading with electricity and gas, net		4	(12)
(Gain) loss on disposal of property, plant and equipment, investment property and intangible assets	13	(3)	3
Gain on disposal of inventories	12	-	(1)
Emission rights	10	60	52
(Gain) loss on disposal of subsidiaries, special purpose entities, joint-ventures, associates and non-controlling interests	6	(53)	1
Share of (profit) loss of equity accounted investees	19	(312)	(5)
Loss on financial instruments	14	(10)	49
Net interest expense	14	235	223
Change in allowance for impairment to trade receivables and other assets, write-offs		8	11
Revenue from released deferred earn-out		(6)	-
Change in provisions		61	(67)
Negative goodwill	6	-	(285)
Other finance fees		17	-
Unrealised foreign exchange (gains) losses, net		(1)	(57)
Operating profit before changes in working capital		**1,661**	**1,579**
Change in trade receivables and other assets		29	(31)
Change in inventories (including proceeds from sale)		2	(32)
Change in extracted minerals and mineral products		9	1
Change in assets held for sale and related liabilities		(9)	-
Change in trade payables and other liabilities		66	(17)
Change in restricted cash		258	(254)
Cash generated from (used in) operations		**2,016**	**1,246**
Interest paid		(187)	(187)
Income taxes paid		(305)	(265)
Cash flows generated from (used in) operating activities		**1,524**	**794**

	Note	2016	2015
INVESTING ACTIVITIES			
Dividends received from associates and joint-ventures		1	5
Dividends received, other		5	4
Purchase of financial instruments		(30)	-
Change in financial instruments not at fair value		13	4
Loans provided to the owners		(50)	(440)
Loans provided to the other entities		(176)	(140)
Repayment of loans provided to other entities		21	11
Proceeds from sale of financial instruments – derivatives		206	24
Acquisition of property, plant and equipment, investment property and intangible assets	16, 17, 18	(543)	(333)
Purchase of emission rights	17	(104)	(27)
Proceeds from sale of emission rights		7	26
Proceeds from sale of property, plant and equipment, investment property and other intangible assets		23	13
Acquisition of associates and joint-ventures	6	(150)	-
Acquisition of subsidiaries and special purpose entities, net of cash acquired	6	(39)	75
Net cash inflow from disposal of subsidiaries, joint-ventures and associates	6	69	3
Increase (decrease) in participation in existing subsidiaries, joint-ventures and associates		-	(5)
Interest received		7	1
Cash flows from (used in) investing activities		**(740)**	**(779)**
FINANCING ACTIVITIES			
Proceeds from loans received		2,105	1,206
Repayment of borrowings		(1,556)	(1,609)
Proceeds from bonds issue, net of transaction fees		115	590
Repayments of bonds issued		(378)	(125)
Finance fees paid from repayment of borrowings		(58)	-
Other financing cash flows		(12)	-
Dividends paid		(586)	(302)
Cash flows from (used in) financing activities		**(370)**	**(240)**
Net increase (decrease) in cash and cash equivalents		*414*	*(225)*
Cash and cash equivalents at beginning of the year		**706**	**910**
Effect of exchange rate fluctuations on cash held		16	21
Cash and cash equivalents at end of the year		**1,136**	**706**

The notes presented on pages 56 to 208 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.

The consolidated financial statements of the Company for the year ended 31 December 2016 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 2016 were as follows:

In millions of EUR

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

The shareholders of the Company as at 31 December 2015 were as follows:

In millions of EUR

	Interest in share capital		Voting rights
	MEUR	%	%
BIQUES LIMITED (part of J&T PARTNERS I L.P.)	58	16.39	29.50
MILEES LIMITED (part of J&T PARTNERS II L.P.)	66	18.52	33.33
EP Investment S.à r.l. (owned by Daniel Křetínský)	73	20.65	37.17
Own shares(1)	11	44.44	-
Total	**208**	**100.00**	**100.00**

(1) In 2014 EPH acquired 44.44% of its own shares from TIMEWORTH HOLDINGS LIMITED. As at 31 December 2015 these shares were reported within EPH´s equity as the shares were not yet cancelled. These shares were cancelled on 22 January 2016.

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

- Daniel Křetínský (Chairman of the Board of Directors)
- Marek Spurný (Member of the Board of Directors)
- Pavel Horský (Member of the Board of Directors)
- Jan Špringl (Member of the Board of Directors)

TRANSACTION OVERVIEW RELATED TO THE ESTABLISHMENT OF EPH GROUP

On 7 August 2009 KHASOMIA LIMITED, owned by J&T Finance Group, a.s., decided on the establishment of its subsidiary Energetický a průmyslový holding, a.s. Its share capital of EUR 321 million was settled by a non-cash consideration in the form of shares in Honor Invest, a.s., BAULIGA a.s. and Masna Holding Limited. KHASOMIA LIMITED thus became the 100% shareholder of EPH. On 10 August 2009, EPH was entered in the Commercial Register.

On the same date, EPH bought SEDILAS ENTERPRISES LIMITED from J&T FINANCIAL INVESTMENT LIMITED.

On 8 September 2009, the sole shareholder of EPH (KHASOMIA LIMITED) decided to increase thef share capital by a subscription of 2,782,999,000 common registered shares, each for a nominal value of CZK 1 (EUR 109 million). All shares were offered to MACKAREL ENTERPRISES LIMITED.

On 6 October 2009, based on a subscription contract, the shares were assigned to MACKAREL ENTERPRISES LIMITED for a non-cash consideration in the form of a capital contribution of MACKAREL ENTERPRISES LIMITED's own participations, namely První brněnská strojírna, a.s., (100%), ROLLEON a.s. and its subsidiary (100%), ESTABAMER LIMITED and its subsidiary (100%), Plzeňská energetika a.s. (100%), Naval Architects Shipping Company Ltd. and its subsidiaries (80%), and HERINGTON INVESTMENTS LIMITED and its subsidiaries (80%).

As a result, MACKAREL ENTERPRISES LIMITED became a shareholder of EPH.

On 6 October 2009 EPH also acquired a 100% share in Czech Energy Holding, a.s. from J&T Private Equity B.V. and a 100% share in První energetická a.s. from its parent company KHASOMIA LIMITED.

On 8 October 2009 EPH acquired a 100% share in EP Investment Advisors, s.r.o. (former J&T Investment Advisors, s.r.o.) from J&T CORPORATE INVESTMENTS LIMITED.

On 9 October 2009 based on a stock transfer agreement KHASOMIA LIMITED assigned its 100% share in EPH as follows:

- 50% share to TIMEWORTH HOLDINGS LIMITED, part of the PPF Group
- 25% share to BIQUES LIMITED
- 25% share to MILEES LIMITED

Thereby, J&T Finance Group, a.s. lost its control over EPH.

On 9 October 2009 the increase in capital was entered in the Commercial Register in the final amount of EUR 430 million. As a result, MACKAREL ENTERPRISES LIMITED owned a 25.228% share in EPH, while the overall percentage share of the companies TIMEWORTH HOLDINGS LIMITED, BIQUES LIMITED and MILEES LIMITED was diluted.

On 14 October 2009 KHASOMIA LIMITED and all four shareholders of EPH concluded a share transfer agreement on the transfer of a 5.228% share in MACKAREL ENTERPRISES LIMITED to KHASOMIA LIMITED, which consequently sold the acquired stake to the three other shareholders as follows:

- sale of a 1.307% stake to BIQUES LIMITED
- sale of a 1.307% stake to MILEES LIMITED
- sale of a 2.614% stake to TIMEWORTH HOLDINGS LIMITED

CHANGES IN 2010

On 8 January 2010 the general meeting decided on an increase in the share capital of EUR 15 million. Shares at nominal value of CZK 1 were assigned as follows:

- BIQUES LIMITED EUR 3 million
- MILEES LIMITED EUR 3 million
- MACKAREL ENTERPRISES LIMITED EUR 3 million
- TIMEWORTH HOLDINGS LIMITED EUR 6 million

Subsequently, on 30 June 2010 the general meeting decided on an additional increase in the share capital of EUR 3 million.

Shares at nominal value of CZK 1 were assigned as follows:

- BIQUES LIMITED EUR 20%
- MILEES LIMITED EUR 20%
- MACKAREL ENTERPRISES LIMITED EUR 20%
- TIMEWORTH HOLDINGS LIMITED EUR 40%

In 2010 the Company also carried out several acquisitions, established subsidiaries and special purpose entities, and sold subsidiaries and associates. The transactions were described in the Notes to Consolidated Financial Statements as at 31 December 2010.

CHANGES IN 2011

On 15 September 2011 the Company’s general meeting decided on the demerger of an industrial segment to a company called EP Industries, a.s. EP Industries, a.s. was established on the basis of an EPH shareholders’ agreement – shareholders have decided that investments in industrial assets other than energy assets will be spun off from EPH. The EPH shareholding structure, which will continue to include energy operations, will remain as it has been until now.

The reason for the demerger was to continue the process of simplifying and clarifying the EPH structure. This step completed the process of separating EPH’s key strategic line, which is investment in energy assets in the central European region, from investments in other industries, which will be concentrated in EP Industries, a.s.

The following companies and sub-groups were spun-off to EP Industries, a.s. Group: EP Investments Advisors, s.r.o., BAULIGA a.s., Masna Holding Limited, ESTABAMER LIMITED, První brněnská strojírna, a.s., NAVAL ARCHITECTS SHIPPING COMPANY LIMITED, HERINGTON INVESTMENTS LIMITED and ED Holding a.s.

This transaction resulted in the decrease of share capital by EUR 120 million to EUR 328 million.

CHANGES IN 2012

On 7 August 2012 the general meeting decided on an increase in the share capital of EUR 27 million. Shares with a nominal value of CZK 1 each were assigned to TIMEWORTH HOLDINGS LIMITED as a set-off of a mutual receivable according to the Equity Swaps Agreement.

This increase in share capital was entered into the Commercial Register on 31 August 2012.

In connection with the issue of shares, the Group recognised share premium amounting to EUR 64 million.

CHANGES IN 2013

První energetická a.s. merged with EP ENERGY TRADING, a.s. as at 1 January 2013. EP ENERGY TRADING, a.s. is the successor company.

On 4 November 2013 the EPH Group completed the process of the cross-border merger of Honor Invest, a.s., Czech Energy Holding, a.s., HC Fin3 N.V., EAST BOHEMIA ENERGY HOLDING LIMITED, LIGNITE INVESTMENTS 1 LIMITED and EP Energy, a.s. EP Energy, a.s. is the successor company and took over all assets, rights and obligations of the acquired companies.

CHANGES IN 2014

On 3 February the General Meeting decided on a purchase of 673,359,040 pieces of own shares with a nominal value of CZK 1 each from TIMEWORTH HOLDINGS LIMITED. Other shareholders waived the right to purchase the own shares. As a result of this transaction share capital decreased by EUR 24 million and the voting rights changed as follows:

- BIQUES LIMITED 20%
- MILEES LIMITED 20%
- MACKAREL ENTERPRISES LIMITED 20%
- TIMEWORTH HOLDINGS LIMITED 40%

On 20 June 2014 EPH purchased remaining 472,171,300 pieces of own shares with a nominal value 1 CZK each and 28,946,239 pieces of own shares in nominal value 100 CZK each from TIMEWORTH HOLDINGS LIMITED. Share capital decreased by EUR 123 million to final amount of EUR 208 million and the difference between the nominal value and purchase price in excess over the nominal value of EUR 932 million was presented as a reserve for own shares. The structure of voting rights changed as follows:

- BIQUES LIMITED 33%
- MILEES LIMITED 33%
- MACKAREL ENTERPRISES LIMITED 33%

On 4 December 2014 EP Investment S.à r.l. acquired all shares in EPH from MACKAREL ENTERPRISES LIMITED (the shares were all previously held by MACKAREL ENTERPRISES LIMITED).

As at 31 December 2014 (and also as at 31 December 2015) own shares were reported within EPH´s equity as the shares were not yet cancelled. These shares were cancelled on 22 January 2016.

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

CHANGES IN 2015

On 29 December 2015 structure of voting rights changed as follows:

- BIQUES LIMITED 29.50%
- EP Investment S.à r.l. 37.17%
- MILEES LIMITED 33.33%

In 2015 the Company also carried out several acquisitions and sold subsidiaries. The transactions are described in the Note 6 – Acquisition and disposals of subsidiaries, joint ventures and associates.

CHANGES IN 2016

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 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%

In 2016 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 27 July 2017.

B BASIS OF MEASUREMENT

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

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

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

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

C FUNCTIONAL AND PRESENTATION CURRENCY

The consolidated financial statements are presented in Euro ("EUR"). The Company's functional currency is the Czech crown ("CZK"). All financial information presented in Euros has been rounded to the nearest million. The reason for the presentation currency is that by currency, 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 JUDGMENTS

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

- Note 5 – Recognition of a transmission pipeline as a fixed asset rather than derecognition of the transmission pipeline as a leased out asset (IFRIC 4), consideration whether the ship-or-pay arrangements at eustream, a.s. do not represent a derivative,
- Notes 6 and 17 – Accounting for business combinations, recognition of goodwill/negative goodwill, impairment testing of goodwill,
- Note 31 – Measurement of defined benefit obligations, recognition and measurement of provisions,
- Note 33 – Own use exemption application for forward contracts on power and CO_2 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 2016 THAT HAVE BEEN APPLIED IN PREPARING THE GROUP'S FINANCIAL STATEMENTS

The following paragraphs provide a summary of the key requirements of IFRSs that are effective for annual periods beginning on or after 1 January 2016 and that have thus been applied by the Group for the first time.

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

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

Business combination accounting also applies to the acquisition of additional interests in a joint operation while the joint operator retains joint control. The additional interest acquired is measured at fair value.

The previously held interests in the joint operation is not remeasured.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

II. STANDARDS NOT YET EFFECTIVE

At the date of authorisation of these consolidated financial statements, the following significant Standards, Amendments to Standards and Interpretations have been issued but are not yet effective for the period ended 31 December 2016 and thus have not been adopted by the Group:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

3. Significant Accounting Policies

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

A BASIS OF CONSOLIDATION

I. SUBSIDIARIES

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

II. EQUITY ACCOUNTED INVESTEES

Associates are enterprises in which the Group has significant influence, but not control, over financial and operating policies. Investments in associates are accounted for under the equity method and are initially recognised at cost. 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, 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.

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 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
- Machinery, electric generators, gas producers, turbines and boilers 20 – 50 years
- Mines and mine property 15 – 30 years
- Distribution network 10 – 60 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 2016 and 2015, expenditures incurred by the Group did not meet these recognition criteria. Development expenditure has thus been recognised in profit or loss.

III. EMISSION RIGHTS

RECOGNITION AND MEASUREMENT

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

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

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

IMPAIRMENT OF EMISSION RIGHTS

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

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

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

RECOGNITION OF GRANTS

A grant is initially recognised as deferred income and recognised in profit on a systematic basis over the compliance period, which is the relevant calendar year, regardless of whether the allowance received continues to be held by the entity. The pattern for the systematic recognition of the deferred income in profit is assessed

based on estimated pollutants emitted in the current month, taking into account the estimated coverage of the estimated total annually emitted pollutants by allocated emission allowances. The release of deferred income to a profit and loss account is performed on a quarterly basis; any subsequent update to the estimate of total annual pollutants is taken into account during the following monthly or quarterly assessment. Any disposals of certificates or changes in their carrying amount do not affect the manner in which grant income is recognised.

RECOGNITION, MEASUREMENT OF PROVISION

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

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

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

IV. SOFTWARE AND OTHER INTANGIBLE ASSETS

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

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

V. AMORTISATION

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

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

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

K 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 bligation can be estimated reliably.

II. WARRANTIES

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

III. PROVISION FOR LAWSUITS AND LITIGATIONS

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

IV. PROVISION FOR EMISSION RIGHTS

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

V. RESTRUCTURING

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

VI. ASSET RETIREMENT OBLIGATION AND PROVISION FOR ENVIRONMENTAL REMEDIATION

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

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

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

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

Rehabilitation provisions are recognised for the following restoration activities:

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

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

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

VII. ONEROUS CONTRACTS

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

M REVENUE

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

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

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

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

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

Other revenues represent revenues from non-energy activities.

REVENUES FROM SALE OF ELECTRICITY, HEAT AND GAS

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

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

REVENUES FROM SALE OF COAL

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

- the significant risks and rewards of ownership of the product have been transferred to the customer;
- the Group has retained neither continuing managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the sale will flow to the Group; and
- the costs incurred or to be incurred in respect of the sale can be measured reliably.

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

ENERGY TRADING

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

DERIVATIVES WHERE THE UNDERLYING ASSET IS A COMMODITY

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

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

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

II. GOVERNMENT GRANTS

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

III. RENTAL INCOME

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

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

The Group operates in nine reportable segments under IFRS 8: Gas transmission, Gas and power distribution, Gas storage, Heat Infra, Generation, Mining, Trading, Other and Holding entities.

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

I. GAS TRANSMISSION

This segment operates in transmission of natural gas from the Ukrainian border to the Slovakia (eustream, a.s.) and vice-versa.

The 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 Group assessed the contractual conditions in the ship-or-pay arrangement and concluded that the arrangement does not include a derivative and 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).

From 1 July 2006 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. No material indications of such leasing relationship were noted and the management concluded that the transmission pipeline should be recognised in eustream's fixed assets.

II. 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 energetika – Distribúcia, a.s. (further “SSE-Distribúcia”), SE Predaj, s.r.o. and EP ENERGY TRADING, a.s.

The subsidiary companies SPP-distribúcia and SSE-Distribúcia, 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.

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.

III. GAS STORAGE

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

The 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.

IV. 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. 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 Group owns in most of the cases. Czech based heat supply is regulated in a way of cost plus a reasonable profit margin. EP Sourcing, a.s. and EP Cargo a.s., as main suppliers of the above mentioned entities, are also included in this segment.

Operating segments

V. GENERATION

The Generation 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 recent acquisitions such as EP Produzione S.p.A. and its subsidiaries, Ergosud S.p.A., Slovenske elektrárne, a.s. and its subsidiaries, Eggborough Holdco 2 S.à r.l. and its subsidiary (EPL), which were acquired at only a fractions of their replacement value, yet the assets are believed to generate considerable value to the owners, specifically from the capacity market regime. In addition, this segment also operates recently acquired three CHPs in Hungary, represented by Budapesti Erömü Zrt., which is supplying the City of Budapest with heat, but at the same is very active in ancillary services and in condensation power production. The Hungarian heat production is regulated using the standard RAB multiplied by WACC plus eligible expenditures and allowed depreciation formula.

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

Other entities included in the segment are: Saale Energie GmbH and recent acquisitions of Slovenske elektrárne a.s., Lausitz Energie Kraftwerke AG, Kraftwerk Schwarze Pumpe GmbH, Lausitz Energie Bergbau AG, GMB GmbH and Transport- udn Speditiongesellschaft Schwarze Pumpe mbH, which are consolidated by equity method.

VI. MINING

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

Other entity which is part of this segment is Helmstedter Revier GmbH (Buschhaus), which is currently used as power plant backup and is staying ready in case of “blackout”.

VII. TRADING

The Trading segment is mainly represented by EP Commodities, a.s., EP Cargo Deutschland GmbH, EP CARGO POLSKA, s.a., EP Coal Trading Polska s.a. and LokoTrain s.r.o. These entities are primarily active in commodity (mainly gas, power and coal) trading and in arranging complex logistical solutions for the segment’s customers.

VIII. OTHER

The segment Other consists of minor operations not fitting to the key segments of the EPH Group. Main entities within this segment are: AISE, s.r.o., Przedsiebiorstwo Górnicze Silesia Sp. z o.o. and Mining Services and Engineering Sp. z o.o.

Operating segments

IX. 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 Germany a.s., LEAG Holding, a.s., Lausitz Energie Verwaltungs GmbH and Slovak Power Holding B.V. The sub-segment profit therefore primarily represents dividends received from its subsidiaries, finance expense and results from acquisition accounting.

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

PROFIT OR LOSS

FOR THE YEAR ENDED 31 DECEMBER 2016

In millions of EUR

	Gas Transmission	Gas and Power distribution	Gas Storage	Heat Infra	Generation	Mining	Trading	Other	Total segments	Holding entities	Inter-segment eliminations	Consolidated Financial Information
Sales: Energy	760	1,691	192	424	1,299	351	749	1	5,467	-	(724)	4,743
external revenues	*758*	*1,642*	*144*	*346*	*1,299*	*257*	*296*	*1*	*4,743*	-	-	*4,743*
inter-segment revenues	*2*	*49*	*48*	*78*	-	*94*	*453*	-	*724*	-	*(724)*	-
Sales: Other	-	6	-	16	2	87	67	10	188	17	(12)	193
external revenues	-	*6*	-	*16*	*2*	*82*	*64*	*8*	*178*	*15*	-	*193*
inter-segment revenues	-	-	-	-	-	*5*	*3*	*2*	*10*	*2*	*(12)*	-
Gain (loss) from commodity derivatives for trading with electricity and gas, net	-	1	-	-	-	-	(6)	-	(5)	-	-	(5)
Total sales	**760**	**1,698**	**192**	**440**	**1,301**	**438**	**810**	**11**	**5,650**	**17**	**(736)**	**4,931**
Cost of sales: Energy	(39)	(1,158)	(20)	(228)	(775)	(68)	(676)	-	(2,964)	-	643	(2,321)
external cost of sales	*(34)*	*(933)*	*(20)*	*(217)*	*(413)*	*(63)*	*(641)*	-	*(2,321)*	-	-	*(2,321)*
inter-segment cost of sales	*(5)*	*(225)*	-	*(11)*	*(362)*	*(5)*	*(35)*	-	*(643)*	-	*643*	-
Cost of sales: Other	-	(2)	1	(13)	(31)	(20)	(116)	(6)	(187)	(2)	71	(118)
external cost of sales	-	*(2)*	*1*	*(13)*	*(31)*	*(14)*	*(51)*	*(6)*	*(116)*	*(2)*	-	*(118)*
inter-segment cost of sales	-	-	-	-	-	*(6)*	*(65)*	-	*(71)*	-	*71*	-
Personnel expenses	(32)	(89)	(22)	(46)	(103)	(195)	(6)	(2)	(495)	(8)	-	(503)
Depreciation and amortisation	(90)	(167)	(26)	(77)	(81)	(111)	(1)	(1)	(554)	-	-	(554)
Repairs and maintenance	(1)	(3)	-	(3)	(55)	-	-	-	(62)	-	-	(62)
Emission rights, net	1	-	-	(13)	(31)	(17)	-	-	(60)	-	-	(60)
Taxes and charges	(1)	(1)	(3)	-	(46)	(9)	-	-	(60)	-	-	(60)
Other operating income	6	20	-	11	9	38	3	1	88	1	(20)	69
Other operating expenses	(18)	(41)	(5)	(22)	(162)	(108)	(4)	(3)	(363)	(34)	41	(356)
Operating profit	**586**	**257**	**117**	**49**	**26**	**(52)**	**10**	**-**	**993**	**(26)**	**(1)**	**966**

FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

In millions of EUR

	Gas Transmission	Gas and Power distribution	Gas Storage	Heat Infra	Generation	Mining	Trading	Other	Total segments	Holding entities	Inter-segment eliminations	Consolidated Financial Information
Finance income	6	-	4	1	13	4	1	5	34	889	(882)	41
external finance revenues	*1*	-	-	-	*11*	*1*	-	*5*	*18*	*23*	-	*41*
inter-segment finance revenues	*5*	-	*4*	*1*	*2*	*3*	*1*	-	*16*	*866*	*(882)*	-
Finance expense	(45)	(19)	(8)	(16)	(40)	(21)	(2)	(3)	(154)	(258)	102	(310)
Profit (loss) from financial instruments	-	(2)	(1)	-	25	-	-	(12)	10	(68)	(5)	(63)
Share of profit (loss) of equity accounted investees, net of tax	-	-	3	-	334	2	-	(25)	314	(2)	-	312
Gain (loss) on disposal of subsidiaries, special purpose entities, joint ventures and associates	-	-	(4)	57	-	-	-	-	53	-	-	53
Profit (loss) before income tax	**547**	**236**	**111**	**91**	**358**	**(67)**	**9**	**(35)**	**1,250**	**535**	**(786)**	**999**
Income tax expenses	(120)	(35)	(27)	(8)	(36)	29	(2)	-	(199)	-	-	(199)
Profit (loss) for the year	**427**	**201**	**84**	**83**	**322**	**(38)**	**7**	**(35)**	**1,051**	**535**	**(786)**	**800**

* 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.

	Gas Transmission	Gas and Power distribution	Gas Storage	Heat Infra	Generation	Mining	Trading	Other	Total segments	Holding entities	Inter-segment eliminations	Consolidated Financial Information
Other financial information:												
Adjusted EBITDA[1]	676	424	143	126	107	59	11	1	1,547	(26)	(1)	1,520

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

Operating segments

FOR THE YEAR ENDED 31 DECEMBER 2015

In millions of EUR

	Gas Transmission	Gas and Power distribution	Gas Storage	Heat Infra	Generation	Mining	Trading	Other	Total segments	Holding entities	Inter-segment eliminations	Consolidated Financial Information
Sales: Energy	776	1,870	231	469	988	424	105	1	4,864	-	(424)	4,440
external revenues	*776*	*1,815*	*180*	*350*	*988*	*284*	*46*	*1*	*4,440*	-	-	*4,440*
inter-segment revenues	-	*55*	*51*	*119*	-	*140*	*59*	-	*424*	-	*(424)*	-
Sales: Other	-	6	-	19	8	69	18	9	129	-	(10)	119
external revenues	-	*6*	-	*19*	*8*	*64*	*15*	*7*	*119*	-	-	*119*
inter-segment revenues	-	-	-	-	-	*5*	*3*	*2*	*10*	-	*(10)*	-
Gain (loss) from commodity derivatives for trading with electricity and gas, net	-	11	-	-	-	-	1	-	12	-	-	12
Total sales	**776**	**1,887**	**231**	**488**	**996**	**493**	**124**	**10**	**5,005**	**-**	**(434)**	**4,571**
Cost of sales: Energy	(44)	(1,319)	(21)	(258)	(632)	(77)	(103)	-	(2,454)	-	365	(2,089)
external cost of sales	*(35)*	*(1,037)*	*(21)*	*(239)*	*(600)*	*(72)*	*(85)*	-	*(2,089)*	-	-	*(2,089)*
inter-segment cost of sales	*(9)*	*(282)*	-	*(19)*	*(32)*	*(5)*	*(18)*	-	*(365)*	-	*365*	-
Cost of sales: Other	-	(2)	1	(47)	(25)	(44)	(13)	(5)	(135)	1	75	(59)
external cost of sales	-	*(2)*	*1*	*(3)*	*(11)*	*(27)*	*(13)*	*(5)*	*(60)*	*1*	-	*(59)*
inter-segment cost of sales	-	-	-	*(44)*	*(14)*	*(17)*	-	-	*(75)*	-	*75*	-
Personnel expenses	(32)	(88)	(23)	(47)	(61)	(182)	(1)	(2)	(436)	(6)	-	(442)
Depreciation and amortisation	(109)	(171)	(27)	(85)	(33)	(115)	-	-	(540)	-	-	(540)
Repairs and maintenance	(1)	(4)	-	(6)	(49)	-	-	-	(60)	-	-	(60)
Emission rights, net	1	-	-	(3)	(27)	(23)	-	-	(52)	-	-	(52)
Negative goodwill	-	-	-	-	285	-	-	-	285	-	-	285
Taxes and charges	(1)	(1)	(3)	9	(48)	(10)	-	-	(54)	-	-	(54)
Other operating income	1	13	1	14	2	31	-	1	63	8	(8)	63
Other operating expenses	(13)	(60)	(7)	(11)	(59)	(77)	(1)	(2)	(230)	(19)	8	(241)
Operating profit	**578**	**255**	**152**	**54**	**349**	**(4)**	**6**	**2**	**1,392**	**(16)**	**6**	**1,382**
Finance income	12	2	1	8	10	2	-	7	42	*1,773	*(1,783)	32
external finance revenues	1	1	1	7	10	-	-	7	27	5	-	32
inter-segment finance revenues	11	1	-	1	-	2	-	-	15	*1,768	*(1,783)	-
Finance expense	(44)	(20)	(7)	(17)	(24)	(30)	-	(4)	(146)	(229)	114	(261)
Profit (loss) from financial instruments	(1)	(2)	-	2	(42)	-	-	-	(43)	(6)	-	(49)
Share of profit (loss) of equity accounted investees, net of tax	-	-	3	-	(1)	2	-	(4)	-	5	-	5
Gain (loss) on disposal of subsidiaries, special purpose entities, joint ventures and associates	-	-	-	-	-	-	-	-	-	(1)	-	(1)
Profit (loss) before income tax	**545**	**235**	**149**	**47**	**292**	**(30)**	**6**	**1**	**1,245**	***1,526**	***(1,663)**	**1,108**
Income tax expenses	(139)	(62)	(36)	(9)	(10)	4	(1)	-	(253)	(17)	-	(270)
Profit (loss) for the year	**406**	**173**	**113**	**38**	**282**	**(26)**	**5**	**1**	**992**	***1,509**	***(1,663)**	**838**

* EUR 1,659 millions is attributable to intra-group dividends primarily recognised by Slovak Gas Holding B.V., Czech Gas Holding Investment B.V., SPP Infrastructure, a.s. and EP Energy, a.s.

	Gas Transmission	Gas and Power distribution	Gas Storage	Heat Infra	Generation	Mining	Trading	Other	Total segments	Holding entities	Inter-segment eliminations	Consolidated Financial Information
Other financial information:												
Adjusted EBITDA[1]	687	426	179	139	97	111	6	2	1,647	(16)	6	1,637

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

Operating segments

ADJUSTED EBITDA RECONCILIATION TO THE CLOSEST IFRS MEASURE

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

FOR THE YEAR ENDED 31 DECEMBER 2016

In millions of EUR

	Gas Transmission	Gas and Power distribution	Gas Storage	Heat Infra	Generation	Mining	Trading	Other	Total segments	Holding entities	Inter-segment eliminations	Consolidated Financial Information
Profit from operations	**586**	**257**	**117**	**49**	**26**	**(52)**	**10**	**-**	**993**	**(26)**	**(1)**	**966**
Depreciation and amortisation	90	167	26	77	81	111	1	1	554	-	-	554
Adjusted EBITDA	**676**	**424**	**143**	**126**	**107**	**59**	**11**	**1**	**1,547**	**(26)**	**(1)**	**1,520**

FOR THE YEAR ENDED 31 DECEMBER 2015

In millions of EUR

	Gas Transmission	Gas and Power distribution	Gas Storage	Heat Infra	Generation	Mining	Trading	Other	Total segments	Holding entities	Inter-segment eliminations	Consolidated Financial Information
Profit from operations	**578**	**255**	**152**	**54**	**349**	**(4)**	**6**	**2**	**1,392**	**(16)**	**6**	**1,382**
Depreciation and amortisation	109	171	27	85	33	115	-	-	540	-	-	540
Negative goodwill	-	-	-	-	(285)	-	-	-	(285)	-	-	(285)
Adjusted EBITDA	**687**	**426**	**179**	**139**	**97**	**111**	**6**	**2**	**1,647**	**(16)**	**6**	**1,637**

Operating segments

NON-CURRENT ASSETS AND LIABILITIES

FOR THE YEAR ENDED 31 DECEMBER 2016

In millions of EUR

	Gas Transmission	Gas and Power distribution	Gas Storage	Heat Infra	Generation	Mining	Trading	Other	Total segments	Holding entities	Inter-segment eliminations	Consolidated Financial Information
Reportable segment assets	2,907	3,995	787	986	2,278	908	146	93	12,100	2,950	*(3,075)*	11,975
Reportable segment liabilities	(1,860)	(1,535)	(463)	(513)	(1,169)	(832)	(125)	(79)	(6,576)	(5,375)	*3,070*	(8,881)
Additions to tangible and intangible assets	12	95	18	78	357	91	3	3	657	-	-	657
Additions to tangible and intangible assets (excl. emission rights)	11	95	18	64	273	76	3	3	543	-	-	543
Equity accounted investees	-	5	28	14	612	24	-	-	683	29	-	712

FOR THE YEAR ENDED 31 DECEMBER 2015

In millions of EUR

	Gas Transmission	Gas and Power distribution	Gas Storage	Heat Infra	Generation	Mining	Trading	Other	Total segments	Holding entities	Inter-segment eliminations	Consolidated Financial Information
Reportable segment assets	3,162	4,010	861	961	1,459	971	36	119	11,579	3,086	(3,355)	11,310
Reportable segment liabilities	(1,992)	(1,596)	(517)	(512)	(1,026)	(919)	(25)	(74)	(6,661)	(5,215)	3,355	(8,521)
Additions to tangible and intangible assets	11	94	12	133	47	97	1	1	396	-	-	396
Additions to tangible and intangible assets (excl. emission rights)	10	94	11	115	25	76	1	1	333	-	-	333
Equity accounted investees	-	2	25	7	130	24	-	34	222	25	-	247

INFORMATION ABOUT GEOGRAPHICAL AREAS

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

FOR THE YEAR ENDED 31 DECEMBER 2016

In millions of EUR

	Czech Republic	Slovakia	Germany	Italy	United Kingdom	Hungary	Other	Total segments
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
Total	**909**	**6,012**	**697**	**410**	**264**	**48**	**8**	**8,348**

In millions of EUR

	Czech Republic	Slovakia	Germany	Italy	United Kingdom	Hungary	Other	Total segments
Sales: Electricity	309	817	149	851	189	61	64	2,440
Sales: Gas	197	1,190	46	3	145	-	94	1,675
Sales: Coal	22	2	242	-	-	-	2	268
Sales: Heat	282	-	2	-	-	73	1	358
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)
Total	**850**	**2,020**	**524**	**866**	**337**	**134**	**200**	**4,931**

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

FOR THE YEAR ENDED 31 DECEMBER 2015

In millions of EUR

	Czech Republic	Slovakia	Germany	Italy	United Kingdom	Hungary	Other	Total segments
Property, plant and equipment	718	6,121	666	355	34	51	2	7,947
Intangible assets	139	131	87	3	31	21	-	412
Investment property	-	-	-	-	-	-	3	3
Total	**857**	**6,252**	**753**	**358**	**65**	**72**	**5**	**8,362**

In millions of EUR

	Czech Republic	Slovakia	Germany	Italy	United Kingdom	Hungary	Other	Total segments
Sales: Electricity	259	888	145	445	405	11	117	2,270
Sales: Gas	196	1,298	22	-	10	-	55	1,581
Sales: Coal	29	2	253	4	-	1	-	289
Sales: Heat	285	-	3	-	-	10	1	299
Sales: Other energy products	-	-	-	-	1	-	-	1
Sales: Other	26	7	64	9	-	1	12	119
Gain (loss) from commodity derivatives for trading with electricity and gas, net	12	-	-	-	-	-	-	12
Total	**807**	**2,195**	**487**	**458**	**416**	**23**	**185**	**4,571**

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

I. 31 DECEMBER 2016

In millions of EUR

	Date of acquisition	Purchase price	Cash paid	Purchase price liability	Equity interest acquired %	Equity interest after acquisition %
New subsidiaries						
Lynemouth Power Limited	05/01/2016	53	(53)	-	100	100
ABS Property Ltd	31/05/2016	2	-	[1](2)	100	100
Total		**55**	**(53)**	**(2)**	**-**	**-**

(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 %
New associates and joint ventures			
SPH Group[(1)]	28/07/2016	[(3)]33	[(3)]33
LEAG Group[(2)]	01/10/2016	50	50
Total		**-**	**-**

(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 ut 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 28 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).

Acquisitions and disposals of subsidiaries, joint ventures and associates

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.

II. 31 DECEMBER 2015

In millions of EUR

	Date of acquisition	Purchase price	Cash paid	Other consideration	Equity interest acquired %	Equity interest after acquisition %
New subsidiaries						
Eggborough Holdco 2 S.à r.l. and its subsidiary (EPL)	15/01/2015	81	(81)	-	100	100
EP Produzione S.p.A., its subsidiaries and Ergosud S.p.A. (EPP Group)	01/07/2015	(52)	(28)	[(3)]80		
LokoTrain s.r.o.	21/07/2015	1	(1)	-	65	65
Optimum Energy, s.r.o.	01/08/2015	5	(5)	-	100	100
Budapesti Erömü Zrt. (BERT)	10/12/2015	[(2)]6	-	[(1)(2)](6)	95.62	95.62
Total		**41**	**(115)**	**(74)**	**-**	**-**

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

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

(3) The Group received a payment from the seller totalling EUR 80 million for the Ergosud S.p.A. shares which is a consideration for certain liabilities taken over as part of the overall transaction.

ACQUISITION OF NON-CONTROLLING INTEREST

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

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

B EFFECT OF ACQUISITIONS

I. 31 DECEMBER 2016

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 Ltd are provided in the following table.

In millions of EUR

	Carrying amount(1)	Fair value adjustment	2016 Total(1)
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)**
Net identifiable assets and liabilities	**21**	**34**	**55**
Non-controlling interest			**-**
Goodwill on acquisitions of a subsidiary			**-**
Negative goodwill on acquisition of new subsidiaries			**-**
Cost of acquisition			**55**
Consideration paid, satisfied in cash (A)			**53**
Purchase price liability			**2**
Total consideration transferred			**55**
Less: Cash acquired (B)			**14**
Net cash inflow (outflow) (C) = (B – A)			**(39)**

(1) Represents values at 100% share.

ASSOCIATES AND JOINT VENTURES

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

In millions of EUR

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

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

II. 31 DECEMBER 2015

The fair value of the consideration transferred and the amounts recognised for assets acquired and liabilities assumed as at the acquisition date of Eggborough Holdco 2 S.à r.l. and its subsidiary, EP Produzione S.p.A., its subsidiaries and Ergosud S.p.A. (EPP Group), LokoTrain s.r.o., Optimum Energy, s.r.o. and Budapesti Erömü Zrt. (BERT) and are provided in the following table.

In millions of EUR

	Carrying amount(1)	Fair value adjustment	2015 Total(1)
Property, plant, equipment, land, buildings	1,337	(889)	**448**
Intangible assets	6	17	**23**
Equity accounted investee(2)	92	(48)	**44**
Trade receivables and other assets	298	(21)	**277**
Financial instruments – assets	22	-	**22**
Inventories	49	(1)	**48**
Cash and cash equivalents	110	-	**110**
Restricted cash	35	-	**35**
Deferred tax asset	-	49	**49**
Provisions	(498)	60	**(438)**
Deferred tax liabilities	(2)	(8)	**(10)**
Loans and borrowings	(86)	40	**(46)**
Financial instruments – liabilities	(4)	-	**(4)**
Trade payables and other liabilities	(221)	5	**(216)**
Net identifiable assets and liabilities	**1,138**	**(796)**	**342**
Non-controlling interest			**(50)**
Goodwill on acquisitions of a subsidiary			**34**
Negative goodwill on acquisition of new subsidiaries			**(285)**
Cost of acquisition			**41**
Consideration paid, satisfied in cash (A)			**115**
Consideration received, satisfied in cash (C)			**(80)**
Consideration, other			**6**
Total consideration transferred			**41**
Less: Cash acquired (B)			**110**
Net cash inflow (outflow) (D) = (B – A – C)			**75**

(1) Represents values at 100% share.
(2) Represents 50% share on equity of acquired equity accounted investee Ergosud S.p.A.

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

III. RATIONALE FOR ACQUISITIONS

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

- The subsidiaries’ businesses are complementary to 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 106 million.
For the development of historical goodwill, please refer to Note 17 – Intangible assets (including goodwill).

In 2016 the Group recognised negative goodwill of EUR 254 million from the acquisition of LEAG Group (2015: negative goodwill of EUR 285 million from the acquisition of BERT and EPP Group). Gain on a bargain purchase of LEAG Group is attributable to the following facts: Vattenfall (the seller) was abandoning the lignite sector in Germany and due to the considerable size of disposed assets and sector characteristics there was a limited number of bidders. Furthermore, the disposed assets are heavily exposed to the commodity market as well energy/environmental regulation which both have been quite volatile during the last few years in Germany. Negative goodwill from the acquisition of interest in LEAG Group is presented in the consolidated statement of comprehensive income under Share of profit (loss) of equity accounted investees, net of tax.

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

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

In millions of EUR

	2016 Total
Revenue of the acquirees recognised since the acquisition date (subsidiaries)	**16**
Profit (loss) of the acquirees recognised since the acquisition date (subsidiaries)	**(22)**

In millions of EUR

	2015 Total
Revenue of the acquirees recognised since the acquisition date (subsidiaries)	**1,083**
Profit (loss) of the acquirees recognised since the acquisition date (subsidiaries)	**(404)**

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 2016 or as at 1 January 2015); this financial information was derived from the statutory or IFRS financial statements of the acquired entities.

In millions of EUR

	2016 Total
Revenue of the acquirees recognised in the year ended 31 December 2016 (subsidiaries)*	16
Profit (loss) of the acquires recognised in the year ended 31 December 2016 (subsidiaries)*	(22)

In millions of EUR

	2015 Total
Revenue of the acquirees recognised in the year ended 31 December 2015 (subsidiaries)*	1,412
Profit (loss) of the acquires recognised in the year ended 31 December 2015 (subsidiaries)*	(613)

* 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 2016 AND 2015

The acquiree's identifiable assets, liabilities and contingent liabilities were recognised and measured at their fair values at the acquisition date by the 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 2016 are presented in the following table:

In millions of EUR

	Intangible assets	Deferred tax asset/ (liability)	Total net effect on financial position
Subsidiary			
Lynemouth Power Limited	43	(9)	**34**
	43	**(9)**	**34**

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

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

In millions of EUR

	Intangible assets	Property, plant and equipment (including mine property)	Other	Deferred tax asset/ (liability)	Total net effect on financial position
Subsidiary					
Eggborough Holdco 2 S.à r.l. and its subsidiary	-	17	(28)	-	**(11)**
EP Produzione S.p.A., its subsidiaries and Ergosud S.p.A.	-	(857)	23	49	**(785)**
Budapesti Erömü Zrt. (BERT)	17	(49)	40	(8)	**-**
	17	**(889)**	**35**	**41**	**(796)**

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

D DISPOSAL OF INVESTMENTS

I. 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:

In millions of EUR

	Net assets sold in 2016
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)
Net identifiable assets and liabilities	**38**
Non-controlling interest	(9)
Net assets value disposed	**29**
Sales price	82
Gain (loss) on disposal	**53**

II. 31 DECEMBER 2015

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

In millions of EUR

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

7. Sales

In millions of EUR

	2016	2015
Sales: Energy		
of which: Electricity	2,440	2,270
Gas	1,675	1,581
Heat	358	299
Coal	268	289
Other	2	1
Total Energy	**4,743**	**4,440**
Sales: Other	**193**	**119**
Gain (loss) from commodity derivatives for trading with electricity and gas, net	**(5)**	**12**
Total	**4,931**	**4,571**

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

In millions of EUR

	2016	2015
Cost of Sales: Energy		
Cost of sold electricity	920	914
Cost of sold gas and other energy products	499	348
Consumption of coal and other material	663	664
Consumption of energy	129	120
Changes in WIP, semi-finished products and finished goods	-	-
Other cost of sales	110	43
Total Energy	**2,321**	**2,089**
Cost of Sales: Other		
Other cost of goods sold	49	14
Other cost of sales	41	28
Consumption of material	15	12
Consumption of energy	10	7
Changes in WIP, semi-finished products and finished goods	3	(2)
Total Other	**118**	**59**
Total	**2,439**	**2,148**

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

In millions of EUR

	2016	2015
Wages and salaries	327	305
Compulsory social security contributions	102	96
Board members’ remuneration (including boards of subsidiaries)	41	20
Expenses and revenues related to employee benefits (IAS 19)	4	3
Other social expenses	29	18
Total	**503**	**442**

The average number of employees during 2016 was 10,256 (2015: 10,094), of which 198 were executives (2015: 175).

10. Emission rights

In millions of EUR

	2016	2015
Deferred income (grant) released to profit and loss	11	16
Profit (loss) from sale of emission rights	1	(1)
Creation of provision for emission rights	(72)	(67)
Use of provision for emission rights	90	59
Consumption of emission rights	(90)	(59)
Total	**(60)**	**(52)**

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., JTSD Braunkohlebergbau GmbH, Helmstedter Revier GmbH, Elektrárny Opatovice, a.s., Stredoslovenská energetika, a.s., NAFTA a.s., eustream, a.s., SPP Storage, s.r.o., Budapesti Erömü Zrt., Eggborough Power Limited, Fiume Santo S.p.A., Centro Energia Ferrara S.p.A. and EP Produzione S.p.A.

11. Taxes and charges

In millions of EUR

	2016	2015
Carbon price support[(1)]	35	39
Property tax and real estate transfer tax	11	12
Electricity tax	7	9
Gift tax refunds (gain)	-	(11)
Other taxes and charges expenses (revenues)	7	5
Total	**60**	**54**

(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.

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

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

12. Other operating income

In millions of EUR

	2016	2015
Compensation from insurance companies	9	13
Property acquired free-of-charge and fees from customers	7	4
Rental income	7	6
Consulting fees	6	16
Ecological tax reimbursement	5	6
Inventories surplus	5	3
Profit from disposal of tangible and intangible assets	3	-
Profit from sale of material	2	1
Contractual penalties	1	[(1)]4
Fee and commission income – intermediation	1	-
Other	23	10
Total	**69**	**63**

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

13. Other operating expenses

In millions of EUR

	2016	2015
Office equipment and other material	53	40
Consulting expenses	49	33
Impairment losses	47	34
Of which relates to: Goodwill	*29*	*-*
Property, plant and equipment and intangible assets	*12*	*23*
Trade receivables and other assets	*5*	*2*
Inventories	*1*	*9*
Outsourcing and other administration fees	37	44
Rent expenses	31	35
Change in provisions, net	23	(20)
Shortages and damages	21	1
Information technologies costs	19	11
Insurance expenses	17	13
Transport expenses	11	9
Fees and commissions expense – intermediation	7	3
Re-transmission fee[1]	6	19
Gifts and sponsorship	5	3
Contractual penalties	5	3
Advertising expenses	4	5
Training, courses, conferences	3	4
Security services	3	3
Communication expenses	2	2
Loss from receivables written-off	2	-
Environmental expenses	1	1
Net loss on disposal of property, plant and equipment, investment property and intangible assets	-	3
Own work capitalised to fixed assets	(45)	(29)
Other	55	24
Total	**356**	**241**

(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 2016 and 2015.

FEES PAYABLE TO STATUTORY AUDITORS

In millions of EUR

	2016	2015
Statutory audits	1	1
Other attestation services	-	1
Total	**1**	**2**

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

	2016	2015
Interest income	25	23
Revenue from released deferred earn-out	6	-
Dividend income	6	4
Net foreign exchange gain	-	4
Other finance income	4	1
Finance income	**41**	**32**
Interest expense incl. various financing and refinancing related fees	(243)	(234)
Net foreign exchange loss	(29)	-
Interest expense from unwind of provision discounting	(17)	(12)
Fees and commissions expense relating to disposal of a minority(1)	(12)	-
Fees and commissions expense for payment transactions	(1)	(1)
Fees and commissions expense for guarantees	(1)	(1)
Fees and commissions expense for other services	(7)	(13)
Finance expense	**(310)**	**(261)**
Profit (loss) from hedging derivatives	20	(4)
Profit (loss) from currency derivatives for trading	11	(4)
Profit (loss) from commodity derivatives for trading	3	(38)
Profit (loss) from other derivatives for trading	(1)	(1)
Profit (loss) from assets at fair value	(2)	-
Profit (loss) from hedging cash flows	(3)	-
Profit (loss) from interest rate derivatives for trading	(18)	(2)
Impairment losses on financial assets	(73)	-
Profit (loss) from financial instruments	**(63)**	**(49)**
Net finance income (expense) recognised in profit or loss	**(332)**	**(278)**

(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 (refer to Note 41 – Subsequent events).

15. Income tax expenses

INCOME TAXES RECOGNISED IN PROFIT OR LOSS

In millions of EUR

	2016	2015
Current taxes:		
Current year	(286)	(288)
Adjustment for prior periods	(5)	1
Withholding tax	-	(5)
Total current taxes	**(291)**	**(292)**
Deferred taxes:		
Origination and reversal of temporary differences	(1)92	22
Total deferred taxes	**92**	**22**
Total income taxes (expense) benefit recognised in profit or loss	**(199)**	**(270)**

(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 2016 and 2015. The Slovak corporate income tax rate is 22% for fiscal years 2016 and 2015. The German federal income tax rate range for 2016 is 28.22% – 29.13% (2015: 28.22% – 29.13%) and Poland income tax rate for fiscal years 2016 and 2015 is 19%. Italian income tax rate for fiscal year 2016 is 27.50% (2015: 31.40%) and Hungarian income tax rate for fiscal year 2016 is 19% (2015: 19%). British income tax rate for fiscal year 2016 is 20% (2015: 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

		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)
Total	**104**	**(18)**	**86**

In millions of EUR

	2015		
	Gross	Income tax	Net of income tax
Foreign currency translation differences for foreign operations	(68)	-	(68)
Foreign currency translation differences from presentation currency	110	-	110
Effective portion of changes in fair value of cash-flow hedges	78	(1)	77
Fair value reserve included in other comprehensive income	4	2	6
Total	**124**	**1**	**125**

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

		2016		2015
	%		%	
Profit before tax		999		1,108
Income tax using the Company's domestic rate (19%)	19.0%	190	19.0%	211
Effect of tax rates in foreign jurisdictions	4.7%	47	3.5%	39
Non-deductible expenses[1]	4.6%	46	2.0%	22
Other non-taxable income[2]	(9.4%)	(94)	(5.6%)	(62)
Change in tax rate[3]	(4.5%)	(45)	-	-
Recognition of previously unrecognised tax losses	-	-	(0.1%)	(1)
Effect of special levy for business in regulated services	3.4%	34	3.6%	40
Current year losses for which no deferred tax asset was recognised	0.8%	8	1.5%	17
Withholding tax, income tax adjustments for prior periods	1.1%	11	0.4%	4
Effect of different tax rate used for deferred tax from local tax rate	0.2%	2	-	-
Income taxes recognised in profit or loss	**19.9%**	**199**	**24.3%**	**270**

(1) The basis consists mainly of non-deductible interest expense of EUR 92 million (2015: EUR 113 million) and impairment losses on financial assets of EUR 73 million (2015: EUR 0 million).
(2) The basis consists mainly of share of profit of equity accounted investees of EUR 312 million (2015: EUR 5 million) and negative goodwill of EUR 0 million (2015: negative goodwill of EUR 285 million).
(3) 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.

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

(1) Purchase of Lynemouth Power and ABS Property Ltd.
(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.
(4) The decrease compared to 2015 is caused by change in the useful life of the gas pipeline and related equipment.

In millions of EUR

	Land and buildings	Gas pipelines	Technical equipment, plant and machinery	Other equipment, fixtures and fittings	Under construction	Total
Cost						
Balance at 1 January 2015	**1,987**	**4,479**	**2,277**	**3**	**104**	**8,850**
Effects of movements in foreign exchange rates	17	-	23	-	2	**42**
Additions	66	6	125	-	116	**313**
Additions through business combinations[1]	131	-	302	4	11	**448**
Disposals	(8)	(5)	(17)	-	(3)	**(33)**
Disposed entities[2]	(4)	-	-	-	-	**(4)**
Transfers	35	10	36	-	(81)	**-**
Balance at 31 December 2015	**2,224**	**4,490**	**2,746**	**7**	**149**	**9,616**
Depreciation and impairment losses						
Balance at 1 January 2015	**(303)**	**(254)**	**(580)**	**(2)**	**(5)**	**(1,144)**
Effects of movements in foreign exchange rates	(1)	-	(14)	-	-	**(15)**
Depreciation charge for the year	(125)	(144)	(237)	(1)	-	**(507)**
Disposals	4	1	15	-	-	**20**
Impairment losses recognised in profit or loss	(14)	-	(8)	-	(1)	**(23)**
Balance at 31 December 2015	**(439)**	**(397)**	**(824)**	**(3)**	**(6)**	**(1,669)**
Carrying amounts						
At 1 January 2015	**1,684**	**4,225**	**1,697**	**1**	**99**	**7,706**
At 31 December 2015	**1,785**	**4,093**	**1,922**	**4**	**143**	**7,947**

(1) Purchase of LokoTrain s.r.o., Optimum Energy, s.r.o., Budapesti Erőmű Zrt. (BERT), Eggborough Holdco 2 S.à r.l. and its subsidiary and EP Produzione S.p.A., its subsidiaries and Ergosud S.p.A.
(2) The disposal of ROLLEON a.s. and ENERGZET, a.s.

IDLE ASSETS

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

FINANCE LEASE LIABILITIES

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

SECURITY

At 31 December 2016 property, plant and equipment with a carrying value of EUR 397 million (2015: EUR 374 million) is subject to pledges to secure bank loans.

INSURANCE OF PROPERTY, PLANT AND EQUIPMENT

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

In millions of EUR

		Sum insured			
Description of property	**Carrying amount of property**	**Natural risk[1]**	**General machine risks**	**Liability for damage**	**Other risks**
Land	235	65	-	1	-
Buildings	1,487	970	-	90	647
Machinery and equipment	1,908	1,749	66	2,399	4,620
Gas pipelines	4,000	43	-	-	14
Fixtures and fittings	4	3	85	-	-
Other long-term tangible assets	5	20	-	-	-
Long-term tangible assets under construction	308	3	3	610	-
Investment property	3	-	-	-	-
Total	**7,950**	**2,853**	**154**	**3,100**	**5,281**

(1) Natural risk includes risk of fire, risk of accidents, risk of intentional 3rd party damage, risk of terrorist activities and risk of environmental damage.

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

In millions of EUR

		Sum insured			
Description of property	**Carrying amount of property**	**Natural risk[1]**	**General machine risks**	**Liability for damage**	**Other risks**
Land	230	-	-	-	-
Buildings	1,555	880	-	101	439
Machinery and equipment	1,922	1,200	71	2,709	4,428
Gas pipelines	4,093	-	-	-	-
Fixtures and fittings	3	3	85	-	-
Other long-term tangible assets	1	-	-	-	-
Long-term tangible assets under construction	143	3	3	-	25
Investment property	3	-	-	-	-
Total	**7,950**	**2,086**	**159**	**2,810**	**4,892**

(1) Natural risk includes risk of fire, risk of accidents, risk of intentional 3rd party damage, risk of terrorist activities and risk of environmental damage.

17. Intangible assets (including goodwill)

In millions of EUR

	Goodwill	Software	Emission rights	Customer relationship and other contracts	Other intangible assets	Total
Cost						
Balance at 1 January 2016	**145**	**66**	**66**	**281**	**9**	**567**
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(1)	-	-	-	43	-	**43**
Transfers	-	2	-	-	(2)	**-**
Balance at 31 December 2016	**143**	**76**	**89**	**302**	**14**	**624**
Amortisation and impairment losses						
Balance at 1 January 2016	**(8)**	**(23)**	**-**	**(121)**	**(3)**	**(155)**
Amortisation for the year	-	(13)	-	(46)	(1)	**(60)**
Disposals	-	1	-	17	-	**18**
Impairment losses recognised in profit or loss	(29)	-	-	-	-	**(29)**
Balance at 31 December 2016	**(37)**	**(35)**	**-**	**(150)**	**(4)**	**(226)**
Carrying amount						
At 1 January 2016	**137**	**43**	**66**	**160**	**6**	**412**
At 31 December 2016	**106**	**41**	**89**	**152**	**10**	**398**

(1) Purchase of Lynemouth Power Limited

In millions of EUR

	Goodwill	Software	Emission rights	Customer relationship and other contracts	Other intangible assets	Total
Cost						
Balance at 1 January 2015	**107**	**49**	**63**	**263**	**8**	**490**
Effect of movements in foreign exchange rates	4	1	1	-	-	**6**
Additions	-	14	63	-	3	**80**
Disposals	-	(1)	(64)	-	(1)	**(66)**
Additions through business combinations(1)	34	2	3	18	-	**57**
Transfers	-	1	-	-	(1)	**-**
Balance at 31 December 2015	**145**	**66**	**66**	**281**	**9**	**567**
Amortisation and impairment losses						
Balance at 1 January 2015	**(8)**	**(20)**	**-**	**(90)**	**(4)**	**(122)**
Effect of movements in foreign exchange rates	-	(1)	-	-	-	**(1)**
Amortisation for the year	-	(2)	-	(31)	-	**(33)**
Disposals	-	-	-	-	1	**1**
Balance at 31 December 2015	**(8)**	**(23)**	**-**	**(121)**	**(3)**	**(155)**
Carrying amount						
At 1 January 2015	**99**	**29**	**63**	**173**	**4**	**368**
At 31 December 2015	**137**	**43**	**66**	**160**	**6**	**412**

(1) Purchase of LokoTrain s.r.o., Optimum Energy, s.r.o., Budapesti Erőmű Zrt. (BERT), Eggborough Holdco 2 S.à r.l. and its subsidiary and EP Produzione S.p.A., its subsidiaries and Ergosud S.p.A.

In 2016, EPH Group purchased emission allowances of EUR 104 million (2015: EUR 27 million). The remaining part of EUR 10 million (2015: EUR 36 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 2016 and 2015.

IMPAIRMENT TESTING FOR CASH-GENERATING UNITS CONTAINING GOODWILL

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

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

In millions of EUR

	31 December 2016	31 December 2015
EP Energy, a.s.:		
Elektrárny Opatovice, a.s.	85	85
EP Cargo a.s.	5	5
EP ENERGY TRADING, a.s. (1)	5	5
Plzeňská energetika a.s.	3	3
Helmstedter Revier GmbH	5	5
EP Investments Advisors, s.r.o.	3	3
Eggborough Power Limited	-	31
Total goodwill	**106**	**137**

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

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. In 2015 the balance of goodwill increased by EUR 34 million as a result of Eggborough Power Limited and Optimum Energy, s.r.o. acquisition and remaining increase of EUR 4 million was earned by the positive effect of changes in the FX rate. In 2015 the Group did not recognise any goodwill impairment.

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.

Intangible assets (including goodwill)

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% (2015: 0.5% – 2%), which does not exceed the long-term average growth rate for the industry. Other key assumptions considered by management include forecasts of commodity market prices, future electricity and gas prices, investment activity, changes in working capital and changes in the regulatory framework.

The discount rates used in estimating value in use were estimated based on the principle of an average market participant using peer companies (i.e. companies operating in a comparable industry and listed on world markets) as a standard for observing respective betas, debt to equity ratios and size adjustment parameters used for calculation. The resulting discount rates ranged from 4.94% to 6.34% (2015: range from 6.23% to 6.92%).

The 2016 year testing showed 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 2016 was determined in a similar manner as in 2015. Management estimated that the recoverable amount for Elektrárny Opatovice, a.s. exceeded its carrying amount (including goodwill) by EUR 270 million (2015: EUR 426 million). Key assumptions used in the calculation of value in use were the discount rate, the terminal value growth rate and the planned Adjusted EBITDA. These selected assumptions were as follows:

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

The 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:

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

b. market expectations regarding power and CO_2 prices, development based on historical trends;

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

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

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

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

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

18. Investment property

In millions of EUR

	31 December 2016	31 December 2015
Opening balance	3	-
Additions	-	3
Closing balance	**3**	**3**

SECURITY

As at 31 December 2016 no investment property is subject to pledges to secure bank loans (2015: EUR 1 million)

19. Equity accounted investees

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

In millions of EUR

Associates and joint ventures	Country	Ownership 31 December 2016 %	Carrying amount 31 December 2016
LEAG Group(1)	*(3)*	50.00	282
SPH Group(2)	*(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
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
Przedsiebiorstwo Górnicze Silesia Sp. z o.o.	Poland	38.93	-
Total		**-**	**712**

In millions of EUR

Associates and joint ventures	Country	Ownership 31 December 2015 %	Carrying amount 31 December 2015
Kraftwerk Schkopau GbR	Germany	41.90	85
POZAGAS a.s.	Slovakia	41.30	49
Ergosud S.p.A.	Italy	50.00	45
Przedsiebiorstwo Górnicze Silesia Sp. z o.o.	Poland	38.93	35
Mitteldeutsche Umwelt- und Entsorgung GmbH	Germany	50.00	21
Pražská teplárenská Holding a.s.	Czech Republic	49.00	7
Fernwärme GmbH Hohenmölsen – Webau	Germany	48.96	3
Energotel, a.s.	Slovakia	20.00	2
Total		**-**	**247**

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

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

In millions of EUR

Associates and joint ventures	Country	Ownership 31 December 2016 %	Share of profit (loss) 2016
LEAG Group	*(1)*		(3)275
Przedsiebiorstwo Górnicze Silesia Sp. z o.o.	Poland	38.93	(25)
Ergosud S.p.A.	Italy	50.00	7
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
Total		**-**	**312**

In millions of EUR

Associates and joint ventures	Country	Ownership 31 December 2015 %	Share of profit (loss) 2015
Przedsiebiorstwo Górnicze Silesia Sp. z o.o.	Poland	38.91	(4)
Ergosud S.p.A.	Italy	50.00	1
Energotel, a.s.	Slovakia	20.00	1
Mitteldeutsche Umwelt- und Entsorgung GmbH	Germany	50.00	1
Fernwärme GmbH Hohenmölsen – Webau	Germany	48.96	1
Kraftwerk Schkopau GbR	Germany	41.90	(3)
POZAGAS a.s.	Slovakia	41.30	8
Total		**-**	**5**

(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

Equity accounted investees

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

In millions of EUR

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

* Profit (loss) primarily represents dividend income from Pražská teplárenská a.s.
(1) Revenue, Profit (loss) and Total comprehensive income represent amounts from the date of acquisition by the Group.
(2) Data from standalone financial statements according to German GAAP

In millions of EUR

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

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

Summary financial information for standalone associates and joint ventures, presented at 100% as at 31 December 2015 and for the year then ended.

In millions of EUR

Associates and joint ventures	Revenue	Profit (loss)	Other compre-hensive income	Total compre-hensive income	Assets	Liabilities	Equity
Pražská teplárenská Holding a.s.	14	*13	-	*13	100	-	100
Kraftwerk Schkopau GbR(1)	32	6	-	6	222	120	102
Kraftwerk Schkopau Betriebsgesellschaft GmbH(1)	102	-	-	-	9	9	-
Mitteldeutsche Umwelt- und Entsorgung GmbH(1)	51	4	-	4	62	35	27
Fernwärme GmbH Hohenmölsen – Webau(1)	4	-	-	-	15	8	7
POZAGAS a.s.	29	11	-	11	90	19	71
Energotel, a.s.	14	2	-	2	14	6	8
Przedsiebiorstwo Górnicze Silesia Sp. z o.o.	80	(10)	-	(10)	246	253	(7)
Ergosud S.p.A.	29	2	-	2	346	256	90
Total	**355**	**28**	**-**	**28**	**1,104**	**706**	**398**

* Profit (loss) primarily represents dividend income from Pražská teplárenská a.s.
(1) Data from standalone financial statements according to German GAAP

In millions of EUR

Associates and joint ventures	Non-current assets	Current assets	Non-current liabilities	Current liabilities
Pražská teplárenská Holding a.s.	93	7	-	-
Kraftwerk Schkopau GbR(1)	21	201	11	109
Kraftwerk Schkopau Betriebsgesellschaft GmbH(1)	-	9	-	9
Mitteldeutsche Umwelt- und Entsorgung GmbH(1)	36	26	23	12
Fernwärme GmbH Hohenmölsen – Webau(1)	1	14	1	7
POZAGAS a.s.	57	33	15	4
Energotel, a.s.	8	6	4	2
Przedsiebiorstwo Górnicze Silesia Sp. z o.o.	206	40	189	64
Ergosud S.p.A.	295	51	224	32
Total	**717**	**387**	**467**	**239**

(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:

In millions of EUR

	31 December 2016	31 December 2016	31 December 2016	31 December 2015	31 December 2015	31 December 2015
Temporary difference related to:	Assets	Liabilities	Net	Assets	Liabilities	Net
Property, plant and equipment	30	(1,096)	(1,066)	44	(1,162)	(1,118)
Intangible assets	30	(35)	(5)	30	(35)	(5)
Financial instruments at fair value through profit or loss	-	-	-	1	-	1
Inventories	4	-	4	2	-	2
Trade receivables and other assets	2	-	2	2	-	2
Provisions	114	(19)	95	76	(4)	72
Employee benefits (IAS 19)	5	-	5	5	-	5
Loans and borrowings	5	(11)	(6)	5	(14)	(9)
Tax losses	17	-	17	9	-	9
Derivatives	3	(40)	(37)	3	(20)	(17)
Other items	3	-	3	7	(5)	2
Subtotal	**213**	**(1,201)**	**(988)**	**184**	**(1,240)**	**(1,056)**
Set-off tax	(157)	157	-	(121)	121	-
Total	**56**	**(1,044)**	**(988)**	**63**	**(1,119)**	**(1,056)**

MOVEMENTS IN DEFERRED TAX DURING THE YEAR

In millions of EUR

Balances related to:	Balance at 1 January 2016	Recognised in profit or loss	Recognised in other comprehen-sive income	Acquired in business combina-tions(1)	Transfer to disposal group held for sale(2)	Disposed entities(3)	Effect of movements in foreign exchange rate	Balance at 31 Decem-ber 2016
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
Total	**(1,056)**	**92**	**(18)**	**(8)**	**1**	**3**	**(2)**	**(988)**

(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 teplárenská LPZ, a.s.

In millions of EUR

Balances related to:	Balance at 1 January 2015	Recognised in profit or loss	Recognised in other comprehen-sive income	Acquired in business combina-tions(1)	Transfer to disposal group held for sale(2)	Disposed entities(3)	Effect of movements in foreign exchange rate	Balance at 31 Decem-ber 2015
Property, plant and equipment	(1,155)	-	-	38	1	1	(3)	(1,118)
Intangible assets	(21)	13	-	3	-	-	-	(5)
Financial instruments at fair value through profit or loss	-	-	-	1	-	-	-	1
Inventories	1	1	-	-	-	-	-	2
Trade receivables and other assets	(2)	4	-	-	-	-	-	2
Provisions	47	21	1	3	-	-	-	72
Employee benefits (IAS 19)	5	-	-	-	-	-	-	5
Loans and borrowings	6	(11)	10	(14)	-	-	-	(9)
Tax losses	-	-	-	9	-	-	-	9
Derivatives	(1)	(6)	(10)	-	-	-	-	(17)
Other	3	-	-	(1)	-	-	-	2
Total	**(1,117)**	**22**	**1**	**39**	**1**	**1**	**(3)**	**(1,056)**

(1) The purchase of Eggborough Holdco 2 S.à r.l. and its subsidiary, EP Produzione S.p.A., its subsidiaries and Ergosud S.p.A. and Budapesti Erőmű Zrt.
(2) The transfer of specific assets and liabilities reported by Stredoslovenská energetika, a.s. to disposal group held for sale.
(3) The disposal of ROLLEON a.s. and ENERGZET, a.s.

UNRECOGNISED DEFERRED TAX ASSETS

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

In millions of EUR

	31 December 2016	31 December 2015
Tax losses carried forward	268	395
Total	**268**	**395**

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

In millions of EUR

	31 December 2016	31 December 2015
Slovak Gas Holding B.V.	153	304
EPH Gas Holding B.V.	53	53
Seattle Holding B.V.	43	27
Czech Gas Holding Investment B.V.	7	5
PT Holding Investments B.V.	4	4
EPPE Germany a.s.	3	-
Czech Gas Holding N.V.	3	-
WOOGEL LIMITED	1	-
EP ENERGY TRADING, a.s.	-	1
Other	1	1
Total	**268**	**395**

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 2016, then the associated tax income (savings) would be up to EUR 53 million (2015: EUR 74 million).

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

In millions of EUR

	2016	2017	2018	2019	2020	After 2021	Total
Tax losses	-	-	-	-	3	265	**268**

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

In millions of EUR

	31 December 2016	31 December 2015
Raw material and supplies	54	56
Fossil fuel	43	39
Spare parts	38	35
Overburden	25	26
Work in progress	3	5
Finished goods and merchandise	-	3
Total	**163**	**164**

At 31 December 2016 inventories in the amount of EUR 30 million (2015: EUR 28 million) were subject to pledges.

22. Trade receivables and other assets

In millions of EUR

	31 December 2016	31 December 2015
Trade receivables	472	441
Accrued income	78	77
Advance payments	49	62
Estimated receivables	61	48
Other receivables and assets	20	22
Allowance for bad debts	(20)	(14)
Total	**660**	**636**
Non-current	42	48
Current	618	588
Total	**660**	**636**

In 2016 EUR 2 million receivables were written-off through profit or loss (2015: EUR 0 million).

As at 31 December 2016 trade receivables with a carrying value of EUR 62 million are subject to pledges (2015: EUR 74 million).

As at 31 December 2016 trade receivables and other assets amounting EUR 651 million are not past due (2015: EUR 582 million), remaining balance of EUR 9 million is overdue (2015: EUR 21 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

In millions of EUR

	31 December 2016	31 December 2015
Current accounts with banks	1,073	641
Bills of exchange issued by banks	36	-
Term deposits	27	65
Total	**1,136**	**706**

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 2016 cash equivalents of EUR 151 million are subject to pledges (2015: EUR 168 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.

24. Restricted cash

As at 31 December 2016 balance of restricted cash is mainly represented by cash deposited by Eggborough Power Limited ("EPL") in amount of EUR 29 million (2015: EUR 38 million). EUR 24 million (2015: EUR 27 million) represents security given by EPL to the pension fund, this will remain in place until risk on the schemes funding deficit is eliminated. EUR 4 million (2015: EUR 0 million) represents banking collateral to form a credit line for banking provider for bankers' automated clearing service (BAC) and other payments. EUR 1 million (2015: EUR 5 million) represents collateral with National Grid (deposited with Elexon). This cash balance enables EPL to participate in network balancing activity in the UK (when the system is long suppliers 'bid' to avoid supplying, when the system is short National Grid 'offers' available plant short term contracts to generate). As at 31 December 2015 the remaining balance of restricted cash by EPL in amount of EUR 6 million was represented by the security given to the Environment Agency in connection with future commitments at EPLs ash disposal site.

As at 31 December 2015 remaining balance of restricted cash in amount of EUR 250 million was represented by cash reserved for 51% shareholder of SPP Infrastructure, a.s. to be declared and paid

as dividend in 2016. SPPI deposited this amount to special bank account and was not allowed to use this cash for any other purpose than for the payment of these dividends to Slovenský plynárenský priemysel, a.s. Actual distribution happened on 22 February 2016.

25. Tax receivables

In millions of EUR

	31 December 2016	31 December 2015
Value added tax receivables	74	59
Current income tax receivables	28	18
Energy tax	2	3
Other tax receivables	3	3
Total	**107**	**83**

26. Assets and liabilities held for sale and discontinued operations

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

In millions of EUR

	31 December 2016	31 December 2015
Land and buildings	5	5
Property, plant and equipment	-	18
Total	**5**	**23**

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

In millions of EUR

	31 December 2016	31 December 2015
Deferred tax liability	1	3
Loans and borrowings	-	12
Total	**1**	**15**

As at 31 December 2016 assets held for sale and liabilities from disposal groups held for sale were fully represented by Nový Veleslavín, a.s. and Nová Invalidovna, a.s.

As at 31 December 2015 assets held for sale and liabilities from disposal groups held for sale were fully represented by specific assets and liabilities reported by Stredoslovenská energetika, a.s. These assets and liabilities were later in 2016 again reclassified to continuing assets and liabilities as the intention to sell these assets ceased.

27. Equity

SHARE CAPITAL AND SHARE PREMIUM

The authorised, issued and fully paid share capital as at 31 December 2016 consisted of 28,946,239 ordinary shares with a par value of CZK 100 each (2015: 57,892,478 shares) and 2,155,568,900 ordinary shares with a par value of CZK 1 each (2015: 3,301,099,240 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 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
Total	**2,155,568,900**	**28,946,239**	**100.00**	**100.00**

31 DECEMBER 2015

	Number of shares		Ownership	Voting rights
	1 CZK	100 CZK	%	%
BIQUES LIMITED (part of J&T PARTNERS I L.P.)	236,085,576	12,537,213	16.39	29.50
EP Investment S.à r.l. (owned by Daniel Křetínský)	1,683,397,724	1,935,906	18.52	37.17
MILEES LIMITED (part of J&T PARTNERS II L.P.)	236,085,600	14,473,120	20.65	33.33
Own shares[1]	1,145,530,340	28,946,239	44.44	-
Total	**3,301,099,240**	**57,892,478**	**100.00**	**100.00**

(1) In 2014 EPH acquired 44.44% of its own shares from TIMEWORTH HOLDINGS LIMITED. As at 31 December 2015 these shares were reported within EPH´s equity as the shares were not yet cancelled. These shares were cancelled on 22 January 2016.

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 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)
Shares outstanding at the end of the year	**2,155,568,900**	**28,946,239**

	Number of shares 2015	
	1 CZK	100 CZK
Shares outstanding at the beginning of the year	3,301,099,240	57,892,478
Shares outstanding at the end of the year	**3,301,099,240**	**57,892,478**

Reserves recognised in equity comprise the following items:

In millions of EUR

	31 December 2016	31 December 2015
Hedging reserve	112	(30)
Other capital funds from capital contributions	23	23
Non-distributable reserves	2	6
Fair value reserve	(30)	(4)
Other capital reserves	(54)	(54)
Translation reserve	(83)	(78)
Total	**(30)**	**(137)**

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 2 million was reported as at 31 December 2016 (2015: EUR 6 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. 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 increase 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).

SHARE PREMIUM

Along with the equity reserves described above, the Company recognised a Share premium of EUR 64 million in 2012. For more information on share issues refer to Note 1 – Background.

RESERVE FOR OWN SHARES

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.

28. Earnings per share

BASIC EARNINGS PER SHARE

Basic earnings per share in EUR per equivalent 1,000 CZK of share nominal value equal 0.09 (2015: 0.10).

The calculation of basic earnings per share as at 31 December 2016 was based on a profit attributable to ordinary shareholders of EUR 431 million (2015: EUR 494 million), and a weighted average number of ordinary shares outstanding of 5,050 million (2015: 5,050 million).

WEIGHTED AVERAGE NUMBER OF ORDINARY SHARES 2016

In millions of shares

	Nominal	Weighted
Issued ordinary shares	5,050	5,050
Total	**5,050**	**5,050**

WEIGHTED AVERAGE NUMBER OF ORDINARY SHARES 2015

In millions of shares

	Nominal	Weighted
Issued ordinary shares	5,050	5,050
Total	**5,050**	**5,050**

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 2016

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

(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.

31 DECEMBER 2015

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[3]	EP Produzione Centrale Livorno Ferraris S.p.A.[4]	Other individually immaterial subsidiaries	Total
Non-controlling percentage	**26.18%**	**51.00%**	**31.01%**	**51.00%**	**25.00%**		
Business activity	Production and distribution of heat	Distribution of electricity	Gas storage and exploration	Distribution of gas	Production of electricity and heat		
Country[1]	Czech Republic	Slovakia	Slovakia	Slovakia	Italy		
Carrying amount of NCI at 31 December 2015	**86**	**386**	**105**	**1,285**	**50**	**32**	**1,944**
Profit (loss) attributable to non-controlling interest	**5**	**39**	**33**	**256**	**4**	**7**	**344**
Dividends declared	**(8)**	**(28)**	**(32)**	**(564)**	**-**	**-**	**(632)**
Statement of financial position information[2]							
Total assets	383	1,083	759	6,048	241		
of which: non-current	*327*	*850*	*689*	*5,086*	*159*		
current	*56*	*233*	*70*	*962*	*82*		
Total liabilities	69	327	394	3,340	42		
of which: non-current	*39*	*179*	*306*	*3,013*	*14*		
current	*30*	*148*	*88*	*327*	*28*		
Net assets	**314**	**756**	**365**	**2,708**	**199**	**-**	**-**
Statement of comprehensive income information[2]							
Total revenues	242	948	216	1,232	106		
of which: dividends received	-	-	-	*1*	-		
Profit after tax	21	76	107	554	16		
Total other comprehensive income for the year, net of tax	-	-	-	23	-		
Total comprehensive income for the year[2]	**21**	**76**	**107**	**577**	**16**	**-**	**-**
Net cash inflows (outflows)[2]	**1**	**17**	**(51)**	**(28)**	**9**		

(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. Including SPP Storage, s.r.o. and its subsidiaries, eustream a.s. and SPP – distribúcia, a.s. and its subsidiaries.
(4) Data represent Company's results from the date of acquisition.

30. Loans and borrowings

In millions of EUR

	31 December 2016	31 December 2015
Issued debentures at amortised costs	3,075	3,337
Loans payable to credit institutions	2,413	1,686
Loans payable to other than credit institutions	35	23
Liabilities from financial leases	10	16
Bank overdraft	8	20
Revolving credit facility	-	145
Total	**5,541**	**5,227**
Non-current	5,441	4,851
Current	100	376
Total	**5,541**	**5,227**

The weighted average interest rate on loans for 2016 was 2.49% (2015: 3.50%).

ISSUED DEBENTURES AT AMORTISED COSTS

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

In millions of EUR

	Principal	Accrued interest	Unamortised fee	Maturity	Interest rate (%)	Effective interest rate (%)
SPP Infrastructure Financing bond I	(1)749	13	(1)	18/07/2020	3.750	3.773/3.717
SPP Infrastructure Financing bond II	(2)494	11	-	12/02/2025	2.625	2.685
EP Energy 2018 notes	598	4	(3)	01/05/2018	4.375	4.691
SPPD bond	(3)497	7	(1)	23/06/2021	2.625	2.828
EP Energy 2019 notes	499	5	(5)	01/11/2019	5.875	6.301
EPH Financing CZ 2018 notes	111	2	(1)	30/09/2018	4.200	4.755
EPH Financing CZ 2020 notes	22	-	-	09/06/2020	3.500	3.590
EPH Financing SK notes	75	-	(1)	29/06/2018	4.200	4.823
Total	**3,045**	**42**	**(12)**	**-**	**-**	**-**

(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.

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.

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

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

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

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

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 INFRASTRUCTUE 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

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 2016 amounts to 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%.

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 2016 amounts to EUR 111 million (CZK 3,000 million). The maturity of bonds is 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. The maturity of bonds is 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 3.590%.

OTHER LOANS AND BORROWINGS

TERMS AND DEBT REPAYMENT SCHEDULE

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

In millions of EUR

	Currency	Nominal interest rate	Year of maturity (up to)	Balance at 31/12/16	Due within 1 year	Due in 1–5 years	Due in following years
Secured bank loan	EUR	variable*	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	-	-
Total interest-bearing liabilities				**2,466**	**70**	**2,273**	**123**

* 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 2015 were as follows:

In millions of EUR

	Currency	Nominal interest rate	Year of maturity (up to)	Balance at 31/12/15	Due within 1 year	Due in 1–5 years	Due in following years
Secured bank loan	EUR	variable*	2022	1,180	122	983	75
Unsecured bank loan	EUR	fixed	2025	248	9	74	165
Unsecured bank loan	EUR	variable*	2019	176	1	175	-
Secured bank loan	CZK	variable*	2026	60	1	35	24
Unsecured bank loan	CZK	variable*	2017	15	-	15	-
Secured bank loan	EUR	fixed	2023	6	4	1	1
Secured bank loan	CZK	fixed	2021	1	-	-	1
Unsecured loan	CZK	fixed	2018	15	8	7	-
Unsecured loan	EUR	fixed	2016	8	8	-	-
Revolving credit facility	EUR	variable*		145	145	-	-
Overdraft	EUR	variable*		20	20	-	-
Liabilities from financial leases				16	3	5	8
Total interest-bearing liabilities				**1,890**	**321**	**1,295**	**274**

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

EPIF FACILITY AGREEMENT

On 29 February 2016, EP Infrastructure, a.s. ("EPIF") entered into a Term Loan Facilities Agreement between, among others, several banks as arrangers and lenders 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 1,600 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; and
- Facility C in an amount of EUR 534 million.

As of 5 April 2016, the total principal amount outstanding under the EPIF Facility Agreement was EUR 1,600 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 is five years after the signing date of the EPIF Facility Agreement.

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 as follows (disregarding the cash already held at EPIF, Czech Gas Holding Investment B.V. ("CGHI") and Slovak Gas Holding B.V. ("SGH") level):

- full repayment of the external financing of EPIF in the total amount of EUR 475 million, including (i) repayment of bank financing in the total amount of EUR 100 million, and (ii) early redemption of all outstanding notes issued by EPIF in February 2014 in the total aggregate nominal value of EUR 375 million (with part of the notes redeemed from equity injection by EPH in the amount of EUR 54 million);
- repayment of the external bank financing of SGH in the amount of EUR 843 million; the loan provided by EPIF to SGH for this purpose is used as a collateral for the financing banks providing the financing under the EPIF Facility Agreement; in addition, SGH acceded to the financing under the EPIF Facility Agreement as a guarantor;
- repayment of the external bank financing of CGHI in the amount of EUR 70 million;
- payment of EUR 209 million including a provision of an upstream loan in the amount of EUR 155 million by EPIF to EPH, among other in connection with the JTSD sale; and
- payment of the transaction costs in the amount of EUR 20 million and costs related to early redemption of EPIF Notes, payment of accrued interest and other related costs in relation to EPIF Notes and other refinanced bank financing in the aggregate amount of EUR 41 million.

FAIR VALUE INFORMATION

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

In millions of EUR

	31 December 2016		31 December 2015	
	Carrying amount	Fair value	Carrying amount	Fair value
Issued debentures at amortised costs	3,075	3,155	3,337	3,400
Loans payable to credit institutions	2,413	2,456	1,686	1,689
Loans payable to other than credit institutions	35	35	23	24
Liabilities from financial leases	10	11	16	16
Bank overdraft	8	8	20	20
Revolving credit facility	-	-	145	145
Total	**5,541**	**5,665**	**5,227**	**5,294**

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

In millions of EUR

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

* Unwinding of discount is included in interest expense.
(1) The purchase of Lynemouth Power Limited.
(2) Transfer by Centro Energia Teverola S.p.A. due to the change of the purpose of the provision.

In millions of EUR

	Employee benefits	Provision for emission rights	Onerous contracts	Provision for lawsuits and litigations	Provision for restoration and decom-missioning	Other	Total
Balance at 1 January 2015	**101**	**38**	**-**	**-**	**426**	**31**	**596**
Provisions made during the year	25	67	-	8	11	2	**113**
Provisions used during the year	(24)	(59)	(5)	-	(9)	(23)	**(120)**
Provisions reversed during the year	(11)	-	(20)	-	(9)	(11)	**(51)**
Acquisitions through business combinations[(1)]	26	53	95	1	258	5	**438**
Unwinding of discount*	1	-	-	-	11	-	**12**
Effects of movements in foreign exchange rate	1	3	-	-	3	1	**8**
Balance at 31 December 2015	**119**	**102**	**70**	**9**	**691**	**5**	**996**
Non-current	*72*	*-*	*70*	*1*	*680*	*2*	***825***
Current	*47*	*102*	*-*	*8*	*11*	*3*	***171***

* Unwinding of discount is included in interest expense.
(1) The purchase of Eggborough Holdco 2 S.à r.l. and its subsidiary, EP Produzione S.p.A., its subsidiaries and Ergosud S.p.A. and Budapesti Erömü Zrt.

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 154 million (2015: EUR 119 million) was recorded by Mitteldeutsche Braunkohlengesellschaft GmbH, Elektrárny Opatovice, a.s., Mining Services and Engineering Sp. z o.o., Pražská teplárenská, a.s., PT měření, a.s., United Energy, a.s., Helmstedter Revier GmbH, Stredoslovenská energetika a.s., NAFTA a.s., SPP – distribúcia, a.s., eustream, a.s., Budapesti Erömü Zrt., Eggborough Power Limited, EP Produzione Centrale Livorno Ferraris S.p.A., EP Produzione S.p.A. and Fiume Santo S.p.A.

I. MITTELDEUTSCHE BRAUNKOHLENGESELLSCHAFT GMBH

The provision recorded by Mitteldeutsche Braunkohlengesellschaft GmbH amounts to EUR 17 million (2015: EUR 12 million), of which EUR 4 million (2015: EUR 4 million) represents a defined benefit pension scheme. The remaining balance of EUR 13 million (2015: EUR 8 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

	2016	2015
Plan A		
Fair value of plan asset	4	4
Present value of obligations	(6)	(6)
Total employee benefit (asset)	**(2)**	**(2)**
Plan B		
Fair value of plan asset	2	2
Present value of obligations	(3)	(3)
Total employee benefit (asset)	**(1)**	**(1)**
Plan C		
Fair value of plan asset	-	-
Present value of obligations	(1)	(1)
Total employee benefit (asset)	**(1)**	**(1)**

MOVEMENT IN THE PRESENT VALUE OF DEFINED BENEFIT OBLIGATIONS

In millions of EUR

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

In millions of EUR

	Plan A	Plan B	Plan C	Total
Balance at 1 January 2015	**(6)**	**(3)**	(1)	**(10)**
Benefits paid by plan	-	1	-	**1**
Actuarial gains (losses)	-	(1)	-	**(1)**
Balance at 31 December 2015	**(6)**	**(3)**	**(1)**	**(10)**

MOVEMENT IN FAIR VALUE OF PLAN ASSETS

In millions of EUR

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

In millions of EUR

	Plan A	Plan B	Plan C	Total
Balance at 1 January 2015	**4**	**3**	**-**	**7**
Actuarial gains (losses)	-	(1)	-	**(1)**
Balance at 31 December 2015	**4**	**2**	**-**	**6**

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

AS AT 31 DECEMBER 2016

In %

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

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

AS AT 31 DECEMBER 2015

In %

	Plan A	Plan B	Plan C
Discount rate	1.15	0.46	1.72
Expected return on assets	3.50	0.46	*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 80 million (2015: EUR 65 million), of which EUR 33 million (2015: EUR 23 million) represents a defined benefit pension scheme and EUR 38 million (2015: EUR 36 million) represents an early retirement scheme. The schedules below summarise information about the defined benefit obligations.

In millions of EUR

	2016	2015
Plan A		
Fair value of plan asset	24	22
Present value of obligations	(56)	(44)
Total employee benefit	**(32)**	**(22)**
Plan B		
Fair value of plan asset	1	1
Present value of obligations	(2)	(2)
Total employee benefit	**(1)**	**(1)**
Early Retirement		
Present value of obligations	(38)	(36)
Total employee benefit	**(38)**	**(36)**

MOVEMENTS IN THE PRESENT VALUE OF DEFINED BENEFIT OBLIGATIONS

In millions of EUR

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

In millions of EUR

	Plan A	Plan B	Early retirement	Total
Balance at 1 January 2015	**(36)**	**(2)**	**(33)**	**(71)**
Benefits paid by plan	-	-	1	**1**
Current service costs	(3)	-	(4)	**(7)**
Current interest costs	(1)	-	-	**(1)**
Actuarial gains (losses) recognised in other comprehensive income	(4)	-	-	**(4)**
Balance at 31 December 2015	**(44)**	**(2)**	**(36)**	**(82)**

MOVEMENT IN FAIR VALUE OF PLAN ASSETS

In millions of EUR

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

In millions of EUR

	Plan A	Plan B	Total
Balance at 1 January 2015	**16**	**1**	**17**
Contributions to plan assets	6	**-**	**6**
Expected return on plan assets	-	**-**	**-**
Actuarial gains (losses) recognised in other comprehensive income	-	**-**	**-**
Balance at 31 December 2015	**22**	**1**	**23**

EXPENSE RECOGNISED IN PROFIT AND LOSS:

In millions of EUR

	2016	2015
Current service costs	(7)	(7)
Current interest costs	(2)	(1)
Expected return on plan assets	1	-
Total	**(8)**	**(8)**

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

AS AT 31 DECEMBER 2016

In %

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

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

AS AT 31 DECEMBER 2015

In %

	Plan A	Plan B	Early Retirement
Discount rate	1.72	1.72	0.76
Expected return on assets	2.50	2.50	0.00
Annual rate of increase in salaries	1.75	1.75	2.50
Post retirement pension increase	0.00	0.00	0.00
Mortality & disability	*(1)*	*(1)*	0.03

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

III. STREDOSLOVENSKÁ ENERGETIKA, A.S.

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

PENSION PLANS

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

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

UNFUNDED PENSION PLAN WITH DEFINED BENEFIT

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

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

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

OTHER BENEFITS

The 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_2 emitted. It is measured at the best estimate of the expenditure required to settle the present obligation at the end of the reporting period.

PROVISION FOR LAWSUITS

A provision of EUR 14 million was recorded by JTSD Braunkohlebergbau GmbH (2015: EUR 8 million recorded by JTSD Braunkohlebergbau GmbH and EUR 1 million recorded by Eggborough Power Limited).

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 2016 and 31 December 2015.

PROVISION FOR RESTORATION AND DECOMMISSIONING

The provision of EUR 732 million (2015: EUR 691 million) was primarily recorded by JTSD Braunkohlebergbau GmbH (EUR 257 million; 2015: EUR 230 million), EP PRODUZIONE S.P.A. (EUR 116 million; 2015: EUR 107 million), NAFTA a.s. (EUR 97 million; 2015: EUR 99 million), Helmstedter Revier GmbH (EUR 90 million; 2015: EUR 85 million), Fiume Santo S.p.A. (EUR 72 million; 2015: EUR 67 million), Eggborough Power Limited (EUR 67 million; 2015: EUR 78 million), SPPI Group (excluding NAFTA a.s.) (EUR 12 million; 2015: EUR 13 million) and Lynemouth Power Limited (EUR 9 million; 2015: EUR 0 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 2016, 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 1.22% (2015: 1.7%) was used to calculate the provision for adjustments based on the current price basis and a discount rate of 2.32% (2015: 3.64%) in case of JTSD Braunkohlebergbau GmbH and annual inflation rate of 1.22% (2015: 1.7%) was used to calculate the provision for adjustments based on the current price basis and a discount rate of 0.32% (2015: 1.33%) in case of Helmstedter Revier GmbH.

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 10 basis points ('bp').

At the reporting date, a change of 10 basis points in the inflation rate would have increased or decreased the provision for restoration recognised by JTSD Braunkohlebergbau GmbH and Helmstedter Revier GmbH by the amounts shown in the table below. This analysis assumes that all other variables remain constant.

In millions of EUR

	2016 Profit (loss)	2015 Profit (loss)
Increase of inflation rate by 10 bp	31	20
Decrease of inflation rate by 10 bp	(26)	(18)

At the reporting date, a change of 10 basis points in the discount rate would have increased or decreased the provision for restoration recognised by JTSD Braunkohlebergbau GmbH and Helmstedter Revier GmbH by the amounts shown in the table below. This analysis assumes that all other variables remain constant.

In millions of EUR

	2016 Profit (loss)	2015 Profit (loss)
Increase of discount rate by 10 bp	52	16
Decrease of discount rate by 10 bp	(32)	(14)

Provisions

eustream, a.s. estimated the provision for decontamination and restoration 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.

NAFTA a.s. currently has 158 production wells in addition to 245 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 (2016: 2.65%; 2015: 3.15%). 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.

SPP Storage, s.r.o. ("SPP Storage") currently has 41 production wells and storage facility. SPP Storage's provision for decontamination and restoration resulted from a legislative requirement to dismantle an underground storage facility, mainly production wells and storage wells after the operation of the underground storage facility is discontinued.

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 (2016: 2.48%; 2015: 3.15%). 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.

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 10 basis points ('bp').

At the reporting date, a change of 10 basis points in the inflation rate would have increased or decreased the provision for restoration recognised by SPPI Group (including NAFTA a.s.) by the amounts shown in the table below. This analysis assumes that all other variables remain constant.

In millions of EUR

	2016 Profit (loss)	2015 Profit (loss)
Increase of inflation rate by 10 bp	9	12
Decrease of inflation rate by 10 bp	(8)	(10)

At the reporting date, a change of 10 basis points in the discount rate would have increased or decreased the provision for restoration recognised by SPPI Group (including NAFTA a.s.) by the amounts shown in the table below. This analysis assumes that all other variables remain constant.

In millions of EUR

	2016 Profit (loss)	2015 Profit (loss)
Increase of discount rate by 10 bp	5	5
Decrease of discount rate by 10 bp	(5)	(4)

As at 31 December 2016 Eggborough Power Limited recognised a provision for restoration and decommissioning in amount of EUR 67 million (2015: EUR 78 million). The company has an obligation to ensure that there are no issues with its ash-disposal site 60 years after the company is liquidated.

32. Deferred income

In millions of EUR

	31 December 2016	31 December 2015
Government grants	43	46
Free-of-charge received property	17	16
Other deferred income	62	47
Total	**122**	**109**
Non-current	99	97
Current	23	12
Total	**122**	**109**

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 (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 43 million (2015: EUR 46 million) is mainly represented by Elektrárny Opatovice, a.s. of EUR 21 million (2015: EUR 22 million), Alternative Energy, s.r.o. of EUR 4 million (2015: EUR 5 million), SPPI Group of EUR 10 million (2015: EUR 11 million) and United Energy a.s. of EUR 5 million (2015: 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 SPPI Group includes the grants allocated by the European Commission for the reverse flow projects of the KS04 and Plavecký Peter gas pipelines, and the cross-border interconnection points between Poland and Slovakia and between Hungary and Slovakia.

Balance of other deferred income in amount of EUR 62 million (2015: EUR 47 million) is mainly represented by Stredoslovenská energetika, a.s. This balance consists of deferred income related to the following items: fee for grid connection paid by customers (EUR 26 million; 2015: EUR 25 million), contributions for the acquisitions of tangible assets paid by customers (EUR 21 million; 2015: EUR 16 million) and contributions paid by customers for the restoration of tangible assets related to distribution network (EUR 3 million; 2015: EUR 4 million).

33. Financial instruments

FINANCIAL INSTRUMENTS AND OTHER FINANCIAL ASSETS

In millions of EUR

	31 December 2016	31 December 2015
Assets carried at amortised cost		
Loans to other than credit institutions	496	275
Shares available for sale held at cost	87	86
Impairment of loans to other than credit institutions	(60)	-
Total	**523**	**361**
Assets carried at fair value		
Hedging: *of which*	32	93
Commodity derivatives fair value hedge	*20*	*23*
Commodity derivatives cash flow hedge(1)	*12*	*67*
Interest rate swaps cash flow hedge	*-*	*2*
Other derivatives cash flow hedge	*-*	*1*
Risk management purpose: *of which*	7	6
Commodity derivatives reported as trading	*6*	*5*
Currency forwards reported as trading	*1*	*1*
Total	**39**	**99**
Non-current	129	151
Current	433	309
Total	**562**	**460**

(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 2016	31 December 2015
Liabilities carried at amortised cost		
Issued bills of exchange at amortised costs	69	83
Total	**69**	**83**
Liabilities carried at fair value		
Hedging: *of which*	22	11
Interest rate swaps cash flow hedge	*12*	*7*
Commodity derivatives cash flow hedge	*9*	*4*
Currency forwards cash flow hedge	*1*	-
Risk management purpose: *of which*	48	26
Interest rate swaps reported as trading	*29*	*8*
Commodity derivatives reported as trading	*17*	*6*
Currency forwards reported as trading	*1*	*12*
Other derivatives reported as trading	*1*	-
Total	**70**	**37**
Non-current	65	32
Current	74	88
Total	**139**	**120**

The weighted average interest rate on loans to other than credit institutions for 2016 was 6.47% (2015: 6.49%).

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"). At the same time, the Group reported a valuation allowance of EUR 13 million to its financial investment in PGS (refer to Note 19 – Equity accounted investees). Valuation adjustments were recorded as a result of the impairment test carried out as at 31 December 2016. The results of the impairment test 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.

Shares available for sale held at cost primarily represent a 10% share in Veolia Energie ČR, a.s. (EUR 76 million).

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.

Financial instruments

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

In millions of EUR

	31 December 2016	31 December 2016	31 December 2016	31 December 2016
	Nominal amount buy	Nominal amount sell	Positive fair value	Negative fair value
Hedging: *of which*	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*	-
Risk management purpose: *of which*	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)*
Total	**2,992**	**(2,978)**	**39**	**(70)**

In millions of EUR

	31 December 2015	31 December 2015	31 December 2015	31 December 2015
	Nominal amount buy	Nominal amount sell	Positive fair value	Negative fair value
Hedging: *of which*	493	(493)	93	(11)
Commodity derivatives cash flow hedge	*258*	*(258)*	*67*	*(4)*
Commodity derivatives fair value hedge	-	-	*23*	-
Interest rate swaps cash flow hedge	*235*	*(235)*	*2*	*(7)*
Other derivatives cash flow hedge	-	-	*1*	-
Risk management purpose: *of which*	1,594	(1,589)	6	(26)
Currency forwards reported as trading	*676*	*(676)*	*1*	*(12)*
Interest rate swaps reported as trading	*582*	*(582)*	-	*(8)*
Commodity derivatives reported as trading	*336*	*(331)*	*5*	*(6)*
Total	**2,087**	**(2,082)**	**99**	**(37)**

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.

Financial instruments

FAIR VALUE HIERARCHY FOR FINANCIAL INSTRUMENTS CARRIED AT FAIR VALUE

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

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

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

In millions of EUR

	2016			
	Level 1	Level 2	Level 3	Total
Financial assets carried at fair value:				
Hedging: *of which*	-	32	-	**32**
Commodity derivatives fair value hedge	-	*20*	-	***20***
Commodity derivatives cash flow hedge	-	*12*	-	***12***
Risk management purpose: *of which*	-	7	-	**7**
Commodity derivatives reported as trading	-	*6*	-	***6***
Currency forwards reported as trading	-	*1*	-	***1***
Total	**-**	**39**	**-**	**39**
Financial liabilities carried at fair value:				
Hedging: *of which*	-	22	-	**22**
Interest rate swaps cash flow hedge	-	*12*	-	***12***
Commodity derivatives cash flow hedge	-	*9*	-	***9***
Currency forwards cash flow hedge	-	*1*		***1***
Risk management purpose: of which	-	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***
Total	**-**	**70**	**-**	**70**

In millions of EUR

	2015			
	Level 1	Level 2	Level 3	Total
Financial assets carried at fair value:				
Hedging: *of which*	-	93	-	**93**
Commodity derivatives cash flow hedge	-	*67*	-	***67***
Commodity derivatives fair value hedge	-	*23*	-	***23***
Interest rate swaps cash flow hedge	-	*2*	-	***2***
Other derivatives cash flow hedge	-	*1*	-	***1***
Risk management purpose: *of which*	-	6	-	**6**
Commodity derivatives reported as trading	-	*5*	-	***5***
Currency forwards reported as trading	-	*1*	-	***1***
Total	**-**	**99**	**-**	**99**
Financial liabilities carried at fair value:				
Hedging: *of which*	-	11	-	**11**
Interest rate swaps cash flow hedge	-	*7*	-	***7***
Commodity derivatives cash flow hedge	-	*4*	-	***4***
Risk management purpose: of which	-	26	-	**26**
Currency forwards reported as trading	-	*12*	-	***12***
Interest rate swaps reported as trading	-	*8*	-	***8***
Commodity derivatives reported as trading	-	*6*	-	***6***
Total	**-**	**37**	**-**	**37**

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

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

In millions of EUR

	Carrying value	Fair value
	31 December 2016	31 December 2016
Financial assets		
Loans to other than credit institutions	(2)436	529
Shares available for sale held at cost, net*	87	(1)-
Total	**523**	**529**
Financial liabilities		
Issued bills of exchange at amortised costs	69	65
Total	**69**	**65**

* As noted above Shares available for sale held at cost, net primarily represent the 10% share in Veolia Energie ČR, a.s.

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

(2) Loans to other than credit institutions are stated net of impairment.

In millions of EUR

	Carrying value	Fair value
	31 December 2015	31 December 2015
Financial assets		
Loans to other than credit institutions	275	356
Shares available for sale held at cost, net*	86	(1) -
Total	**361**	**356**
Financial liabilities		
Issued bills of exchange at amortised costs	83	83
Total	**83**	**83**

* As noted above Shares available for sale held at cost, net primarily represent the 10% share in Veolia Energie ČR, a.s.

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

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

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

TRANSACTIONS WITH EMISSION RIGHTS

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

FORWARD OPERATIONS

As at 31 December 2016 the EPH Group is contractually obliged to purchase 4,641,113 pieces (2015: 3,565,971 pieces) of emission rights at an average price 6,138 EUR/piece (2015: 7.10 EUR/piece).

34. Trade payables and other liabilities

In millions of EUR

	31 December 2016	31 December 2015
Trade payables	438	412
Accrued expenses	104	80
Advance payments received	95	121
Payroll liabilities	81	86
Other tax liabilities	59	49
Estimated payables	48	39
Uninvoiced supplies	28	24
Liability from deferred earn-out	-	(1) 6
Other contingent consideration	(2) 6	-
Other liabilities	73	57
Total	**932**	**874**
Non-current	120	121
Current	812	753
Total	**932**	**874**

(1) In 2015 the EPH Group acquired Budapesti Erömü Zrt. In addition to the purchase price paid, EPH Group recognised an additional liability in amount of EUR 6 million as probable future payment to previous owner if agreed criteria are met. As these are not probably met anymore, the liability from the deferred earn-out was released to profit and loss.

(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 2016 EPH Group recognised a liability of EUR 6 million as an estimate of probable future payment.

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

As at 31 December 2016 and, 31 December 2015 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

In millions of EUR

	2016	2015
Balance at 1 January	1	1
Charged to expenses	2	1
Transferred from retained earnings	-	1
Disposal/decrease in principal	(2)	(2)
Balance at 31 December	**1**	**1**

Liabilities to the social fund are presented under payroll liabilities.

35. Financial commitments and contingencies

OFF BALANCE SHEET LIABILITIES

In millions of EUR

	31 December 2016	31 December 2015
Granted pledges – securities	8,975	7,195
Guarantees given[(1)]	3,117	1,013
Other granted pledges	965	1,802
Total	**13,057**	**10,010**

(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 3,004 million (2015: EUR 840 million) used as collateral for external financing and contracts for the future supply of energy for EUR 113 million (2015: EUR 173 million).

OTHER GRANTED PLEDGES

In millions of EUR

	31 December 2016	31 December 2015
Property, plant and equipment	397	374
Loans granted[(1)]	325	1,157
Cash and cash equivalents	151	168
Trade receivables	62	74
Inventories	30	28
Investment property	-	1
Total	**965**	**1,802**

(1) Total balance of pledged granted loans includes intercompany loans of EUR 319 million (2015: EUR 846 million), which are eliminated in these consolidated financial statements.

OFF BALANCE SHEET ASSETS

In millions of EUR

	31 December 2016	31 December 2015
Received promises	438	243
Other received guarantees and warranties	203	133
Total	**641**	**376**

RECEIVED PROMISES

Received promises mainly comprise the contracts for the future purchase of energy in amount of EUR 197 million (2015: EUR 120 million), loan commitment received recognised by EPE of EUR 50 million (2015: EUR 30 million), EPH of EUR 50 million (2015: EUR 0 million) and regulatory contingent assets related to green energy of EUR 138 million (2015: EUR 73 million) recognised by SSE Group, which are represented by the contingent assets related to green energy for the year 2016, that was transferred to 2016 (2015: contingent assets cover year 2015).

REGULATORY CONTINGENT ASSETS RELATED TO GREEN ENERGY

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

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

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

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

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

The loss for 2016 of EUR 138 million has not yet been recognised as the asset does not yet meet the recognition criteria set by IFRS as adopted by the EU and will be recognised during the course of 2017 once a 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 99 million (2015: EUR 96 million) recognised by SPP Infrastructure, a.s. and SPP – distribúcia, a.s. and EUR 60 million (2015: EUR 33 million) recognised by NAFTA a.s. and guarantees received to secure payments for gas supply in amount of EUR 40 million (2015: EUR 0 million) recognised by EP Commodities, a.s.

36. Operating leases

During the year ended 31 December 2016, EUR 31 million (2015: EUR 35 million) was recognised as an expense in profit or loss in respect of operating leases.

During the year ended 31 December 2016, EUR 7 million (2015: EUR 6 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 2016

In millions of EUR

	Corporate (non-financial institutions)	State, government	Financial institutions	Banks	Individuals	Other	Total
Assets							
Cash and cash equivalents	1	-	-	1,135	-	-	**1,136**
Restricted cash	-	-	-	30	-	-	**30**
Trade receivables and other assets	634	1	-	2	1	22	**660**
Financial instruments and other financial assets	350	-	208	4	-	-	**562**
Total	**985**	**1**	**208**	**1,171**	**1**	**22**	**2,388**

AS AT 31 DECEMBER 2015

In millions of EUR

	Corporate (non-financial institutions)	State, government	Financial institutions	Banks	Individuals	Other	Total
Assets							
Cash and cash equivalents	2	-	2	702	-	-	**706**
Restricted cash	-	-	-	288	-	-	**288**
Trade receivables and other assets	439	3	3	3	169	19	**636**
Financial instruments and other financial assets	317	-	102	41	-	-	**460**
Total	**758**	**3**	**107**	**1,034**	**169**	**19**	**2,090**

CREDIT RISK BY LOCATION OF DEBTOR

AS AT 31 DECEMBER 2016

In millions of EUR

	Czech Republic	Slovakia	Cyprus	Italy	Poland	Germany	Hungary	United Kingdom	Other	Total
Assets										
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**
Total	**869**	**393**	**92**	**190**	**54**	**189**	**21**	**266**	**314**	**2,388**

AS AT 31 DECEMBER 2015

In millions of EUR

	Czech Republic	Slovakia	Cyprus	Italy	Poland	Germany	Hungary	United Kingdom	Other	Total
Assets										
Cash and cash equivalents	336	182	-	91	2	31	-	60	4	**706**
Restricted cash	-	250	-	-	-	-	-	38	-	**288**
Trade receivables and other assets	136	193	1	173	3	60	13	23	34	**636**
Financial instruments and other financial assets	90	70	88	-	24	44	1	23	120	**460**
Total	**562**	**695**	**89**	**264**	**29**	**135**	**14**	**144**	**158**	**2,090**

As at 31 December 2016 location Other comprises mainly debtors located in the Netherlands, Russia and France (2015: the Netherlands, Russia and Luxembourg).

II. IMPAIRMENT LOSSES

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

CREDIT RISK – IMPAIRMENT OF FINANCIAL ASSETS

AS AT 31 DECEMBER 2016

In millions of EUR

	Loans to other than credit institutions	Other short-term deposits (intended for investing activities)	Trade receivables and other assets	Total
Before maturity (net)	436	-	651	**1,087**
After maturity (net)	-	-	9	**9**
Total	**436**	**-**	**660**	**1,096**
A – Assets for which a provision has been created				
– Gross	74	-	23	**97**
– specific loss allowance	(60)	-	(20)	**(80)**
– collective loss allowance	-	-	-	**-**
Net	**14**	**-**	**3**	**17**
B – Assets for which a provision has not been created (overdue but not impaired)				
– after maturity <30 days	-	-	5	**5**
– after maturity 31–180 days	-	-	1	**1**
– after maturity 181–365 days	-	-	-	**-**
– after maturity >365 days	-	-	-	**-**
Net	**-**	**-**	**6**	**6**

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

In millions of EUR

	Loans to other than credit institutions	Other own term deposits (intended for investing activities)	Trade receivables and other assets	Total
Balance at 1 January 2016	**-**	**-**	**(14)**	**(14)**
Impairment losses recognised during the year	(60)	-	(7)	**(67)**
Reversals of impairment losses recognised during the year	-	**-**	2	**2**
Effects of movements in foreign exchange rate	-	**-**	(1)	**(1)**
Balance at 31 December 2016	**(60)**	**-**	**(20)**	**(80)**

AS AT 31 DECEMBER 2015

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)	275	-	615	**890**
After maturity (net)	-	-	21	**21**
Total	**275**	**-**	**636**	**911**
A – Assets for which a provision has been created				
– Gross	-	-	22	**22**
– specific loss allowance	-	-	(14)	**(14)**
– collective loss allowance	-	-	-	**-**
Net	**-**	**-**	**8**	**8**
B – Assets for which a provision has not been created (overdue but not impaired)				
– after maturity <30 days	-	-	11	**11**
– after maturity 31–180 days	-	-	1	**1**
– after maturity 181–365 days	-	-	1	**1**
– after maturity >365 days	-	-	-	**-**
Net	**-**	**-**	**13**	**13**

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

In millions of EUR

	Loans to other than credit institutions	Other own term deposits (intended for investing activities)	Trade receivables and other assets	Total
Balance at 1 January 2015	-	-	**(10)**	**(10)**
Impairment losses recognised during the year	-	-	(5)	**(5)**
Reversals of impairment losses recognised during the year	-	**-**	1	**1**
Use of allowance during the period (write-offs)	-	-	1	**1**
Effects of movements in foreign exchange rate	-	**-**	(1)	**(1)**
Balance at 31 December 2015	**-**	**-**	**(14)**	**(14)**

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

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

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

B LIQUIDITY RISK

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

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

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

The table below provides an analysis of financial assets and liabilities by relevant maturity groupings based on the remaining period from the reporting date to the contractual maturity date. It is presented under the most prudent consideration of maturity dates where options or repayment schedules allow for early repayment possibilities. Therefore, in the case of liabilities, the earliest 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 2016

In millions of EUR

	Carrying amount	Contractual cash flows(1)	Up to 3 months	3 months to 1 year	1–5 years	Over 5 years	Undefined maturity
Assets							
Cash and cash equivalents	**1,136**	1,136	1,136	-	-	-	-
Restricted cash	**30**	30	-	1	-	29	-
Trade receivables and other assets	(2)**618**	618	462	121	25	-	10
Financial instruments and other financial assets	**562**	589	134	227	40	100	88
out of which Derivatives – inflow	***39***	*306*	*215*	*74*	*17*	-	-
outflow		*(279)*	*(194)*	*(68)*	*(17)*	-	-
Total	**2,346**	**2,373**	**1,732**	**349**	**65**	**129**	**98**
Liabilities							
Loans and borrowings	**5,541**	6,208	74	160	5,163	811	-
Trade payables and other liabilities	(3)**869**	869	542	166	87	31	43
Financial instruments and financial liabilities	**139**	139	26	51	46	16	-
out of which Derivatives – inflow	***70***	*2,686*	*194*	*1,038*	*853*	*601*	-
outflow		*(2,699)*	*(194)*	*(1,050)*	*(853)*	*(602)*	-
Total	**6,549**	**7,216**	**642**	**377**	**5,296**	**858**	**43**
Net liquidity risk position	**(4,203)**	**(4,843)**	**1,090**	**(28)**	**(5,231)**	**(729)**	**55**

(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.

AS AT 31 DECEMBER 2015

In millions of EUR

	Carrying amount	Contractual cash flows(1)	Up to 3 months	3 months to 1 year	1–5 years	Over 5 years	Undefined maturity
Assets							
Cash and cash equivalents	**706**	706	706	-	-	-	-
Restricted cash	**288**	288	250	6		32	
Trade receivables and other assets	(2)**594**	596	425	131	26	2	12
Financial instruments and other financial assets	**460**	499	85	144	53	131	86
out of which Derivatives – inflow	***99***	*723*	*51*	*325*	*247*	*100*	-
outflow	**-**	*(718)*	*(51)*	*(321)*	*(246)*	*(100)*	-
Total	**2,048**	**2,089**	**1,466**	**281**	**79**	**165**	**98**
Liabilities							
Loans and borrowings	**5,227**	5,677	129	325	3,512	1,711	-
Trade payables and other liabilities	(3)**772**	772	489	96	92	28	67
Financial instruments and financial liabilities	**120**	126	42	50	34	-	-
out of which Derivatives – inflow	***37***	*1,364*	*1,050*	*194*	*120*	-	-
outflow	**-**	*(1,364)*	*(1,050)*	*(194)*	*(120)*	-	-
Total	**6,119**	**6,575**	**660**	**471**	**3,638**	**1,739**	**67**
Net liquidity risk position	**(4,071)**	**(4,486)**	**806**	**(190)**	**(3,559)**	**(1,574)**	**31**

(1) Contractual cash flows disregard discounting to net present value and include potential future interest.
(2) Prepaid expenses and advances provided in total amount of EUR 39 million are excluded from the carrying amount as these items will cause no future cash inflow.
(3) Advances received in amount of EUR 102 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.

Risk management policies and disclosures

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 2016 is as follows:

In millions of EUR

	Up to 1 year	1 year to 5 years	Over 5 years	Undefined maturity (or non-interest bearing)	Total
Assets					
Cash and cash equivalents	1,100	-	-	36	**1,136**
Restricted cash	1	-	-	29	**30**
Trade receivables and other assets	40	-	-	620	**660**
Financial instruments and other financial assets(1)	292	82	82	106	**562**
out of which Derivatives – inflow	-	-	-	*306*	***306***
outflow	-	-	-	*(279)*	***(279)***
Total	**1,433**	**82**	**82**	**791**	**2,388**
Liabilities					
Loans and borrowings	3,205	1,386	939	11	**5,541**
Trade payables and other liabilities	-	6	-	926	**932**
Financial instruments and financial liabilities(1)	76	36	6	21	**139**
out of which Derivatives – inflow	*1,670*	*1,016*	-	-	***2,686***
outflow	*1,682*	*1,015*	-	*2*	***(2,699)***
Total	**3,281**	**1,428**	**945**	**958**	**6,612**
Net interest rate risk position	**(1,848)**	**(1,346)**	**(863)**	**(167)**	**(4,224)**

(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.

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

In millions of EUR

	Up to 1 year	1 year to 5 years	Over 5 years	Undefined maturity (or non-interest bearing)	Total
Assets					
Cash and cash equivalents	706	-	-	-	**706**
Restricted cash	256	-	32	-	**288**
Trade receivables and other assets	149	-	-	487	**636**
Financial instruments and other financial assets[(1)]	221	47	57	135	**460**
out of which Derivatives – inflow	*723*	-	-	-	***723***
outflow	*(618)*	-	*(100)*	-	***(718)***
Total	**1,332**	**47**	**89**	**622**	**2,090**
Liabilities					
Loans and borrowings	1,501	2,193	1,533	-	**5,227**
Trade payables and other liabilities	276	19	-	579	**874**
Financial instruments and financial liabilities[(1)]	77	21	-	22	**120**
out of which Derivatives – inflow	*1,364*	-	-	-	***1,364***
outflow	*(1,364)*	-	-	-	***(1,364)***
Total	**1,854**	**2,233**	**1,533**	**601**	**6,221**
Net interest rate risk position	**(522)**	**(2,186)**	**(1,444)**	**21**	**(4,131)**

(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.

In millions of EUR

	2016 Profit (loss)	2015 Profit (loss)
Decrease in interest rates by 100 bp	(5)	(5)
Increase in interest rates by 100 bp	(7)	(6)

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

D FOREIGN EXCHANGE RISK

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

The Group is exposed to a currency risk on sales, purchases and borrowings that are denominated in currency other that the respective functional currencies of Group entities, primarily EUR, 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 2016, the exposure to foreign exchange risk translated to millions of EUR was as follows:

In millions of EUR

	CZK	USD	EUR	GBP	PLN	HUF	Other	Total
Assets								
Cash and cash equivalents	214	1	750	152	3	16	-	**1,136**
Restricted cash	1	-	-	29	-	-	-	**30**
Trade receivables and other assets	109	1	472	55	6	17	-	**660**
Financial instruments and other financial assets	106	-	423	19	14	-	-	**562**
	430	**2**	**1,645**	**255**	**23**	**33**	**-**	**2,388**
Off-balance sheet assets								
Received promises and guarantees	14	-	627	-	-	-	-	**641**
Receivables from derivative operations	1,349	7	1,313	186	31	-	106	**2,992**
	1,363	**7**	**1,940**	**186**	**31**	**-**	**106**	**3,633**
Liabilities								
Loans and borrowings	226	2	5,312	-	1	-	-	**5,541**
Trade payables and other liabilities	119	-	670	113	5	25	-	**932**
Financial instruments and financial liabilities	81	-	58	-	-	-	-	**139**
	426	**2**	**6,040**	**113**	**6**	**25**	**-**	**6,612**
Off-balance sheet liabilities								
Granted pledges	1,394	2	8,544	-	-	-	-	**9,940**
Guarantees given	4	-	3,112	-	-	1	-	**3,117**
Payables related to derivative operations	1,250	140	1,426	108	30	24	-	**2,978**
	2,648	**142**	**13,082**	**108**	**30**	**25**	**-**	**16,035**
Net FX risk position	**4**	**-**	**(4,395)**	**142**	**17**	**8**	**-**	**(4,224)**

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

In millions of EUR

	CZK	USD	EUR	GBP	PLN	HUF	Total
Assets							
Cash and cash equivalents	128	1	465	111	1	-	**706**
Restricted cash	-	-	250	38	-	-	**288**
Trade receivables and other assets	101	-	493	22	3	17	**636**
Financial instruments and other financial assets	99	-	293	23	44	1	**460**
	328	**1**	**1,501**	**194**	**48**	**18**	**2,090**
Off-balance sheet assets							
Received promises and guarantees	21	-	355	-	-	-	**376**
Receivables from derivative operations	237	11	1,817	-	22	-	**2,087**
	258	**11**	**2,172**	**-**	**22**	**-**	**2,463**
Liabilities							
Loans and borrowings	143	-	5,084	-	-	-	**5,227**
Trade payables and other liabilities	123	-	675	54	2	20	**874**
Financial instruments and financial liabilities	75	-	41	-	-	4	**120**
	341	**-**	**5,800**	**54**	**2**	**24**	**6,221**
Off-balance sheet liabilities							
Granted pledges	1,533	-	7,426	38	-	-	**8,997**
Guarantees given	-	-	1,012	-	-	1	**1,013**
Payables related to derivative operations	268	11	1,751	-	-	52	**2,082**
	1,801	**11**	**10,189**	**38**	**-**	**53**	**12,092**
Net FX risk position	**(13)**	**1**	**(4,299)**	**140**	**46**	**(6)**	**(4,131)**

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 2016		31 December 2015	
	Average rate	Reporting date spot rate	Average rate	Reporting date spot rate
EUR 1	27.033	27.020	27.283	27.025
HUF 100	8.682	8.721	8.807	8.557
GBP 1	33.121	31.586	37.595	36.822
PLN 1	6.198	6.126	6.525	6.340

SENSITIVITY ANALYSIS

A strengthening (weakening) of the Czech crown, as indicated below, against the EUR, 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.

Effect in millions of EUR

	2016 Profit (loss)	2015 Profit (loss)
EUR (5% strengthening)	49	(1)
GBP (5% strengthening)	-	(4)
PLN (5% strengthening)	(4)	(2)
HUF (5% strengthening)	(1)	-

Effect in millions of EUR

	2016 Other comprehensive income	2015 Other comprehensive income
EUR (5% strengthening)	55	55

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

E COMMODITY RISK

The Group's exposure to commodity risk principally consists of exposure to fluctuations in the prices of commodities, especially energy, gas and emission 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

	2016 Profit (loss)	2015 Profit (loss)
Increase by 5%	(7)	(10)
Decrease by 5%	7	10

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.

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

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

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

Hungarian operations are regulated using the standard RAB multiplied by WACC plus eligible operating expenditures and allowed depreciation formula.

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 2012 – 2016 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.

In 2016, gas supplies to households, gas supplies to small businesses, gas supplies to suppliers of last resort, electricity supplies to households and electricity supplies to small businesses continue to be subject to price regulation.

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 energetika – Distribúcia, 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:

In millions of EUR

	31 December 2016	31 December 2015
Total liabilities	**8,881**	**8,521**
Less: cash and cash equivalents	1,136	706
Net debt	**7,745**	**7,815**
Total equity attributable to equity holders of the Company	**1,387**	**845**
Less: amounts accumulated in equity relating to cash flow hedges	112	(30)
Adjusted capital	**1,275**	**875**
Debt to adjusted capital	**6.07**	**8.93**

I HEDGE ACCOUNTING

The balance as at 31 December 2016 of EUR 142 million (2015: EUR 54 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 applies hedge accounting for financial instruments designed to hedge the foreign currency risk cash-flows denominated in foreign currency (EUR). The hedging instruments are bonds issued in EUR in total amount of EUR 1,097 million. The hedged cash inflows in EUR arising from EUR denominated transactions (primarily at Elektrárny Opatovice, a.s., United Energy, a.s., Plzeňská energetika a.s., EP ENERGY TRADING, a.s.) are expected to occur and impact profit or loss in periods of 2020 to 2029. As a result of the hedging relationship on the Group consolidated level, the Group reported negative foreign currency cash flow hedge reserve of EUR 49 million (2015: negative 49 million) as of 31 December 2016. The management concluded that the entities which cash-flows are hedged are expected to a high degree of probability remain in the Group and therefore the hedged cash-flows are probable to materialize in the expected time horizon.

CASH FLOW HEDGES – HEDGE OF FOREIGN CURRENCY RISK WITH FINANCIAL DERIVATIVES

Lynemouth Power Limited applies hedge accounting for hedging instruments designed to hedge the foreign currency risk cash-flows from biomass purchases denominated in foreign currencies (USD and CAD). The hedging instruments are foreign currency forwards concluded with third parties. The hedged items are proportions of expected cash outflows in USD and CAD that are expected to occur and impact profit or loss in periods of 2018 to 2026. As a result of the hedge relationship, on the Group consolidated level, the Group reported foreign currency cash flow hedge reserve of EUR 165 million (2015: EUR 0 million) as of 31 December 2016.

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 7 million (2015: EUR 1 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.

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 2016 AND 31 DECEMBER 2015 WAS AS FOLLOWS:

In millions of EUR

	Accounts receivable and other financial assets	Accounts payable and other financial liabilities	Accounts receivable and other financial assets	Accounts payable and other financial liabilities
	2016	2016	2015	2015
Ultimate shareholders[1]	100	-	41	-
Companies controlled by ultimate shareholders	4	1	4	1
Associates and joint ventures	114	34	33	8
Key management personnel of the entity or its parent	-	5	-	-
Other related parties	1	75	-	66
Total	**219**	**115**	**78**	**75**

(1) BIQUEES LIMITED, MILEES LIMITED and EP Investment S.à r.l. represents the ultimate shareholder.

B THE SUMMARY OF TRANSACTIONS WITH RELATED PARTIES DURING THE YEAR ENDED 31 DECEMBER 2016 AND 31 DECEMBER 2015 WAS AS FOLLOWS:

In millions of EUR

	Revenues	Expenses	Revenues	Expenses
	2016	2016	2015	2015
Ultimate shareholders[1]	3	-	3	-
Companies controlled by ultimate shareholders	3	2	4	1
Associates and joint ventures	36	122	21	17
Key management personnel of the entity or its parent	-	-	-	-
Other related parties	-	6	-	14
Total	**42**	**130**	**28**	**32**

(1) BIQUEES LIMITED, MILEES LIMITED and EP Investment S.à r.l. represents the ultimate shareholder.

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 Przedsiebiorstwo Górnicze Silesia Sp. z o.o.

TRANSACTIONS WITH THE KEY MANAGEMENT PERSONNEL

For the financial years ended 31 December 2016 and 2015 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:

In millions of EUR

	2016	2015
Nr. of personnel	94	79
Compensation, fees and rewards	9	11
Compulsory social security contributions	1	2
Total	**10**	**13**

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 2016 and 31 December 2015 is set out below:

		31 December 2016		31 December 2015		2016	2015
	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	-	-	Full	-
EPPE Germany a.s. *	Czech Republic	100	Direct	-	-	Full	-
Lausitz Energie Kraftwerke AG	Germany	10	Direct	-	-	Equity	-
Lausitz Energie Bergbau AG	Germany	10	Direct	-	-	Equity	-
LEAG Holding, a.s. *	Czech Republic	50	Direct	-	-	Equity	-
Lausitz Energie Verwaltungs GmbH	Germany	100	Direct	-	-	Equity	-
Lausitz Energie Kraftwerke AG	Germany	80	Direct	-	-	Equity	-
Kraftwerk Schwarze Pumpe	Germany	100	Direct	-	-	Equity	-
Lausitz Energie Bergbau AG	Germany	80	Direct	-	-	Equity	-
GMB GmbH	Germany	100	Direct	-	-	Equity	-
Transport- und Speditionsgesellschaft Schwarze Pumpe mbH	Germany	100	Direct	-	-	Equity	-
EP United Kingdom, s.r.o.	Czech republic	100	Direct	100	Direct	Full	Full
EP UK Investments Ltd	United Kingdom	100	Direct	100	Direct	Full	Full
Eggborough Holdco 2 S.à r.l	Luxembourg	100	Direct	100	Direct	Full	Full
Eggborough Power Limited	United Kingdom	100	Direct	100	Direct	Full	Full
Lynemouth Power Limited	United Kingdom	100	Direct	-	-	Full	-
Energy Scanner Ltd. *(1)	United Kingdom	100	Direct	100	Direct	Full	Full
EP Invest Limited	United Kingdom	100	Direct	-	-	Full	-
EP Commodities, a.s.	Czech Republic	100	Direct	100	Direct	Full	Full
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
Przedsiebiorstwo 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	-	-	Full	-

		31 December 2016		31 December 2015		2016	2015
	Country of incorporation	Ownership %	Ownership interest	Ownership %	Ownership interest	Consolidation method	Consolidation method
EOP HOKA POLSKA SPOŁKA Z OGRANICZONA ODPOWIEDZIALNOSCIA	Poland	100	Direct	100	Direct	Full	Full
EOP HOKA SK, s.r.o.	Slovakia	50	Direct	-	-	Full	-
EP COAL TRADING POLSKA S.A.	Poland	100	Direct	100	Direct	Full	Full
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
Sunshine 1 S.r.l.[2]	Italy	-	-	100	Direct	-	Full
EP Produzione Centrale Livorno Ferraris S.p.A.	Italy	75	Direct	75	Direct	Full	Full
Centro Energia Ferrara S.p.A.	Italy	58.35	Direct	58.35	Direct	Full	Full
Centro Energia Teverola S.p.A.	Italy	58.35	Direct	58.35	Direct	Full	Full
Ergosud S.p.A.	Italy	50	Direct	50	Direct	Equity	Equity
EP Slovakia B.V. *	Netherlands	100	Direct	100	Direct	Full	Full
Slovak Power Holding B.V. *	Netherlands	50	Direct	-	-	Equity	-
Slovenské elektrárne, a.s.	Slovakia	66	Direct	-	-	Equity	-
Centrum pre vedu a výskum, s.r.o.	Slovakia	100	Direct	-	-	Equity	-
Ochrana a bezpečnosť SE, a.s.	Slovakia	100	Direct	-	-	Equity	-
SE Predaj, s.r.o.	Slovakia	100	Direct	-	-	Equity	-
Slovenské elektrárne Česká republika, s.r.o.	Czech Republic	100	Direct	-	-	Equity	-
SE Služby inžinierskych stavieb, s.r.o.	Slovakia	100	Direct	-	-	Equity	-
REAKTORTEST, s.r.o.	Slovakia	49	Direct	-	-	Equity	-
Chladiace veže Bohunice, spol. s r.o.	Slovakia	35	Direct	-	-	IFRS 5	-
ÚJV Řež, a.s.	Czech republic	27.80	Direct	-	-	Equity	-
Energotel, a.s.	Slovakia	20	Direct	-	-	Equity	-
Nadácia EPH	Slovakia	100	Direct	100	Direct	Full	Full
ADCONCRETUM REAL ESTATE ltd	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	-	-	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	-	-	Full	-
JTSD Braunkohlebergbau GmbH	Germany	100	Direct	100	Direct	Full	Full
Mitteldeutsche Braunkohlengesellschaft mbH	Germany	100	Direct	100	Direct	Full	Full
MIBRAG Consulting International GmbH (former Montan Bildungs- und Entwicklungsgesellschaft mbH)	Germany	100	Direct	100	Direct	Full	Full
GALA-MIBRAG-Service GmbH	Germany	100	Direct	100	Direct	Full	Full
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

		31 December 2016		31 December 2015		2016	2015
	Country of incorporation	Ownership %	Ownership interest	Ownership %	Ownership interest	Consolidation method	Consolidation method
Helmstedter Revier GmbH (Buschhaus)	Germany	100	Direct	100	Direct	Full	Full
Norddeutsche Geselschaft 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
ABS Property Ltd.	Ireland	100	Direct	-	-	Full	-
ZERTILIO a.s.	Czech Republic	100	Direct	-	-	Full	-
EP Infrastructure, a.s. *	Czech Republic	100	Direct	100	Direct	Full	Full
EP Energy, a.s. *	Czech Republic	100	Direct	100	Direct	Full	Full
AISE, s.r.o.	Czech Republic	80	Direct	80	Direct	Full	Full
PT Holding Investment B.V. *	Netherlands	100	Direct	100	Direct	Full	Full
Pražská teplárenská Holding a.s. *	Czech Republic	49	Direct	49	Direct	Equity	Equity
Pražská teplárenská a.s.	Czech Republic	47.42	Direct	47.42	Direct	Full	Full
Pražská teplárenská Trading, a.s.	Czech Republic	100	Direct	100	Direct	Full	Full
Termonta Praha a.s.	Czech Republic	100	Direct	100	Direct	Full	Full
Energotrans SERVIS, a.s.	Czech Republic	95	Direct	95	Direct	Full	Full
Teplo Neratovice, spol. s r.o.	Czech Republic	100	Direct	100	Direct	Full	Full
Pražská teplárenská LPZ, a.s.	Czech Republic	-	-	100	Direct	-	Full
PT Real Estate, a.s.	Czech Republic	47.42	Direct	-	-	Full	-
RPC, a.s.	Czech Republic	100	Direct	100	Direct	Full	Full
Nový Veleslavín, a.s.	Czech Republic	100	Direct	100	Direct	IFRS 5	Full
Pod Juliskou, a.s.	Czech Republic	100	Direct	100	Direct	Full	Full
Nová Invalidovna, a.s.	Czech Republic	100	Direct	100	Direct	IFRS 5	Full
Michelský trojúhelník, a.s.	Czech Republic	100	Direct	100	Direct	Full	Full
Nové Modřany, a.s.	Czech Republic	100	Direct	100	Direct	Full	Full
PT Properties I, a.s.	Czech Republic	100	Direct	100	Direct	Full	Full
PT Properties II, a.s.	Czech Republic	100	Direct	100	Direct	Full	Full
PT Properties III, a.s.	Czech Republic	100	Direct	100	Direct	Full	Full
PT Properties IV, a.s.	Czech Republic	100	Direct	100	Direct	Full	Full
PT měření, a.s.	Czech Republic	47.42	Direct	47.42	Direct	Full	Full
United Energy, a.s.	Czech Republic	100	Direct	100	Direct	Full	Full
EVO – Komořany, a.s.	Czech Republic	100	Direct	100	Direct	Full	Full
Severočeská teplárenská, a.s.	Czech Republic	100	Direct	100	Direct	Full	Full
United Energy Moldova, s.r.o.	Czech Republic	100	Direct	100	Direct	Full	Full
United Energy Invest, a.s.	Czech Republic	100	Direct	100	Direct	Full	Full
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
Optimum Energy, s.r.o.[3]	Czech Republic	-	-	100	Direct	-	Full
Plzeňská energetika a.s.	Czech Republic	100	Direct	100	Direct	Full	Full

		31 December 2016		31 December 2015		2016	2015
	Country of incorporation	Ownership %	Ownership interest	Ownership %	Ownership interest	Consolidation method	Consolidation method
VTE Moldava II, a.s. *	Czech Republic	100	Direct	100	Direct	Full	Full
MR TRUST s.r.o.*	Czech Republic	99.50	Direct	99.50	Direct	Full	Full
Arisun, s.r.o.	Slovakia	100	Direct	100	Direct	Full	Full
Greeninvest Energy, a.s.	Czech Republic	41.70	Direct	41.70	Direct	IFRS 5	IFRS 5
POWERSUN a.s.	Czech Republic	100	Direct	100	Direct	Full	Full
Triskata, s.r.o.	Slovakia	100	Direct	100	Direct	Full	Full
MR TRUST s.r.o. *	Czech Republic	0.50	Direct	0.50	Direct	Full	Full
VTE Pchery, s.r.o.	Czech Republic	64	Direct	64	Direct	Full	Full
CHIFFON ENTERPRISES LIMITED *	Cyprus	100	Direct	100	Direct	Full	Full
Claymore Equity, s.r.o. *	Slovakia	80	Direct	80	Direct	Full	Full
Alternative Energy, s.r.o.	Slovakia	90	Direct	90	Direct	Full	Full
EBEH Opatovice, a.s. v likvidaci	Czech Republic	-	-	100	Direct	-	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.	Czech Republic	100	Direct	100	Direct	Full	Full
Termonta Praha a.s.	Czech Republic	100	Direct	100	Direct	Full	Full
Energotrans SERVIS, a.s.	Czech Republic	95	Direct	95	Direct	Full	Full
Teplo Neratovice, spol. s r.o.	Czech Republic	100	Direct	100	Direct	Full	Full
Pražská teplárenská LPZ, a.s.	Czech Republic	-	-	100	Direct	-	Full
PT Real Estate, a.s.	Czech Republic	50.58	Direct	-	-	Full	-
RPC, a.s.	Czech Republic	100	Direct	100	Direct	Full	Full
Nový Veleslavín, a.s.	Czech Republic	100	Direct	100	Direct	IFRS 5	Full
Pod Juliskou, a.s.	Czech Republic	100	Direct	100	Direct	Full	Full
Nová Invalidovna, a.s.	Czech Republic	100	Direct	100	Direct	IFRS 5	Full
Michelský trojúhelník, a.s.	Czech Republic	100	Direct	100	Direct	Full	Full
Nové Modřany, a.s.	Czech Republic	100	Direct	100	Direct	Full	Full
PT Properties I, a.s.	Czech Republic	100	Direct	100	Direct	Full	Full
PT Properties II, a.s.	Czech Republic	100	Direct	100	Direct	Full	Full
PT Properties III, a.s.	Czech Republic	100	Direct	100	Direct	Full	Full
PT Properties IV, a.s.	Czech Republic	100	Direct	100	Direct	Full	Full
PT měření, a.s.	Czech Republic	50.58	Direct	50.58	Direct	Full	Full
Stredoslovenská energetika, a.s.	Slovakia	49	Direct	49	Direct	Full	Full
Stredoslovenskáenergetika–Distrubúcia,a.s.	Slovakia	100	Direct	100	Direct	Full	Full
Elektroenergetické montáže, a.s.	Slovakia	100	Direct	100	Direct	Full	Full
SSE – Metrológia s.r.o.	Slovakia	100	Direct	100	Direct	Full	Full
Stredoslovenská energetika – Projekt Development, s.r.o.	Slovakia	100	Direct	100	Direct	Full	Full
SSE–Solar, s.r.o.	Slovakia	100	Direct	100	Direct	Full	IFRS 5
SPX, s.r.o.	Slovakia	33.33	Direct	33.33	Direct	Equity	Equity
Energotel, a.s.	Slovakia	20	Direct	20	Direct	Equity	Equity
SSE CZ, s.r.o.	Czech Republic	100	Direct	100	Direct	Full	Full

		31 December 2016		31 December 2015		2016	2015
	Country of incorporation	Ownership %	Ownership interest	Ownership %	Ownership interest	Consolidation method	Consolidation method
EP ENERGY HR d.o.o.	Croatia	100	Direct	100	Direct	Full	Full
EP Cargo a.s.	Czech Republic	100	Direct	100	Direct	Full	Full
EP Hungary, a.s. *	Czech Republic	100	Direct	100	Direct	Full	Full
Budapesti Erömü Zrt.	Hungary	95.62	Direct	95.62	Direct	Full	Full
BE-Optimum Kft.	Hungary	-	-	100	Direct	-	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
Nafta Exploration s.r.o.	Slovakia	100	Direct	100	Direct	Full	Full
Karotáž a cementace, s.r.o.	Slovakia	51	Direct	51	Direct	At cost	Full
AUTOKAC s.r.o. – v likvidaci	Slovakia	-	-	83.33	Direct	-	Full
AG Banka, a.s. v konkurze	Slovakia	-	-	39	Direct	-	Full
POZAGAS a.s.	Slovakia	35	Direct	35	Direct	Equity	Equity
NAFTA Services, s.r.o.	Czech Republic	100	Direct	100	Direct	Full	Full
NAFTA International B.V. *	Netherlands	100	Direct	100	Direct	Full	Full
NAFTA RV	Ukraine	100	Direct	-	-	Full	-
CNG Holdings Netherlands B.V.	Netherlands	50	Direct	-	-	Equity	-
CNG LLC	Ukraine	100	Direct	-	-	Equity	-
EPH Gas Holding B.V. *	Netherlands	100	Direct	100	Direct	Full	Full
Seattle Holding B.V. *	Netherlands	100	Direct	100	Direct	Full	Full
Slovak Gas Holding B.V. *	Netherlands	100	Direct	100	Direct	Full	Full
SPP Infrastructure, a.s.	Slovakia	49	Direct	49	Direct	Full	Full
eustream, a.s.	Slovakia	100	Direct	100	Direct	Full	Full
Central European Gas HUB AG	Austria	15	Direct	15	Direct	At cost	At cost
eastring B.V.	Netherlands	100	Direct	100	Direct	Full	Full
SPP – distribúcia, a.s.	Slovakia	100	Direct	100	Direct	Full	Full
Plynárenská metrológia, s.r.o.	Slovakia	100	Direct	100	Direct	Full	Full
SPP – distribúcia Servis, s.r.o.	Slovakia	100	Direct	100	Direct	Full	Full
NAFTA a.s.	Slovakia	56.15	Direct	56.15	Direct	Full	Full
Nafta Exploration s.r.o.	Slovakia	100	Direct	100	Direct	Full	Full
Karotáž a cementace, s.r.o.	Czech Republic	51	Direct	51	Direct	At cost	Full
AUTOKAC s.r.o. – likvidaci	Czech Republic	-	-	83.33	Direct	-	Full
AG Banka, a.s. v konkurze	Slovakia	-	-	39	Direct	-	Full
POZAGAS a.s.	Slovakia	35	Direct	35	Direct	Equity	Equity
NAFTA Services, s.r.o.	Czech Republic	100	Direct	100	Direct	Full	Full
NAFTA International B.V.*	Netherlands	100	Direct	100	Direct	Full	Full
NAFTA RV	Ukraine	100	Direct	-	-	Full	-
CNG Holdings Netherlands B.V.	Netherlands	50	Direct	-	-	Equity	-
CNG LLC	Ukraine	100	Direct	-	-	Equity	-
GEOTERM KOŠICE, a.s.	Slovakia	95.82	Direct	95.82	Direct	Full	Full
SPP Storage, s.r.o.	Czech Republic	100	Direct	100	Direct	Full	Full
SPP Bohemia a.s.	Czech Republic	-	-	100	Direct	-	Full

	Country of incorporation	31 December 2016 Owner-ship %	31 December 2016 Owner-ship interest	31 December 2015 Owner-ship %	31 December 2015 Owner-ship interest	2016 Conso-lidation method	2015 Conso-lidation method
SPP Servis, a.s.	Slovakia	-	-	100	Direct	-	Full
POZAGAS a.s.	Slovakia	35	Direct	35	Direct	Equity	Equity
SLOVGEOTERM a.s.	Slovakia	50	Direct	50	Direct	Equity	Equity
GEOTERM KOŠICE, a.s.	Slovakia	0.08	Direct	0.08	Direct	Full	Full
GALANTATERM spol. s r.o.	Slovakia	0.5	Direct	0.5	Direct	At cost	At cost
GALANTATERM spol. s r.o.	Slovakia	17.5	Direct	17.5	Direct	At cost	At cost
SPP Infrastructure Financing B.V.	Netherlands	100	Direct	100	Direct	Full	Full

* Holding entity
(1) This company is exempt from the requirements of the Companies Act 2006 relating to the audit of individual accounts, by virtue of section 479A.
(2) Sunshine 1 S.r.l. merged with Fiume Santo S.p.A. as at 1 January 2016. Fiume Santo S.p.A. is the successor company.
(3) Optimum Energy, s.r.o. merged with EP ENERGY TRADING, a.s. as at 1 January 2016. EP ENERGY TRADING, a.s. is the successor company.

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

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.

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

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

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

PLZEŇSKÁ ENERGETIKA A.S.

In August 2012, Škoda Investment a.s. (SI) filed a claim for unjust enrichment against Plzeňská energetika a.s. (PE) for approximately EUR 2 million. This unjust enrichment claim allegedly arises from the fact that Plzeňská energetika a.s. owns and operates utility distribution systems (e.g., for gas, water and heat), which lie on the property of Škoda Investment a.s., thereby illegally restricting the ownership of Škoda Investment a.s. EPH Group’s management believes that the claim is unfounded and should be dismissed by the court. For this reason, Plzeňská energetika a.s. did not create a provision for this litigation as at 31 December 2016.

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.

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 preserved that the claims are barred by the statute of limitations.

Based on MIBRAG’s analysis, a provision of EUR 13.6 million is recorded in the financial statements (EUR 6 million addition in 2016), which should reflect the expected net payments for the supply of electricity on the basis of the information available at the time of preparation of MIBRAG’s financial statements.

STREDOSLOVENSKÁ ENERGETIKA, A.S. GROUP (“SSE GROUP”)

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

REGULATORY PROCEEDINGS BY ERO AGAINST PRAŽSKÁ TEPLÁRENSKÁ (“PT”)

PT is involved in regulatory proceedings commenced in October 2015 by ERO claiming that prices charged to customers of PT’s local small-scale heating infrastructures in 2011 were in breach of the Czech Act on Prices. In March 2016, ERO issued a decision ordering PT to pay EUR 9 million

(CZK 240 million) consisting of a penalty in the amount of EUR 4.5 million (CZK 120 million) and restitution to affected customers in the amount of EUR 4.5 million (CZK 120 million). PT appealed the decision on 24 March 2016 with supplemental information provided on 14 April 2016. On 7 July 2016 PT received a resolution from ERO by which the Chairman of ERO returned the case again to the first instance for a new hearing. On 10 November 2016 PT received a new resolution by which ERO confirmed the result from the first decision. PT appealed against this resolution to ERO. On 23 December 2016 ERO adjusted the amount to be paid by PT to EUR 8 million (CZK 222 million) consisting of penalty of EUR 4 million (CZK 111 million) and restitution to affected customers of EUR 4 million (CZK 111 million).

PT believes that it has reasonable arguments to succeed, nevertheless it cannot be ruled out that PT may ultimately be obliged to make the payment. As at 31 December 2016 PT created a provision for penalty in amount of EUR 4 million.

41. Subsequent events

A MAJOR ACQUISITIONS

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

On 21 June 2017 Centrica plc agreed to sell its operational Langage and South Humber Bank combined cycle gas turbine ("CCGT") power stations, with a combined capacity of 2.3 GW, to EP UK Investments Ltd ("EP UK") for GBP 318 million (approximately EUR 362 million) in cash, subject to customary working capital and other completion adjustments. The transaction is subject to EU merger clearance and is expected to close during the second half of 2017.

B CHANGE IN EPH SHAREHOLDER STRUCTURE

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

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

- The current shareholders of EPH concluded a series of transactions, through which Daniel Křetínský (94%) and selected members of the existing management of EPH (6%) became sole owners of EPH going forward.

- The current shareholders, Biques Limited, Milees Limited and EP Investment S.à.r.l. received in total EUR 1.5 billion at closing from EPH for the sale of their shares in EPH representing in aggregate 30% of EPH share capital. Whereas Biques Limited sold all its shares in EPH, Milees Limited and EP Investment S.à.r.l. sold each 2.17 % shares in EPH in this share-buy-back transaction.

- Milees Limited will further receive EUR 1.75 to 2.75 billion (plus interest) over time, whereby the final amount payable to Milees Limited will reflect growth in the underlying value of EPH over the coming years.

C EPIF FACILITY AGREEMENT

On 21 June 2017, EP Infrastructure, a.s. entered into a Term Loan Facilities Agreement between, among others, several banks as arrangers and lenders 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 1,950 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; and
- Facility E in an amount of EUR 200 million.

As of 17 July 2017, the total principal amount outstanding under the EPIF Facility Agreement was EUR 1,913 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.

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 as follows (disregarding the cash already held at EPIF, Czech Gas Holding Investment B.V. ("CGHI") and Slovak Gas Holding B.V. ("SGH") level):

- full repayment of the external bank financing of EPIF in the total amount of EUR 1,603 million, including accrued interests;
- payment of the other refinanced bank financing costs in the aggregate amount of EUR 7 million; and
- rest for the general purposes.

D OTHER SUBSEQUENT EVENTS

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

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

On 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 on the basis of 2016 profit) and set them off against the declared dividends of the same amount.

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

On 30 January 2017 EPH completed the transaction for purchase of 67.33% share in SPEDICA GROUP COMPANIES, s.r.o. Spedica group comprises several companies providing services in rail, sea and road transport.

In February 2017, Eggborough Power Limited was awarded a Capacity Agreement by National Grid plc. 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. The total level of profitably of this agreement will be determined by actual commodity prices in the period of delivery. No adjustment has been made to the reported results at 31 December 2016 in respect of this agreement.

On 10 February 2017 the subsidiary 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 the consolidated financial statements a total of 28,000 units of the second issue have been subscribed and a total of 3,000,000 units at nominal of CZK 1,000 per unit have been subscribed from the second issue of bonds by EPH Financing CZ, a.s.

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

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

On 1 April 2017 Stredoslovenská energetika, a.s. acquired a 100% interest in SPV100, s.r.o.

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 SPPI Group's effective combined direct and indirect share shall be approximately 72%). The completion of transaction shall take place upon receipt of all necessary regulatory approvals and is expected in the second half of 2017.

Subsequent events

On 2 June 2017 Pražská teplárenská a.s. acquired additional 5% interest in its subsidiary Energotrans SERVIS a.s. and became a 100% shareholder.

On 29 June 2017 EP Infrastructure, a.s. declared a dividend of EUR 580 million, of which EUR 550 million has been paid until the day of the 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.

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

APPENDICES*:

Appendix 1 – Business combinations

Appendix 2 – 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	
27 July 2017	Daniel Křetínský Chairman of the Board of Directors	Pavel Horský Member of the Board of Directors

Appendix 1 – Business combinations

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

EFFECT OF ACQUISITIONS

I. 31 DECEMBER 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.

In millions of EUR

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

(1) Represents values at 100% share.

In millions of EUR

	2016 Total
Revenue of the acquirees recognised since the acquisition date (subsidiaries)	**14**
Profit (loss) of the acquirees recognised since the acquisition date (subsidiaries)	**(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 Ltd. are provided in the following table.

In millions of EUR

	Carrying amount(1)	Fair value adjustment	2016 Total
Property, plant, equipment, land, buildings	5	-	**5**
Trade receivables and other assets	1	-	**1**
Deferred tax assets	1	-	**1**
Loans and borrowings	(5)	-	**(5)**
Net identifiable assets and liabilities	**2**	**-**	**2**
Non-controlling interest			**-**
Goodwill on acquisitions of a subsidiary			**-**
Negative goodwill on acquisition of new subsidiaries			**-**
Cost of acquisition			**2**
Consideration paid, satisfied in cash (A)			**-**
Purchase price liability			**2**
Total consideration transferred			**2**
Less: Cash acquired (B)			**-**
Net cash inflow (outflow) (C) = (B – A)			**-**

(1) Represents values at 100% share.

In millions of EUR

	2016 Total
Revenue of the acquirees recognised since the acquisition date (subsidiaries)	**2**
Profit (loss) of the acquirees recognised since the acquisition date (subsidiaries)	**(1)**

In millions of EUR

	2016 Total
Revenue of the acquirees recognised in the year ended 31 December 2016 (subsidiaries)*	**2**
Profit (loss) of the acquirees recognised in the year ended 31 December 2016 (subsidiaries)*	**(1)**

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

II. 31 DECEMBER 2015

The fair value of the consideration transferred and the amounts recognised for assets acquired and liabilities assumed as at the acquisition date of Eggborough Holdco 2 S.à r.l. and its subsidiary Eggborough Power Limited are provided in the following table.

In millions of EUR

	Carrying amount(1)	Fair value adjustment	2015 Total
Property, plant, equipment, land, buildings	29	17	**46**
Trade receivables and other assets	151	(22)	**129**
Financial instruments – assets	21	-	**21**
Inventories	1	-	**1**
Cash and cash equivalents	52	-	**52**
Restricted cash	35	-	**35**
Provisions	(136)	(4)	**(140)**
Trade payables and other liabilities	(90)	(2)	**(92)**
Net identifiable assets and liabilities	**63**	**(11)**	**52**
Goodwill on acquisitions of a subsidiary			**29**
Negative goodwill on acquisition of new subsidiaries			**-**
Pricing differences in equity			**-**
Cost of acquisition			**81**
Consideration paid, satisfied in cash (A)			**81**
Consideration, other			**-**
Total consideration transferred			**81**
Less: Cash acquired (B)			**52**
Net cash inflow (outflow) (C) = (B – A)			**(29)**

(1) Represents values at 100% share.

In millions of EUR

	2015 Total
Revenue of the acquirees recognised since the acquisition date (subsidiaries)	**411**
Profit (loss) of the acquirees recognised since the acquisition date (subsidiaries)	**(424)**

As the acquisition occurred as at 15 January 2015 and for the period from 1 January 2015 to 14 January 2015 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 2015) is the same as stated in the table above.

Appendix 1 – Business combinations

The fair value of the consideration transferred and the amounts recognised for assets acquired and liabilities assumed as at the acquisition date of EP Produzione S.p.A. and its subsidiaries Fiume Santo S.p.A., Sunshine 1 S.r.l., EP Produzione Centrale Livorno Ferraris S.p.A., Centro Energia Ferrara S.p.A., Centro Energia Teverola S.p.A. and Ergosud S.p.A. are provided in the following table.

In millions of EUR

	Carrying amount(1)	Fair value adjustment	2015 Total(1)
Property, plant, equipment, land, buildings	1,209	(857)	**352**
Intangible assets	3	-	**3**
Equity accounted investees	92	(48)	**44**
Trade receivables and other assets	117	1	**118**
Inventories	42	(1)	**41**
Cash and cash equivalents	44		**44**
Deferred tax asset	-	49	**49**
Provisions	(356)	64	**(292)**
Deferred tax liabilities	(1)	-	**(1)**
Loans and borrowings	(17)	-	**(17)**
Trade payables and other liabilities	(100)	7	**(93)**
Net identifiable assets and liabilities	**1,033**	**(785)**	**248**
Non-controlling interest			**(48)**
Goodwill on acquisitions of a subsidiary			**-**
Negative goodwill on acquisition of new subsidiaries			**(252)**
Pricing differences in equity			**-**
Cost of acquisition			**(52)**
Consideration paid, satisfied in cash (A)			**28**
Consideration received, satisfied in cash (C)			**(80)**
Total consideration transferred			**(52)**
Less: Cash acquired (B)			**44**
Net cash inflow (outflow) (D) = (B – A – C)			**96**

(1) Represents values at 100% share of subsidiaries and 50% share in associate (equity accounted investees).

In millions of EUR

	2015 Total
Revenue of the acquirees recognised since the acquisition date (subsidiaries)	**639**
Profit (loss) of the acquirees recognised since the acquisition date (subsidiaries)	**17**

In millions of EUR

	2015 Total
Revenue of the acquirees recognised in the year ended 31 December 2015 (subsidiaries)*	**804**
Profit (loss) of the acquirees recognised in the year ended 31 December 2015 (subsidiaries)*	**(164)**

* Before intercompany elimination; based on local statutory financial information

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

In millions of EUR

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

(1) Represents values at 100% share.

In millions of EUR

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

In millions of EUR

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

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

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

In millions of EUR

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

(1) Represents values at 100% share.
(2) The result of purchase price allocation was not significant and therefore management of the Group decided not to recognise any fair value adjustment resulting from business combinations in 2015.

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

In millions of EUR

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

In millions of EUR

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

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

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

In millions of EUR

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

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

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

In millions of EUR

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

In millions of EUR

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

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

Appendix 2 – 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:

In millions of EUR

	2016 Total
Non-current assets	**4,162**
Current assets	**1,643**
Fair value of assets	**5,805**
Non-current liabilities	**(4,950)**
Current liabilities	**(383)**
Fair value of liabilities	**(5,333)**
Fair value of identifiable net assets	**472**
Net asset value attributable to the Group's share	**156**
Negative goodwill	**-**

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:

In millions of EUR

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

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:

In millions of EUR

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

EPH

Independent Auditor's Report to the Statutory Financial Statements

KPMG

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Independent Auditor's Report to the Shareholders of 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 2016, and the income statement, the statement of changes in equity and the cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory notes. Information about the Company is set out in Note 1 to the financial statements.

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

Basis for Opinion

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

KPMG

Other Information

Other information is defined as (other than the financial statements and our auditor's report) included in the annual report. The statutory body is responsible for the other information. In connection with our audit of the financial statements, our responsibility is to report on 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 2016, 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 and Supervisory Board for the Financial Statements

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

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

The Supervisory Board and Audit Committee 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

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

Prague
29 June 2017

KPMG Česká republika Audit

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

Vladimír Dvořáček
Partner
Registration number 2332

EPH

Statutory Financial Statements and Notes to the Statutory Financial Statements

Balance Sheet

Energetický a průmyslový holding, a.s.
Corporate ID 283 56 250

FULL VERSION

Pařížská 130/26
Josefov
110 00 Praha 1

As of 31 December 2016
(in CZK thousand)

			31.12.2016		31.12.2015
		Gross	Adjustment	Net	Net
	TOTAL ASSETS	**133 716 597**	**2 862 315**	**130 854 282**	**34 694 325**
B.	**Fixed assets**	**108 169 963**	**1 230 689**	**106 939 274**	**23 202 998**
B.I.	***Intangible fixed assets***	**137**	**137**		
B.I.4.	Other intangible fixed assets	137	137		
B.II.	***Tangible fixed assets***	**223**	**91**	**132**	**79**
B.II.2.	Tangible movable assets and sets of tangible movable assets	223	91	132	79
B.III.	***Non-current financial assets***	**108 169 603**	**1 230 461**	**106 939 142**	**23 202 919**
B.III.1.	Equity investments – controlled or controlling entity	106 939 132		106 939 132	21 978 916
B.III.3.	Equity investments in associates	1 230 461	1 230 461		1 223 993
B.III.5.	Other non-current securities and investments	10		10	10
C.	**Current assets**	**25 540 020**	**1 631 626**	**23 908 394**	**11 486 801**
C.II.	***Receivables***	**23 075 246**	**1 631 626**	**21 443 620**	**7 103 535**
C.II.1.	Long-term receivables	**3 798 681**	**1 631 626**	**2 167 055**	**2 293 623**
C.II.1.1.	Trade receivables	15 000		15 000	
C.II.1.2.	Receivables – controlled or controlling entity	108 777		108 777	**244 502**
C.II.1.3.	Receivables – associates	2 220 734	1 065 146	1 155 588	657 917
C.II.1.5.	*Receivables – other*	**1 454 170**	**566 480**	**887 690**	**1 391 204**
C.II.1.5.4.	Sundry receivables	1 454 170	566 480	887 690	1 391 204
C.II.2.	***Short-term receivables***	**19 276 565**		**19 276 565**	**4 809 912**
C.II.2.1.	Trade receivables	275 304		275 304	124 305
C.II.2.2.	Receivables – controlled or controlling entity	13 175 791		13 175 791	1 796 496
C.II.2.4.	*Receivables – other*	**5 825 470**		**5 825 470**	**2 889 111**
C.II.2.4.3.	State – tax receivables	97 407		97 407	71 861
C.II.2.4.4.	Short-term prepayments made	39 220		39 220	1 245
C.II.2.4.5.	Estimated receivables	249		249	51 928
C.II.2.4.6.	Sundry receivables	5 688 594		5 688 594	2 764 077
C.III.	***Current financial assets***	**970 000**		**970 000**	
C.III.2.	Other current financial assets	970 000		970 000	
C.IV.	***Cash***	**1 494 774**		**1 494 774**	**4 383 266**
C.IV.1.	Cash on hand	5		5	28
C.IV.2.	Cash at bank	1 494 769		1 494 769	4 383 238
D.	**Other assets**	**6 614**		**6 614**	**4 526**
D.1.	Deferred expenses	6 614		6 614	4 526

		31.12.2016	31.12.2015
	TOTAL LIABILITIES & EQUITY	**130 854 282**	**34 694 325**
A.	**Equity**	**119 269 601**	**17 387 321**
A.I.	***Share capital***	**5 050 193**	**5 050 193**
A.I.1.	Share capital	5 050 193	9 090 347
A.I.3.	Changes in share capital		-4 040 154
A.II.	***Share premium and capital funds***	**-24 006 280**	**-23 959 082**
A.II.1.	Share premium	-23 978 859	-23 978 859
A.II.2.	*Capital funds*	**-27 421**	**19 777**
A.II.2.2.	Gains or losses from the revaluation of assets and liabilities (+/-)	-27 421	19 777
A.III.	***Funds from profit***		**101 414**
A.III.1.	Other reserve funds		101 414
A.IV.	***Retained earnings (+/-)***	**36 296 210**	**31 446 421**
A.IV.1.	Accumulated profits brought forward	36 296 210	31 446 421
A.V.	***Profit or loss for the current period (+/-)***	**101 929 478**	**4 748 375**
B.+C.	**Liabilities**	**11 452 957**	**17 298 864**
B.	**Reserves**	**207**	**236**
B.4.	Other reserves	207	236
C.	**Payables**	**11 452 750**	**17 298 628**
C.I.	***Long-term payables***	**8 464 011**	**10 916 006**
C.I.5.	Long-term bills of exchange to be paid	643 555	446 685
C.I.6.	Payables – controlled or controlling entity	7 820 456	10 168 543
C.I.9.	*Payables – other*		**300 778**
C.I.9.3.	Sundry payables		300 778
C.II.	***Short-term payables***	**2 988 739**	**6 382 622**
C.II.2.	Payables to credit institutions	110	509
C.II.4.	Trade payables	57 767	110 498
C.II.5.	Short-term bills of exchange to be paid	1 221 841	1 794 168
C.II.6.	Payables – controlled or controlling entity	1 169 003	4 170 125
C.II.8.	*Other payables*	**540 018**	**307 322**
C.II.8.1.	Payables to partners	58 492	2 754
C.II.8.3.	Payables to employees	1 006	129
C.II.8.4.	Social security and health insurance payables	208	31
C.II.8.5.	State – tax payables and subsidies	302	36
C.II.8.6.	Estimated payables	234 314	4 437
C.II.8.7.	Sundry payables	245 696	299 935
D.	**Other liabilities**	**131 724**	**8 140**
D.1.	Accrued expenses	131 153	7 555
D.2.	Deferred income	571	585

Profit and Loss Account

Energetický a průmyslový holding, a.s.
Corporate ID 283 56 250

STRUCTURED BY THE NATURE OF EXPENSE METHOD

Pařížská 130/26
Josefov
110 00 Praha 1

31.12.2016
(in CZK thousand)

		Year ended 31.12.2016	Year ended 31.12.2015
I.	Sales of products and services	83	190
A.	Purchased consumables and services	586 894	141 870
A.2.	Consumed material and energy	328	155
A.3.	Services	586 566	141 715
D.	Staff costs	14 204	2 886
D.1.	Payroll costs	12 070	2 309
D.2.	Social security and health insurance costs and other charges	2 134	577
D.2.1.	Social security and health insurance costs	2 134	576
D.2.2.	Other charges		1
E.	Adjustments to values in operating activities	59	53
E.1.	Adjustments to values of intangible and tangible fixed assets	59	53
E.1.1.	Adjustments to values of intangible and tangible fixed assets - permanent	59	53
III.	Other operating income	636 832	469 884
III.3.	Sundry operating income	636 832	469 884
F.	Other operating expenses	634 503	470 551
F.3.	Taxes and charges	13	16
F.4.	Reserves relating to operating activities and complex deferred expenses	-29	236
F.5.	Sundry operating expenses	634 519	470 299
*	**Operating profit or loss (+/-)**	**-598 745**	**-145 286**
IV.	Income from non-current financial assets - equity investments	108 152 741	5 441 599
IV.1.	Income from equity investments - controlled or controlling entity	108 152 741	5 441 599
G.	Costs of equity investments sold	2 434 460	2 780
VI.	Interest income and similar income	538 053	323 004
VI.1.	Interest income and similar income - controlled or controlling entity	136 869	159 906
VI.2.	Other interest income and similar income	401 184	163 098
I.	Adjustments to values and reserves relating to financial activities	2 862 087	
J.	Interest expenses and similar expenses	480 175	889 578
J.1.	Interest expenses and similar expenses - controlled or controlling entity	374 259	428 067
J.2.	Other interest expenses and similar expenses	105 916	461 511
VII.	Other financial income	6 914 290	559 811
K.	Other financial expenses	7 300 139	538 395
*	**Financial profit or loss (+/-)**	**102 528 223**	**4 893 661**
**	**Profit or loss before tax (+/-)**	**101 929 478**	**4 748 375**
**	**Profit or loss net of tax (+/-)**	**101 929 478**	**4 748 375**
***	**Profit or loss for the current period (+/-)**	**101 929 478**	**4 748 375**
*	Net turnover for the current period	116 241 999	6 794 488

Statement of Changes in Equity

Energetický a průmyslový holding, a.s.
Corporate ID 283 56 250

Pařížská 130/26
Josefov
110 00 Praha 1

Year ended 31 December 2016
(in CZK thousand)

	Share capital	Share premium	Gains or losses from the revaluation of assets and liabilities (+/-)	Funds from profit, reserve fund	Accumula-ted profits brought forward	Profit or loss for the current period	TOTAL EQUITY
Balance at 31 December 2014	**5 050 193**	**-23 978 859**	**53 729**	**101 414**	**6 879 365**	**24 567 056**	**12 672 898**
Distribution of profit or loss					24 567 056	-24 567 056	
Gains or losses from the revaluation of assets and liabilities			-33 952				-33 952
Repurchase of treasury shares and holdings	4 040 154						4 040 154
Changes in share capital	-4 040 154						-4 040 154
Profit or loss for the current period						4 748 375	4 748 375
Balance at 31 December 2015	**5 050 193**	**-23 978 859**	**19 777**	**101 414**	**31 446 421**	**4 748 375**	**17 387 321**
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
Cancelation of the reserve fund				-101 414	101 414		
Profit or loss for the current period						101 929 478	101 929 478
Balance at 31 December 2016	**5 050 193**	**-23 978 859**	**-27 421**		**36 296 210**	**101 929 478**	**119 269 601**

Cash Flow Statement

Energetický a průmyslový holding, a.s.
Corporate ID 283 56 250

Pařížská 130/26
Josefov
110 00 Praha 1

Year ended 31 December 2016
(in CZK thousand)

		Year ended 31.12.2016	Year ended 31.12.2015
P.	**Opening balance of cash and cash equivalents**	**4 383 266**	**295 482**
Z.	Profit or loss from ordinary activities before tax	101 929 478	4 748 375
A.1.	Adjustments for non-cash transactions	-102 528 194	-4 891 048
A.1.1.	Depreciation of fixed assets	59	53
A.1.2.	Change in provisions and reserves	2 862 058	236
A.1.3.	Profit/(loss) on the sale of fixed assets	-96 261 281	
A.1.4.	Revenues from profit shares	-9 457 000	-5 438 819
A.1.5.	Interest expense and interest income	-57 878	471 468
A.1.6.	Adjustments for other non-cash transactions	385 848	76 014
A.*	**Net operating cash flow before changes in working capital**	**-598 716**	**-142 673**
A.2.	Change in working capital	-1 198 964	183 722
A.2.1.	Change in operating receivables and other assets	-517 054	141 963
A.2.2.	Change in operating payables and other liabilities	288 090	41 759
A.2.4.	Change in current financial assets	-970 000	
A.**	**Net cash flow from operations before tax**	**-1 797 680**	**41 049**
A.3.	Interest paid	-330 720	-446 166
A.4.	Interest received	33 943	290 608
A.5.	Income tax paid from ordinary operations		-24 580
A.***	**Net operating cash flows**	**-2 094 457**	**-139 089**
B.1.	Fixed assets expenditures	-6 316 500	-2 226 066
B.2.	Proceeds from fixed assets sold	5 719 236	
B.3.	Loans and borrowings to related parties	-16 729 585	-2 237 566
	Received profit shares	7 931 464	4 930 450
B.***	**Net investment cash flows**	**-9 395 385**	**466 818**
C.1.	Change in payables from financing	8 601 350	3 760 055
C.***	**Net financial cash flows**	**8 601 350**	**3 760 055**
F.	**Net increase or decrease in cash and cash equivalents**	**-2 888 492**	**4 087 784**
R.	**Closing balance of cash and cash equivalents**	**1 494 774**	**4 383 266**

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

ENERGETICKÝ A PRŮMYSLOVÝ HOLDING, A.S.

Year ended 31 December 2016
(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") was incorporated 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 owns assets in the Czech Republic, the Slovak Republic, Germany, Italy, the UK and Hungary. EPH is a vertically integrated energy utility covering lignite mining, natural gas transmission, and power and heat generation and distribution.

OWNERSHIP STRUCTURE

On 28 April 2016, the voting rights of the shareholders of Energetický a průmyslový holding, a.s. changed. The shareholders of the Company as at 31 December 2016 are:

	Interest in registered capital %	Voting rights %
EP Investment S.a r.l.	37.17	37.17
BIQUESS LIMITED	25.66	25.66
MILEES LIMITED	37.17	37.17
Total	**100**	**100**

In October 2016, Energetický a průmyslový holding, a.s. ("EPH") concluded an agreement with a consortium of global institutional investors managed and represented by Macquarie Infrastructure and Real Assets (MIRA) on the sale of a 31% stake in EP Infrastructure, a.s. (EPIF). The remaining 69% stake in EPIF continues to be held by EPH, which also retains managerial control over EPIF. The consortium represented by MIRA is composed of Macquarie European Infrastructure Fund 5 and other global institutional investors. As a result of new minority shareholders entering the Company, changes in the structure of shareholders of Energetický a pr!myslový holding, a.s. (EPH) were approved. The current owners of EPH concluded a series of transactions, that will result in EPH being owned by Daniel Křetínský (94%) and selected members of the existing management team (6%) after the completion of the transaction. The transaction was completed on 24 February 2017 – see note 19. Significant subsequent events.

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 2016

MEMBERS OF THE BOARD OF DIRECTORS	MEMBERS OF THE SUPERVISORY BOARD
JUDr. Daniel Křetínský (Chairman)	Ing. Ivan Jakabovič (Chairman)
Mgr. Marek Spurný	Miloš Badida
Mgr. Pavel Horský	Mgr. Martin Fedor
Ing. Jan Špringl	

CHANGES IN THE COMMERCIAL REGISTER DURING THE ACCOUNTING PERIOD

On 22 January 2016, a decrease in the registered capital from CZK 9 090 347 040 to CZK 5 050 192 800 was recorded in the Commercial Register. Upon cancellation of own shares, the new number of registered share certificates was recorded in the Commercial Register; 28 946 239 shares at CZK 100 per share and 2 155 568 900 shares at CZK 1 per share.

The change in the Company's registered office was recorded on 8 July 2016. The original registered office at Příkop 843/4, Zábrdovice, 602 00 Brno, Czech Republic was replaced by the following address: Pařížská 130/26, Josefov, 110 00 Praha 1, Czech Republic.

The Company's file number changed on 26 July 2016. The original file number B 5924 maintained by the Regional Court in Brno was replaced by the file number B 21747 maintained by the Municipal Court in Prague.

ORGANISATIONAL STRUCTURE

The Company has four employees and is not organised into divisions or units.

Notes to the Czech statutory financial statements (non-consolidated, translated from the Czech original)
Energetický a průmyslový holding, a.s.
Year ended 31 December 2016
(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.

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).

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.

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 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).

Notes to the Czech statutory financial statements (non-consolidated, translated from the Czech original)
Energetický a průmyslový holding, a.s.
Year ended 31 December 2016
(amounts are shown in thousands of Czech crowns "TCZK")

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 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 (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 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.

3. Change in accounting policies and procedures

In 2016, no changes were made to the Company's accounting policies and procedures.

Notes to the Czech statutory financial statements (non-consolidated, translated from the Czech original)
Energetický a průmyslový holding, a.s.
Year ended 31 December 2016
(amounts are shown in thousands of Czech crowns "TCZK")

4. Comparability of accounting periods

On 1 January 2016, Amendment No. 221/2015 to Act No. 563/1991 Coll., on Accounting, ("the Amendment") came into effect. The Amendment resulted in a change in the presentation of balance sheet and income statement items. The Company prepared the financial statements and the comparative accounting period in accordance with Czech Accounting Standard for Business Entities No. 24 and the conversion bridge specified in Section 3.

The Company also changed the presentation of the above items in the financial statements (without regard to the amendment to the Act) to provide a truer and fairer view:

1) The receivables from Przedsiebiorstwo Górnicze Silesia Sp. z o.o. ("PGS") which were presented on line Receivables – controlled or controlling entity as at 31 December 2015 are presented on line Receivables – associates in the current and comparable period.

2) WOOGEL LIMITED which was presented as an equity investment in an associated company as at 31 December 2015 is presented in Equity investments – controlled or controlling entity in the current and comparable period due to control.

3) The interest on bills of exchange which was presented on line Expenses related to financial assets as at 31 December 2015 is presented on line Other interest expense and similar expense in the current and comparable period.

5. Cash flow statement

The cash flow statement was prepared using the indirect method. Cash equivalents include current liquid assets easily convertible into cash in an amount agreed in advance.

Cash and cash equivalents can be analysed as follows:

(in TCZK)

	Balance at 31/12/2016	Balance at 31/12/2015
Cash on hand	5	28
Cash at bank	1 494 769	4 383 238
Total cash and cash equivalents	**1 494 774**	**4 383 266**

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

6. Non-current financial assets

At 31 December 2016 and 31 December 2015

Equity investments – controlled or controlling entity	Total profit (+) / loss (-) for 1/1/2016 – 31/12/2016 (in thousands of CZK/EUR/PLN)	Equity at 31/12/2016 (in thousands of CZK/EUR/PLN)	Acquisition cost as at 31/12/2016 (in TCZK)	Acquisition cost as at 31/12/2015 (in TCZK)
SEDILAS ENTERPRISES LIMITED*	-9 (EUR)	100 (EUR)	27	28
Mining Services and Engineering Sp. z o.o.*	1 226 (PLN)	3 194 (PLN)	312	323
EP Commodities, a.s.	-	-	-	100 000
EP Infrastructure, a.s.**	37 377 179 (CZK)	130 484 570 (CZK)	100 129 990	19 159 975
EP United Kingdom, s.r.o.	-	-	-	2 218 500
EP Investment Advisors, s.r.o.*	44 205 (CZK)	209 838 (CZK)	437 000	437 000
Czech Gas Holding Investment B.V.	-	-	-	1 216
EPH Gas Holding B.V.	-	-	-	54 050
EP Logistics International, a.s.*	-474 (CZK)	67 596 (CZK)	68 070	-
JTSD Braunkohlebergbau GmbH*	-20 082 (EUR)	117 499 (EUR)	4 215 584	-
Nadácia EPH*	0 (EUR)	6 (EUR)	180	179
EPH Financing SK, a.s.	4 (EUR)	34 (EUR)	816	816
EP Slovakia B.V.*	-7 310 (EUR)	-7 212 (EUR)	2 702	2 703
Czech Gas Holding N.V.*	-1 591 (EUR)	27 672 (EUR)	119	119
EPH Financing CZ, a.s.	81 (CZK)	2 101 (CZK)	2 000	2 000
EP Coal Trading, a.s.*	88 139 (CZK)	231 198 (CZK)	141 000	2 000
EP Power Europe, a.s.*	-4 421 (CZK)	1 757 518 (CZK)	1 762 000	-
PGP Terminal, a.s.*	-1 179 (CZK)	6 975 (CZK)	9 189	-
Adconcretum real estate Ltd.*	-195 (CZK)	48 852 (CZK)	94 289	-
Zertilio a.s.*	-93 (CZK)	17 863 (CZK)	18 000	-
ABS PROPERTY LIMITED*	-44 364 (CZK)	616 (CZK)	57 854	-
WOOGEL LIMITED*	-87 788 (CZK)	-222 572 (CZK)	7	7
Total			**106 939 132**	**21 978 916**

* Data derived from non-audited financial statements as at 31 December 2016.
** In October 2016, EPH concluded an agreement with a consortium of global institutional investors led and represented by Macquarie Infrastructure and Real Assets (MIRA) on the sale of a 31% stake in EP Infrastructure, a.s. (EPIF). See note 19. Significant subsequent events

Except for WOOGEL LIMITED (25%) and PGP Terminal, a.s. (60%) are all investments fully owned as at 31 December 2016.

Notes to the Czech statutory financial statements (non-consolidated, translated from the Czech original)
Energetický a průmyslový holding, a.s.
Year ended 31 December 2016
(amounts are shown in thousands of Czech crowns "TCZK")

At 31 December 2016 and 31 December 2015

Equity investments in associates	Total loss (-) for 1/1/2016 – 31/12/2016 (in TPLN)	Equity at 31/12/2016 (in TPLN)	Acquisition cost as at 31/12/2016 (in TCZK)	Acquisition cost as at 31/12/2015 (in TCZK)
Przedsiebiorstwo Górnicze Silesia Sp. z o.o.*	-217 660	-209 514	1 230 461	1 223 993
Total ownership interests			**1 230 461**	**1 223 993**

* Data derived from non-audited financial statements as at 31 December 2016.

The amount of the share in registered capital is 38.93%.

The Company recorded a valuation allowance of TCZK 1 230 461 to its financial investment in 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.

Registered offices of the companies as at 31 December 2016:

SEDILAS ENTERPRISES LIMITED, Akropoleos, 59 – 61, SAVVIDES CENTER, Flat/Office 102, P. C. 2012, Nicosia, Cyprus
WOOGEL LIMITED, Kyriakou Matsi, Agioi Omologities 16, Nicosia, Cyprus
Adconcretum real estate Ltd., Belgrade, Vuka Karadzica 6, Serbia
JTSD Braunkohlebergbau GmbH, Glück-Auf-Straße 1, 06711 Zeitz, Germany
ABS PROPERTY LIMITED, The Mews, 2 Auburn Villas, Carrickbrennan Road, Monkstown, Co. Dublin, Ireland
Zertilio a.s., Ovocný trh 572/11, 110 00 Praha 1 – Staré Město, Czech Republic
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
EP Infrastructure, a.s., Pařížská 130/26, Josefov, 110 00 Praha 1, Czech Republic
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, Czechowice-Dziedzice, Poland
Przedsiebiorstwo Górnicze Silesia Sp. z o.o., ul. Górnicza 60, Czechowice-Dziedzice, Poland
Czech Gas Holding N.V., Schiphol Boulevard 403 C4, Schiphol, Netherlands
Nadácia EPH, Dvořákovo nábrežie 10, Bratislava, 811 02, 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 403 C4, Schiphol, Netherlands
EP Coal Trading, a.s., Českobratrská 3321/46, Moravská Ostrava, 702 00 Ostrava, Czech Republic

In 2016, there were following changes in non-current financial assets:

1 SALE OF CZECH GAS HOLDING INVESTMENT B.V. ("CGHI")

In order to obtain the indirect share in NAFTA, as part of the restructuring, EPH sold 100% shares of CGHI to EP Infrastructure, a.s. ("EPIF") for a consideration of TCZK 9 623 464 (EUR 355.7 million). The sale was tax-exempt.

The transfer of CGHI shares was completed on 31 March 2016 and the purchase price was settled as follows:

(i) by setting off intragroup receivables held by EPIF against EPH in the amounts of TCZK 2 857 384 (EUR 105.6 million), plus accrued interest, resulting from the assumption by EPIF of EPH's liability towards CGHI under a loan provided by CGHI to EPH,

(ii) by setting off against TCZK 6 766 080 (EUR 250.1 million) resulting from the assumption by EPIF of EPH's liability towards EPE under a loan provided by EPE to EPH in the total amount of TCZK 8 349 611 (EUR 308.7 million). The debts of EPH in the amount of TCZK 8 349 611 consisted of unpaid principal of TCZK 7 390 477 and unpaid accrued interest of TCZK 959 134. The remaining amount of the assumed liability (EUR 58.6 million) was used to settle the purchase price of EPHGH as described below.

2 SALE OF EPH GAS HOLDING B.V. ("EPHGH")

In order to obtain the indirect share in SPPI, as part of the restructuring, EPH sold 100% shares of EPHGH to EPIF for a consideration of TCZK 87 458 225 (EUR 3 235.0 million). The sale was tax-exempt.

The transfer of EPHGH shares was completed on 23 March 2016 and the purchase price was settled as follows:

(i) in the amount of TCZK 5 719 236 (EUR 211.3 million) corresponding to the payments to EPH,

(ii) by setting off against the amount of TCZK 1 585 310 (EUR 58.6 million) resulting from the assumption of EPH's liabilities to EPE by EPIF within a loan of TCZK 8 349 611 (EUR 308.7 million), as described above in part 1) Sale of Czech Gas Holding Investment B.V. ("CGHI"),

(iii) by setting off against hedging operations of TCZK 651 685 (EUR 24.1 million), as described in notes 11. (c) and 12. (e).,

(iv) EPH capitalized the remaining receivable towards EPIF of TCZK 79 508 826 (EUR 2 941.0 million) arising from the EPHGH sale by means of increase of the registered capital of EPIF (as at 10 March 2016 EPIF increased equity by contribution from EPH in form of an increase in registered capital of TCZK 1 462 000. On 25 April 2016, EPIF's registered capital was further increased by TCZK 79 508 826. The registered capital was thus raised from TCZK 1 464 000 to TCZK 80 750 000). As a result, the share premium increased by TCZK 222 826.

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3 ACQUISITION OF JTSD BRAUNKOHLEBERGBAU GMBH ("JTSD")

As part of the EPIF reorganisation, EPH acquired from EP Energy, a.s. ("EPE") 100% share in JTSD for TCZK 4 217 112 (EUR 156.0 million). The amount corresponds to the fair value of JTSD's equity. As a pre-sale structuring, JTSD obtained a new bank financing, proceeds of which were mainly utilized to repay some of the existing intercompany loans of JTSD towards EPE. EPH acts as a guarantor for this bank loan (up to EUR 330 million). The sale was completed on 1 April 2016 and the purchase price was fully paid in cash.

4 ACQUISITION OF EP POWER EUROPE, A.S. ("EPPE"), SALE OF EP COMMODITIES, A.S. ("EPC") AND EP UNITED KINGDOM, S.R.O. ("EPUK")

A 100% share in EP Power Europe, a.s. was acquired on 15 April 2016 in the amount of TCZK 2 000.

On 22 November 2016, the sole shareholder, EPH, approved a contribution into the capital reserves of the EPPE in the amount of TCZK 245 000.

On 15 December 2016, EPH sold its share in EP United Kingdom, s.r.o. ("EPUK") to EP Power Europe, a.s. ("EPPE") for a consideration of TCZK 879 357. EPH also assigned the loan provided to EP UK Investments Ltd in the amount of TEUR 9 553 (a principal and interests of TCZK 270 558) to EPUK. The receivable towards EPUK was subsequently assigned to EPPE at the nominal value. Receivable of TGBP 38 492 (TCZK 1 244 442; described in detail in note 12 (e)) and a receivable of TEUR 9 553 were capitalised as a contribution into the capital reserves of the EPPE (TCZK 1 515 000). The total contribution into the capital reserves amounted to TCZK 1 760 000. A liability of TCZK 189 210 was paid in cash in 2016 and the remaining amount (TCZK 55 790) in January 2017.

On 15 December 2016, EPH sold its share in EP Commodities, a.s. to EP Power Europe, a.s. ("EPPE") for a consideration of TCZK 734 695.

5 OTHER CHANGES IN NON-CURRENT FINANCIAL ASSETS

a) A 60% share in PGP Terminal, a.s. of TCZK 9 189 was acquired on 29 February 2016,

b) On 7 March 2016, the share in EP Coal Trading, a.s. was increased by TCZK 139 000,

c) On 15 March 2016 (before the above mentioned sale to EPIF) the share in Czech Gas Holding Investment B.V. was increased by TCZK 63 952,

d) On 30 March 2016, EP Logistics International, a.s. was established by paying up the registered capital of TCZK 2 000. On 19 May 2016, the registered capital of EP Logistics International, a.s. was increased by TCZK 66 070 through a loan capitalisation,

e) On 4 May 2016, the registered capital of Przedsiebiorstwo Górnicze Silesia Sp. z o.o was increased by TCZK 47 281 (TPLN 7 686) and on 1 June 2016 by a further amount of TCZK 703 (TPLN 114),

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

f) A 100% share in Adconcretum real estate Ltd. of TCZK 94 673 was purchased on 26 May 2016,

g) On 31 May 2016, EPH purchased ABS PROPERTY LIMITED, a company incorporated and existing under the laws of Ireland, for a consideration of TCZK 57 854,

h) A 100% ownership interest in Zertilio a.s. of TCZK 18 000 was acquired on 21 June 2016.

6 SUBSIDIARIES'S MAJOR ACQUISITIONS

SLOVENSKÉ ELEKTRÁRNE, A.S.

On 18 December 2015, EP Slovakia BV ("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 ownership interest in Slovenské elektrárne, a.s. ("Slovenské elektrárne"). In accordance with this sale, the entire 66% ownership interest in Slovenské elektrárne, held by Enel Produzione, was transferred to a new company ("HoldCo"). EP Slovakia may then acquire up to 100% of the registered capital of HoldCo. The transfer of HoldCo to EP Slovakia is carried out in two stages.

1. During the first stage, Enel Produzione sold a 50% share in the registered capital of HoldCo to EP Slovakia for EUR 375 million, of which EUR 150 million was paid immediately after closing the first stage, and the remaining EUR 225 million is to be paid by EPH upon closing the second stage. The final price may be different as it will be adjusted using a mechanism described below.

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 Nuclear Power Plant receives a permit for the trial operation of the reactors of the third and fourth blocks, currently under construction. In utilising one of the options, Enel Produzione will transfer the remaining 50% share in the registered capital of HoldCo to EP Slovakia for a consideration of another EUR 375 million. This amount will be payable upon conclusion of 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 blocks of the Mochovce Power Plant.

As mentioned above, the total price for Enel Produzione's current ownership interest in Slovenské elektrárne, i.e. EUR 750 million, will be subject to the adjustment mechanism. The adjustments will be determined by independent experts and applied immediately after completion of the second stage of the transaction. They 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 blocks of the Mochovce Power Plant.

As at the date of preparation of these financial statements, the first stage was completed (EUR 150 million was paid).

PURCHASE OF SELECTED GERMAN LIGNITE ASSETS FROM VATTENFALL AB

On 18 April 2016, a consortium consisting of EPH and its financial partner PPF Investments Ltd. ("the Consortium"), announced to have signed a contract for the acquisition of lignite assets from Vattenfall AB ("Vattenfall") in Saxony and Brandenburg.

It was also announced that the Consortium and Vattenfall agreed on the following capital structure of the company owning Vattenfall's coal assets in Germany: the company recognised liabilities and provisions, in particular relating to the reclamation and decommissioning of individual facilities, of approximately EUR 2 billion. As a compensation for the liabilities, the consortium acquires significant assets worth EUR 3.4 billion (in line with Vattenfall accounting policies). Furthermore, the company is expected to retain approximately EUR 1 billion in cash on its accounts. In view of the current tense economic situation, the Consortium undertook to waive its right to dividends, if any, for the next years to come.

The Consortium assumes all statutory duties arising from these assets, including provisions for decommissioning and reclamation works.

Vattenfall's assets comprise the second largest lignite mines and power plants in Germany. They include, for example, opencast mining in the Jänschwalde, Welzow-Süd, Nochten and Reichwalde mines, as well Jänschwalde, Schwarze Pumpe, Boxberg power plants, and one block of the Lippendorf power plant. The overall generation capacity is 8 000 MW and the company has approx. 7 500 employees.

The transaction was completed on 1 October 2016.

7. Long-term receivables

A RECEIVABLES – CONTROLLED OR CONTROLLING ENTITY 31 DECEMBER 2016

31 DECEMBER 2016

Counterparty	Principal (in TCZK)	Outstanding interest as at 31/12/2016 (in TCZK)	Due date
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
Total at 31/12/2016	**106 600**	**2 177**	

31 DECEMBER 2015

Counterparty	Principal (in TCZK)	Outstanding interest as at 31/12/2015 (in TCZK)	Due date
EP UK Investments Ltd*	238 361	6 141	4/2/2018
Total at 31/12/2015	**238 361**	**6 141**	

* The loan was assigned to EP United Kingdom, s.r.o. in December 2016.

B RECEIVABLES – ASSOCIATES

31 DECEMBER 2016

Counterparty	Principal (in TCZK)	Outstanding interest as at 31/12/2016 (in TCZK)	Due date
Przedsiebiorstwo Górnicze Silesia Sp. z o.o.	1 760 547	460 187	31/12/2018
Total at 31/12/2016	**1 760 547**	**460 187**	

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.

31 DECEMBER 2015

Counterparty	Principal (in TCZK)	Outstanding interest as at 31/12/2015 (in TCZK)	Due date
Przedsiebiorstwo Górnicze Silesia Sp. z o.o.	266 709	391 208	31/12/2018
Total at 31/12/2015	**266 709**	**391 208**	

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 1 454 170 (TCZK 1 391 204 as at 31 December 2015). The Company recorded as a result of the carried out credit analysis a valuation allowance of TCZK 566 480 to Other receivables, as the Company has doubts about a borrower´s ability to fully settle its debts towards EPH.

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8. Short-term receivables

A TRADE RECEIVABLES

Trade receivables total TCZK 275 304 (TCZK 124 305 as at 31 December 2015). None of the trade receivables is due in more than five years as at the balance sheet date.

Short-term receivables also include intercompany debit advices resulting from provided guarantees totalling TCZK 105 627. As at 31 December 2015, these guarantees were presented in estimated receivables (TCZK 51 928).

B RECEIVABLES – CONTROLLED OR CONTROLLING ENTITY

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	218 146	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
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 Station	63 172	381
EP Logistics International, a.s.	2 000	-
Lausitz Energie Verwaltungs GmbH	135	2
LEAG Holding, a.s.	756	27
Total at 31/12/2016	**9 763 408**	**272 795**

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 EPUK and EPC (described in detail in note 6).

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

31 DECEMBER 2015

Counterparty	Principal (in TCZK)	Outstanding interest as at 31/12/2015 (in TCZK)
Czech Gas Holding Investment B.V.	946	74
BIQUES LIMITED	145 935	12 918
BIQUES LIMITED	135 125	30 386
EP Investment Advisors, s.r.o. CZK	136 932	1 174
EP Investment Advisors, s.r.o. EUR	169 690	1 214
Alternative Energy, s.r.o.	47 294	23 991
MILEES LIMITED	278 358	38 298
MILEES LIMITED	145 935	12 918
Mining Services and Engineering Sp. z o.o.	28 530	4 329
EP Investment S.á.r.l.	135 125	30 386
EP Investment S.á.r.l.	289 167	18 778
Woogel Limited	541	7
EP Produzione S.P.A.	-	6 419
Czech Gas Holding Investment B.V.	63 952	-
EP Coal Trading, a.s.	7 703	-
EP Commodities, a.s.	30 000	371
Total at 31/12/2015	**1 615 233**	**181 263**

C STATE – TAX RECEIVABLES

The Company did not create an income tax provision due to the utilisation of accumulated tax losses from previous years. As at 31 December 2016, this balance primarily includes income tax prepayments of TCZK 70 436 (as at 31 December 2015: TCZK 70 436).

D ESTIMATED RECEIVABLES

As at 31 December 2015, estimated receivables included in particular the non-invoiced guarantees. The guarantees to Czech Gas Holding N. V. were offset against received loans in 2016.

E OTHER RECEIVABLES

Other receivables primarily include loans granted to non-related entities of TCZK 5 626 088 (as at 31 December 2015: TCZK 2 742 336) and receivables following from positive fair value of derivatives stated in the table below, totalling TCZK 30 274 (as at 31 December 2015: TCZK 21 741):

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
Total			**30 274**

As at 31 December 2016, other receivables also include loans granted to related parties as stated in the table below:

Counterparty	Principal (in TCZK)	Outstanding interest as at 31/12/2016 (in TCZK)	Due date	Interest rate
AC Sparta Praha fotbal, a.s.	30 000	-	29/6/2017	fixed
Total	**30 000**	**-**		

31 DECEMBER 2015

Forward exchange contracts	Counterparty	Maturity	Fair value at 31/12/2015
Currency forward	UniCredit Bank Czech Republic, a.s.	15/3/2016	7 786
Currency forward	UniCredit Bank Czech Republic, a.s.	26/1/2016	3 905
Currency forward	UniCredit Bank Czech Republic, a.s.	4/1/2016	778
Currency forward	Komerční banka, a.s.	10/2/2016	90
Currency forward	Komerční banka, a.s.	4/1/2016	8 063
Currency forward	Komerční banka, a.s.	4/1/2016	19
Currency forward	Komerční banka, a.s.	21/1/2016	1 100
Total			**21 741**

9. Other current financial assets

Other current financial assets comprise an acquired bill of exchange.

10. Equity

On 22 January 2016, a decrease in the registered capital from CZK 9 090 347 040 to CZK 5 050 192 800 was recorded in the Commercial Register.

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. The general meeting held on 30 June 2016 decided that the reserve fund of TCZK 101 414 be released and transferred to retained profits.

In both 2015 and 2016, the general meeting of shareholders approved the result of operations. Subsequently, the respective results were transferred to retained profits.

As at the date of approval of the financial statements, there is no proposal for distribution of the 2016 profit in place yet. The proposal for distribution of the 2016 profit will be prepared by the board of directors for the Company's shareholders and subsequently discussed and approved by the general meeting.

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

	Number of shares issued	Number of shares issued
Nominal value of ordinary registered share certificates (in whole CZK)	100	1
Shares issued as at 31 December 2015:	**57 892 478**	**3 301 099 240**
Cancellation of own shares	-28 946 239	-1 145 530 340
Shares issued as at 31 December 2016:	**28 946 239**	**2 155 568 900**

11. Long-term payables

A LONG-TERM BILLS OF EXCHANGE TO BE PAID

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%
Total at 31/12/2016	**633 707**	**9 848**	

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31 DECEMBER 2015

Bill holder	Nominal value	Interest at 31/12/2015	Interest rate
Bills maturing in 2017	380 821	18 517	4.2% – 5.9%
Bills maturing in 2018	47 000	347	4.90% – 5.25%
Total at 31/12/2015	**427 821**	**18 864**	

B PAYABLES – CONTROLLED OR CONTROLLING ENTITY

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
Total at 31/12/2016	**7 820 456**	**68 181**	

The outstanding interest as at 31 December 2016 is presented in short-term liabilities in line Short-term payables – controlled or controlling entity.

The liability due to EP Energy, a.s. and Czech Gas Holding Investment B.V. which was recognised as at 31 December 2015 was assigned to EP Infrastructure, a.s. and subsequently set off as described in detail in note 6.

31 DECEMBER 2015

Counterparty	Principal	Outstanding interest as at 31/12/2015	Due date
EPH Financing SK, a.s.	1 072 571	124	29/6/2018
EPH Financing CZ, a.s.	1 330 000	13 965	30/9/2018
EP Energy, a.s.	4 368 398	560 932	31/1/2017
Czech Gas Holding Investment B.V.	2 829 517	7 125	29/4/2019
Total at 31/12/2015	**9 600 486**	**582 146**	

Unpaid interest on EPH Financing SK, a.s. and EPH Financing CZ a.s. is recognized as short-term in the line Short-term payables – controlled or controlling entity.

C SUNDRY LIABILITIES

Sundry liabilities represent liabilities resulting from revaluation of the derivatives stated below:

31 DECEMBER 2015

Forward exchange contract reported in Other liabilities	Counterparty	Maturity	Fair value at 31/12/2015
Interest rate swap	Komerční banka, a.s.	18/11/2019*	299 503
Commodity swap	Komerční banka, a.s.	30/12/2017	1 275
Total swaps and forwards			**300 778**

* In 2016, as a part of the EPIF restructuring, the Company transferred by way of novation of the underlying agreements the interest rate swaps from Komerční banka, a.s. and the liability was subsequently set off – see note 6.

12. Short-term payables

A TRADE PAYABLES

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

B SHORT-TERM BILLS OF EXCHANGE TO BE PAID

31 DECEMBER 2016

Bill holder	Nominal value	Interest at 31/12/2016	Interest rate
Bills maturing in 2017	1 170 994	50 847	2.2 % – 5.9 %
Total at 31/12/2016	**1 170 994**	**50 847**	

31 DECEMBER 2015

Bill holder	Nominal value	Interest at 31/12/2015	Interest rate
Bills maturing in 2016	1 722 362	71 806	2.2 % – 6.5 %
Total at 31/12/2015	**1 722 362**	**71 806**	

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C LIABILITIES – CONTROLLED OR CONTROLLING ENTITY

31 DECEMBER 2016

Counterparty	Principal	Outstanding interest as at 31/12/2016	Due date
SEDILAS ENTERPRISES LIMITED	2 669	7	25/9/2017
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
Total at 31/12/2016	**1 095 430**	**5 392**	

* In 2016, the liability was reduced by the offset of the principal and interest against the debit advices from guarantees.

Short-term liabilities – controlled or controlling entity also include outstanding interest of TCZK 68 181 (as at 31 December 2015: TCZK 14 089) – see note 11 (b).

The liability due to EP Energy, a.s. and Czech Gas Holding Investment B.V. which was recognised as at 31 December 2015 was assigned to EP Infrastructure, a.s. and subsequently set off as described in detail in note 6.

31 DECEMBER 2015

Counterparty	Principal	Outstanding interest as at 31/12/2015	Due date
SEDILAS ENTERPRISES LIMITED	3 119	64	25/9/2016
EP Energy, a. s.	3 015 250	319 940	30/9/2016
Czech Gas Holding N.V.	806 696	10 967	27/7/2016
Total at 31/12/2015	**3 825 065**	**330 971**	

D ESTIMATED PAYABLES

The increase in estimated payables is due primarily to the non-invoiced expenses from the insurance company of TCZK 223 011.

E SUNDRY LIABILITIES

Sundry liabilities primarily include the fair value of the commodity swap and currency forward (as at 31 December 2015: TCZK 98 520):

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
Total swaps and forwards			**44 148**

In October 2016, the Company terminated currency derivatives concluded with Citibank, HSBC and KB in amount of TGBP 164 239 (TCZK 4 920 017). The nominal value of these derivatives was TGBP 1 142 000 against TUSD 1 103 935 and TCAD 753 772 maturing in years 2018–2026. The derivatives were concluded to mitigate the risks resulting from a change in the foreign currency cash flows that followed from the purchase of biomass through Lynemouth Power Limited (therefore, the derivatives were concluded with Lynemouth Power Limited in a from of back-to-back derivatives). The liability to Lynemouth Power Limited ("LPL") was set off against a loan provided by EP United Kingdom, s.r.o. ("EPUK") totalling TGBP 85 066 (TCZK 2 568 145) and a receivable resulting from the mediation of currency derivatives of TGBP 800 (TCZK 24 132). The remaining part of the loan provided to EPUK of TGBP 38 492 (TCZK 1 244 442) was assigned to EP Power Europe, a.s. ("EPPE") in December 2016. The remaining liability to LPL (TGBP 78 373) was transferred to an interest-bearing loan which was repaid in full by the end of 2016.

31 DECEMBER 2015

Forward exchange contract reported in Other liabilities	Counterparty	Maturity	Fair value at 31/12/2015
Currency forward	UniCredit Bank Czech Republic, a.s.	4/1/2016	42
Currency forward	Komerční banka, a.s.	13/1/2016	604
Currency forward	Komerční banka, a.s.	4/1/2016	235
Currency forward	EP Energy, a. s.	1/12/2016*	97 639
Total forwards			**98 520**

* Within EPIF restructuring, the currency forward concluded with EP Energy, a.s. was transferred to EPIF and subsequently offset, see note 6.

At 31 December 2016, short-term liabilities include also a short-term financial borrowings of TCZK 201 548 (as at 31 December 2015: TCZK 201 151).

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13. Revenues and costs

Services relate especially to costs for bookkeeping, audit, consolidation, legal services, attorney-at-law services and travel expenses. The increase in expenses is primarily due to services connected with restructuring of the EPIF and EPPE group and successful acquisitions in 2016.

Other operating revenues and other operating costs are formed in particular by revenues and expenses from re-invoicing, respectively. As at 31 December 2015, other operating revenues, also other operating costs included revenues also costs from assigned receivables from Przedsiebiorstwo Górnicze Silesia Sp. z o.o. of TCZK 263 851 to BRAINDOUR DEVELOPMENT LIMITED. The receivables were assigned at their nominal value, including outstanding interest.

The income from equity investments – controlled or controlling entity comprise the revenues from sale of equity investments in CGHI, EPHGH, EPUK and EPC (see note 6) and revenues from the dividend declared by EPIF of TCZK 9 457 000. As at 31 December 2015, it primarily represents the declared right to dividends from subsidiaries (TCZK 5 438 819).

Adjustments to values and reserves relating to financial activities in 2016 represents valuation allowances to equity investments and receivables described in note 6 and 7.

Other financial expenses and other financial revenues primarily include foreign exchange losses, losses from revaluation and settlement of derivatives (TCZK 5 949 774) and banking fees, and foreign exchange gains, gains from revaluation and settlement of derivatives (TCZK 5 966 170) and revenues from guarantees (TCZK 200 059), respectively.

14. 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. Prior period balances and transactions were adjusted accordingly.

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	2016	2015
BIQUES LIMITED	19 962	25 301
MILEES LIMITED	35 452	33 235
Przedsiebiorstwo Górnicze Silesia Sp. z o.o.	82 611	17 089
EP Investment S.a r.l.	35 492	12 271
WOOGEL LIMITED	32	7
AC Sparta Praha fotbal, a.s.	1 223	11 060
Total	**174 772**	**98 963**

15. Employees and executives

As at 31 December 2016, the Company had four employees (three employees in 2015). 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.

16. Fees payable to statutory auditors

This information is disclosed in the notes to the consolidated financial statements as at 31 December 2016.

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17. Income tax

A CURRENT TAX

The tax expense as at 31 December 2016 amounts to TCZK 0 (TCZK 0 as at 31 December 2015).

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 2016 and 31 December 2015.

18. Significant off-balance sheet transactions

The Company provides a commitment of TCZK 456 488 (as at 31 December 2015: TCZK 16 891) to J&T Private Equity B.V.

The Company has received commitments from Czech Gas Holding N.V. (TCZK 145 408), Poštová banka, a.s. (TCZK 1 351 000), and EPH Financing CZ, a.s (TCZK 2 400 000).

In addition, the Company recognizes receivables of TCZK 11 754 521 (as at 31 December 2015: TCZK 16 556 615) and liabilities of TCZK 11 774 180 (as at 31 December 2015: TCZK 16 655 858) related to currency, interest rate 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 2016 amounted to TCZK 3 600 000 for EPH Financing CZ, a.s. and TEUR 75 000 (TCZK 2 026 500) in 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 38 052 210 in favour of third party beneficiaries. As the ultimate parent company, EPH further provided a letter of support to selected subsidiaries and related entities.

19. Significant subsequent events

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 23 January 2017, the sole shareholder of EP Infrastructure, a.s. ("EPIF"), EPH, declared a profit share prepayment of TCZK 1 179 542, which was paid in cash. On 20 February 2017, EPH approved the financial statements of EPIF for 2016 and declared a distribution of profit or loss in a form of a dividend of TCZK 7 807 790, of which TCZK 6 628 248 was paid out in 2016 in form of a profit share prepayment. The total amount of the profit share prepayments was set off against the declared dividends.

On 30 January 2017, EPH completed the transaction for purchase of a 67.33% share in SPEDICA GROUP COMPANIES, s.r.o. SPEDICA GROUP COMPANIES is a holding providing services in the field of railway, naval and road transportation.

On 10 February 2017, the subsidiary EPH Financing SK, a.s. launched a second subscription of a bond issue at the expected total nominal value of TEUR 75 000 and at the nominal value of EUR 1 000 per share. As at the date of signing these financial statements, a total of 28 000 bonds were subscribed from the second bond issue of EPH Financing SK, a.s. and a total of 3 000 000 bonds were subscribed from the second bond issue of EPH Financing CZ, a.s. at the nominal value of CZK 1 000 per share.

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

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

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

On 30 March 2017, the Company declared to its shareholders (irrespective of own shares held) a profit share prepayment in amount of TCZK 1 908 973, out of which TCZK 1 763 557 was paid in cash until the date of this financial statements.

On 23 June 2017 the sole shareholder of EP Power Europe, a.s., EPH, decided on the increase of the registered capital by an amount of TCZK 14 600 800.

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

On 21 June 2017 Centrica plc agreed to sell its operational Langage and South Humber Bank combined cycle gas turbine (CCGT) power stations, with a combined capacity of 2.3GW, to EP UK Investments Ltd (EP UK) for £318million in cash (app. CZK 9.5 billion), subject to customary working capital and other completion adjustments.

The transaction is subject to EU merger clearance and is expected to close during the second half of 2017.

Apart from the events described above and in other notes to these financial statements, the Company's management is not aware of any other events that have occurred since the balance sheet date that would have any material impact on the financial statements as at 31 December 2016.

Prepared on: 29 June 2017

JUDr. Daniel Křetínský	Mgr. Pavel Horský
Chairman of the Board of Directors	Member of the Board of Directors

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