EP Infrastructure

Annual Report
2017

EP Infrastructure, a. s.

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Annual Report
2017

EP Infrastructure, a. s.

EP Infrastructure

Consolidated Financial Statements
as at and for the year ended
31 December 2017

ANNUAL REPORT 2017

Content

EP Infrastructure

Introduction by the Chairman of the Board of Directors

Introduction by the Chairman of the Board of Directors

Dear shareholders, business partners, colleagues and friends,

In 2017, EP Infrastructure, a.s. ("EPIF") continued to operate its traditional energy infrastructure assets in Central Europe. Its core activities concentrated on transmission, distribution and storage of natural gas, the distribution of electricity and district heating. EPIF Group subsidiaries manage the transit gas pipeline, the largest corridor for supplies of Russian gas to Western, Central and Southern Europe. EPIF Group companies are the major distributor of natural gas and electricity in Slovakia and operate the largest gas storage capacities in Central Europe. They are also a significant operator of heat distribution networks and a heat producer in the Czech Republic and in Hungary.

The period of economic growth and positive development in the natural gas and electricity market has had a favourable impact on all of our segments. EPIF again confirmed its role of leading infrastructure player in the Central European region.

The Gas Transmission segment continued to grow for the third year in a row, while maintaining its full technical capacity and availability for its customers. In 2017, the volume of natural gas transported by Eustream was almost 65 billion cubic metres. Development projects continue to focus on the enhancement of energy security and the creation of new business opportunities. We achieved significant progress by launching processes to increase the transit capacities from the Czech Republic to Slovakia and by obtaining financial support for EU projects of Slovakian – Polish interconnection and the Eastring project.

The financial year 2017 was also an extremely successful one for the Gas and Power Distribution segment, primarily in terms of gas distribution. The cold winter months at the beginning of the year considerably contributed to SPP – distribúcia's record results of operation. The annual distributed natural gas volume was almost 5 billion cubic metres. At the same time, we continuously increased the efficiency of operating activities, decreased the number of leaks in the distribution network, maintained our facilities' high level of operational security and further invested in infrastructure. We distributed more than 6.2 TWh of electricity; an increase of 5 % year-on-year. We continued in the renovation and reconstruction of our backbone network to ensure a reliable provision of our traditional distribution services and to reflect modern trends in terms of electricity distribution. Our total capital expenditures in this segment were EUR 78 million and we plan to continue our investment activities in the following years as well.

The companies from the Heat Infra segment supplied more than 22 PJ of heat, which is an increase of 2 %, adjusting for the sale of non-strategic heat industry assets on the left bank of the Vltava in 2016. At the same time, we leveraged the growth in the electricity market to increase production year-on-year by more than 15 % to 4.1 TWh. We continue to be the key supplier of ancillary services both in the Czech Republic and in Hungary and significantly contribute to the stability of the transmission network. As for Hungarian-based BERT, we finalised a comprehensive project to decrease fixed costs, which will further enhance operational efficiency in the future while maintaining the high quality of supplies and overall security.

We kept our position as a major player in the Central European region within the Gas Storage segment. We provide our customers with an overall storage capacity of almost 41 TWh. In 2017, the large storage capacity and the reliable provision of the related services again confirmed the importance of EPIF's underground storage facilities for ensuring the safety of natural gas supplies in the region. The extremely cold weather at the beginning of the year resulted in increased demand for natural gas. We fulfilled customers' requests to draw more intensively from storage facilities and supplied our customers with gas without any interruptions. In 2017, we significantly invested in operational security, the modernisation of technologies, an increase in automation and the utilisation of gathered information to further optimise processes.

With regard to the reported results, 2017 was a successful year in all aspects and proved the quality of the operated assets, most of which are regulated and long term contracted. The consolidated EBITDA for 2017 was EUR 1 509 million, constituting a year-on-year increase in this key indicator by more than EUR 100 million. At the same time, free cash flow rose to EUR 1 185 million and confirmed that thanks to the valuable structure of assets and very effective management, EPIF excels at reaching an above-average rate of converting operating profit into free cash. In 2018, these and other characteristics of the EPIF Group were also awarded investment grade ratings from renowned rating agencies Moody's Investors Service, Fitch Ratings and S&P Global Ratings.

From the perspective of the shareholder structure, at the beginning of 2017, the parent company Energetický a průmyslový holding concluded an agreement on the sale of a 31% interest in EPIF which was entered into earlier with a consortium of global institutional investors managed and represented by Macquarie Infrastructure and Real Assets. 2017 was thus the first year in which the operations of the EPIF Group were influenced by a new shareholder. The current financial results of the Group meet fully the expectations of the new shareholding structure.

In conclusion, I would like to express my personal thanks to our employees, investors and partners who have been central in the realisation of our business strategy. We owe our success to all of you.

Daniel Křetínský

Chairman of the Board of Directors

EP Infrastructure

Independent Auditor's Report to the Consolidated Annual Report

ANNUAL REPORT 2017

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

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

Opinion

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

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

Basis for Opinion

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

Other Information

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Statutory Auditor Responsible for the Engagement

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

Prague
28 March 2018

KPMG Česká republika Audit

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

Karel Charvát

Karel Charvát
Partner
Registration number 2032

EP Infrastructure

Other Information

EXPECTED DEVELOPMENT OF THE GROUP OF EP INFRASTRUCTURE, A.S. (“EPIF GROUP” OR “GROUP”)

In 2018, the EPIF Group intends to continue to develop its activities in all its segments, i.e. predominantly in the segments of gas transmission, gas and power distribution, heating and gas storage.

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

OTHER INFORMATION ABOUT SUBSEQUENT EVENTS THAT OCCURRED AFTER THE REPORTING DATE

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

In 2018 EPIF has been assigned investment grade ratings from three major rating agencies. These ratings were issued by S&P Global Ratings (Preliminary BBB), Moody’s (Baa 3) and Fitch Ratings (Preliminary BBB-), all with a stable outlook.

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

BRANCHES

The EPIF Group has no organizational unit (with the exception of the EP ENERGY TRADING, a.s., organizačná zložka located in Slovakia) or another branch abroad.

RESEARCH AND DEVELOPMENT ACTIVITIES

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

ACQUISITION OF OWN SHARES OR OWN OWNERSHIP INTERESTS

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

RISK MANAGEMENT POLICIES

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

INFORMATION ON ENVIRONMENTAL PROTECTION ACTIVITIES AND EMPLOYMENT RELATIONS

In 2017, the EPIF Group continued to be very active in terms of environmental protection. The companies within the EPIF 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 EPIF Group activities are regulated by a number of environmental regulations in the Czech Republic, Slovakia and Hungary. These include regulations governing the discharge of pollutants, the handling of hazardous substances and their disposal, cleaning of contaminated sites and health and safety of employees. For example, the EPIF Group is subject to regulations imposing strict limits on emissions of CO_2, sulphur oxides (SO_x), nitrogen oxides (NO_x), carbon monoxide (CO) and solid dust particles emissions (SDP).

Although the EPIF 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 EPIF. This affects not only the activities for which EPIF seeks to minimize their impact on the environment but also investment activities.

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

For example, Plzeňská energetika a.s. has invested into the modernization of technology of the control system on K3 boiler, installation of the new block transformer TG9, increased performance of TG10 boiler or new hot water distribution and connection.

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

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

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

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

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

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

2017 was a significant year for NAFTA in terms of exploration activities. Around the city of Trnava, NAFTA worked alongside a partner from the group Vermilion Energy Inc. to carry out 3D seismic measurements on about 250 square kilometers of land. 3D seismic measurement is a safe and sophisticated technique for geological exploration normally used globally to determine an area’s geological structure. The measured data will be evaluated during 2018 to obtain a detailed picture of the geological structure to a depth of several kilometers. The geological data to be acquired will have lasting value and be utilized over forthcoming decades.

NAFTA also continued its standard investment activities in Western Slovakia, it put the well Studienka 81 into operation and also installed a compressor at the Závod Gas Gathering Station to enable further rational production from that reservoir. Streamlining production from reserves is one way NAFTA is endeavoring to expand hydrocarbon production in Slovakia.

Attention was focused in East Slovakia on renovation of operations, which included reconstruction of the boiler at the Senné Gas Gathering Station and the addition of an auxiliary cooling system at the Ptrukša Gas Gathering Station.

In 2017, NAFTA also actively worked on well workovers, concentrating on geological workovers of three wells in western Slovakia and four wells in eastern Slovakia, all with the aim of keeping potential reserves on existing reservoirs. It performed 28 underground technical workovers at NAFTA's production and storage wells. The company's know-how in workovers is being utilized both for its own development and outsourced to external partners inside and outside Slovakia. In the past year, more than 20 underground workovers have been made for external customers. NAFTA's quality and professionalism in the area of workovers was also confirmed by ISO certification for these services, which was acquired in 2017.

The companies of the EPIF Group have a municipal waste collection system established. Recycling, reuse of material, composting are preferred over landfilling, which greatly contributes to reducing the production of waste and even has economic benefits. For example, United Energy, a.s. is entitled to use the label of Ecological firm for its responsible approach to the environment, used product take-back and waste sorting.

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

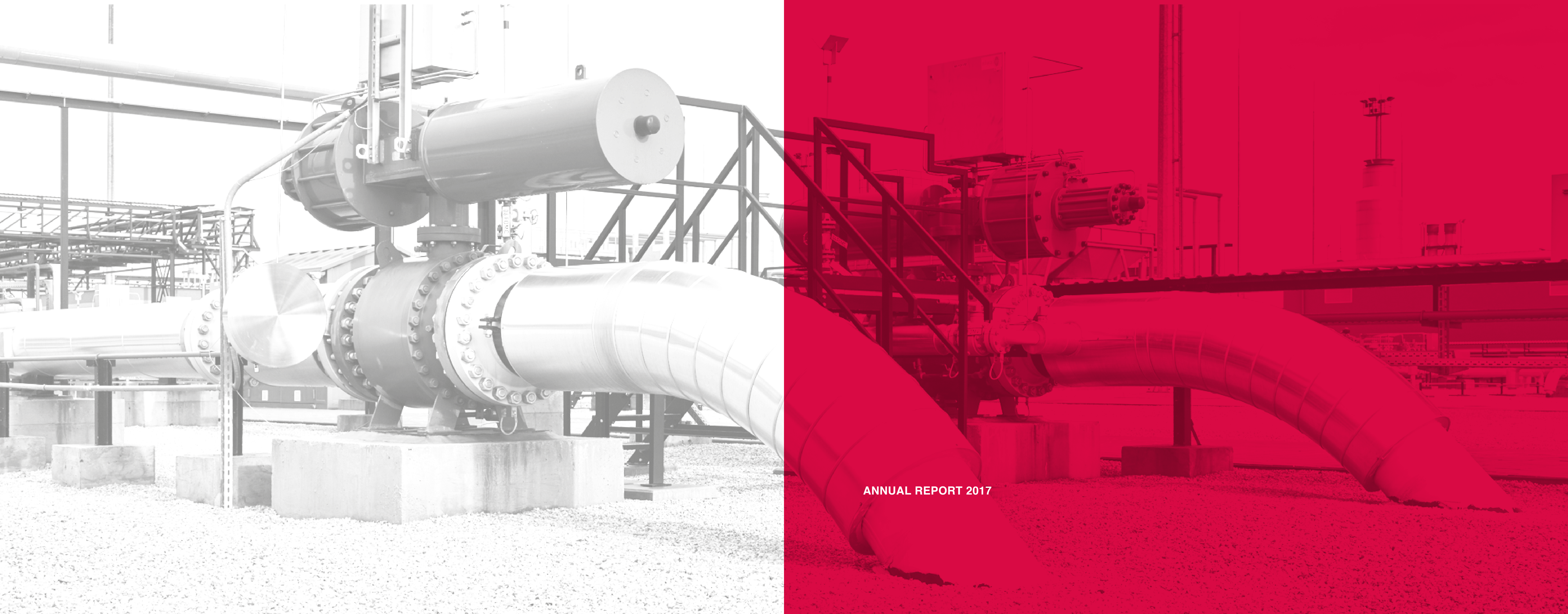
In 2017, no reportable damage or harm was caused to the environment during the performance of the EPIF Group business activities.

EMPLOYMENT RELATIONS

The main strengths of the EPIF Group include good relationships with employees and their loyalty. The Group maintains good and fair relations with the trade unions within the Group companies through regular meetings and discussions on labour, social and wage related issues. Safety and quality management covers health protection at work, safety management systems, technology and human resources all of which are an integral part of the management of the EPIF Group. The management believes that the EPIF Group, its companies and equipment are in compliance with all legislative requirements and best practice methods. Moreover, they are constantly striving to improve the safety level of the Group's activities by introducing measures focused on risk assessment, elimination, mitigation and prevention. The EPIF Group also provides general training programs on employee safety and when selecting or assessing potential suppliers the Group also takes into account their approach and attitude towards security issues.

EP Infrastructure

Report on relations



Report on relations

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

–

prepared by the board of directors of **EP Infrastructure, a.s.** (“the Company”), with its registered office at Pařížská 130/26, Josefov, 110 00 Praha 1, ID No.: 024 13 507, 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 2017 accounting period.

II. STRUCTURE OF RELATIONS BETWEEN THE ENTITIES

CONTROLLED ENTITY

The controlled entity is EP Infrastructure, a.s., with its registered office at Pařížská 130/26, Josefov, 110 00 Praha 1, ID No.: 024 13 507, recorded in the Commercial Register maintained by the Municipal Court in Prague, section B, insert 21608.

DIRECTLY CONTROLLING ENTITIES

EPIF Investments a.s.
Registered office: Pařížská 130/26, Josefov,
110 00 Praha 1, Czech Republic
Reg. No.: 05711452

INDIRECTLY CONTROLLING ENTITIES

Energetický a průmyslový holding, a.s.
Registered office: Pařížská 130/26, Josefov,
110 00 Praha 1, Czech Republic
Reg. No.: 28356250

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

OTHER CONTROLLED ENTITIES

The companies controlled by the same controlling entities are disclosed in note 37 to the controlling entity’s consolidated financial statements.

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

ROLE OF THE CONTROLLED ENTITY

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

METHOD AND MEANS OF CONTROL

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

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

In 2017, no actions were taken at the initiative or in the interest of the controlling entity that would concern assets exceeding 10% of the controlled entity’s equity as determined from the most recent financial statements.

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

V. 1. 1. IN 2017, THE FOLLOWING LOAN AGREEMENTS WERE EFFECTIVE:

On 16 March 2016, a loan agreement was signed by and between EP Infrastructure, a.s. as the creditor and Slovak Gas Holding B.V. as the debtor.

On 15 March 2017, a loan agreement was signed by and between EP Infrastructure, a.s. as the creditor and EPH Gas Holding B.V. as the debtor.

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

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

On 19 June 2017, a loan agreement was signed by and between EP Infrastructure, a.s. as the creditor and EPH Gas Holding B.V., a.s. as the debtor.

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

V. 1. 3. IN 2017, THE FOLLOWING AGREEMENTS ON THE SET-OFF OF RECEIVABLES AND PAYABLES WERE CONCLUDED:

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

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

V. 1. 4. IN 2017, THE FOLLOWING OPERATING AGREEMENTS WERE EFFECTIVE:

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

An agreement on controlling and analytical advisory services signed by and between Elektrárny Opatovice, a.s. and EP Infrastructure, a.s. on 30 March 2017;

An agreement on controlling and analytical advisory services signed by and between EP Cargo a.s. and EP Infrastructure, a.s. on 30 March 2017;

An agreement on controlling and analytic advisory signed by and between EP ENERGY TRADING, a.s. and EP Infrastructure, a.s. on 30 March 2017;

An agreement on controlling and analytical advisory services signed by and between Plzeňská energetika, a.s. and EP Infrastructure, a.s. on 30 March 2017;

An agreement on controlling and analytical advisory services signed by and between EP Sourcing, a.s. and EP Infrastructure, a.s. on 30 March 2017;

An agreement on controlling and analytical advisory services signed by and between United Energy, a.s. and EP Infrastructure, a.s. on 30 March 2017;

An agreement on controlling and analytical advisory services signed by and between Pražská teplárenská, a.s. and EP Infrastructure, a.s. on 19 December 2017;

An agreement on providing professional assistance signed by and between Pražská teplárenská a.s. and EP Infrastructure, a.s. on 1 April 2017;

An agreement on providing professional assistance signed by and between Plzeňská energetika a.s. and EP Infrastructure, a.s. on 3 April 2017;

An agreement on providing professional assistance signed by and between Severočeská teplárenská, a.s. and EP Infrastructure, a.s. on 3 April 2017;

An agreement on providing professional assistance signed by and between Elektrárny Opatovice, a.s. and EP Infrastructure, a.s. on 3 April 2017;

An agreement on providing professional assistance signed by and between United Energy, a.s. and EP Infrastructure, a.s. on 3 April 2017;

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

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

Except for the above mentioned, no other agreements were entered into by and between EP Infrastructure, a.s. and related entities, and no supplies or considerations were provided between EP Infrastructure, a.s. and related entities.

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

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

The receivables and payables of EP Infrastructure, a.s. from/to related parties as at 31 December 2017 are disclosed in the notes to the consolidated financial statements, which form part of the annual report.

VI.

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

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

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

In addition, the board of directors of EP Infrastructure, a.s. declares that EP Infrastructure, 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 EP Infrastructure, a.s.

Prague, 28 March 2018

Daniel Křetínský

Chairman of the Board of Directors

Pavel Horský

Member of the Board of Directors

EP Infrastructure

Consolidated Financial Statements and Notes to the Consolidated Financial Statements

ANNUAL REPORT 2017

EP Infrastructure

Consolidated Financial Statements
as of and for the year ended 31 December 2017

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

Consolidated statement of comprehensive income

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

	Note	2017	2016
Continuing operations			
Sales: Energy	7	3,083	3,093
of which: Gas		*1,430*	*1,419*
Electricity		*1,299*	*1,292*
Heat		*341*	*355*
Coal		*13*	*27*
Sales: Other	7	27	30
Gain (loss) from commodity derivatives for trading with electricity and gas, net		(6)	1
Total sales		**3,104**	**3,124**
Cost of sales: Energy	8	(1,307)	(1,425)
Cost of sales: Other	8	(21)	(25)
Total cost of sales		**(1,328)**	**(1,450)**
Subtotal		**1,776**	**1,674**
Personnel expenses	9	(207)	(204)
Depreciation and amortisation	16, 17	(345)	(383)
Repairs and maintenance		(7)	(7)
Emission rights, net	10	(20)	(13)
Taxes and charges	11	(8)	(7)
Other operating income	12	48	39
Other operating expenses	13	(73)	(89)
Profit (loss) from operations		**1,164**	**1,010**
Finance income	14	4	19
Finance expense	14	(183)	(225)
Profit (loss) from financial instruments	14	(5)	(14)
Net finance income (expense)		**(184)**	**(220)**
Share of profit (loss) of equity accounted investees, net of tax	18	(7)	7
Gain (loss) on disposal of subsidiaries, joint-ventures and associates	6	-	60
Profit (loss) before income tax		**973**	**857**
Income tax expenses	15	(284)	(189)
Profit (loss) from continuing operations		**689**	**668**
Discontinued operations			
Profit (loss) from discontinued operations, net of tax	24	-	22
Profit (loss) for the year		**689**	**690**

	Note	2017	2016
Other comprehensive income			
Items that are or may be reclassified subsequently to profit or loss:			
Foreign currency translation differences for foreign operations	15	(69)	9
Foreign currency translation differences from presentation currency	15	72	(5)
Effective portion of changes in fair value of cash-flow hedges, net of tax	15	42	(49)
Fair value reserve included in other comprehensive income, net of tax	15	-	(2)
Other comprehensive income for the year, net of tax		**45**	**(47)**
Total comprehensive income for the year		**734**	**643**
Profit (loss) attributable to:			
Owners of the Company			
Profit (loss) for the year from continuing operations		318	301
Profit (loss) for the year from discontinued operations		-	22
Profit (loss) for the year attributable to owners of the company		**318**	**323**
Non-controlling interest			
Profit (loss) for the year from continuing operations	27	371	367
Profit (loss) for the year from discontinued operations		-	-
Profit (loss) for the year attributable to non-controlling interest		**371**	**367**
Profit (loss) for the year		**689**	**690**
Total comprehensive income attributable to:			
Owners of the Company		357	301
Non-controlling interest		377	342
Total comprehensive income for the year		**734**	**643**
Basic and diluted earnings per share in EUR – continuing operations	26	**0,98**	**0.94**
Basic and diluted earnings per share in EUR	26	**0,98**	**1.00**

The notes presented on pages 46 to 159 form an integral part of these consolidated financial statements.

Consolidated statement of financial position

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

	Note	31 December 2017	31 December 2016
Assets			
Property, plant and equipment	16	6,592	6,707
Intangible assets	17	129	150
Goodwill	17	104	98
Equity accounted investees	18	1	72
Financial instruments and other financial assets	31	14	5
of which receivables from the parent company		-	-
Trade receivables and other assets	21	76	15
Deferred tax assets	19	2	-
Total non-current assets		**6,918**	**7,047**
Inventories	20	219	228
Trade receivables and other assets	21	446	377
Financial instruments and other financial assets	31	284	23
of which receivables from the parent company		-	-
Prepayments and other deferrals		12	7
Tax receivables	23	25	25
Cash and cash equivalents	22	584	729
Restricted cash		1	1
Assets/disposal groups held for sale	24	5	5
Total current assets		**1,576**	**1,395**
Total assets		**8,494**	**8,442**
Equity			
Share capital	25	2,988	2,988
Share premium		8	8
Reserves	25	(3,892)	(3,931)
Retained earnings		587	980
Total equity attributable to equity holders		**(309)**	**45**
Non-controlling interest	27	1,497	1,627
Total equity		**1,188**	**1,672**

	Note	31 December 2017	31 December 2016
Liabilities			
Loans and borrowings	28	4,510	4,863
of which owed to the parent company		-	-
Financial instruments and financial liabilities	31	22	41
Provisions	29	139	135
Deferred income	30	195	99
Deferred tax liabilities	19	990	989
Trade payables and other liabilities	32	29	22
Total non-current liabilities		**5,885**	**6,149**
Trade payables and other liabilities	32	629	466
Loans and borrowings	28	671	55
of which owed to the parent company		-	-
Financial instruments and financial liabilities	31	27	13
Provisions	29	52	36
Deferred income	30	18	23
Current income tax liability		23	27
Liabilities from disposal groups held for sale	24	1	1
Total current liabilities		**1,421**	**621**
Total liabilities		**7,306**	**6,770**
Total equity and liabilities		**8,494**	**8,442**

The notes presented on pages 46 to 159 form an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

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

	Attributable to owners of the Company												
	Share capital	**Share premium**	**Other capital funds from capital contributions**	**Other capital funds**	**Non-distributable reserves**	**Translation reserve**	**Fair value reserve**	**Hedging reserve**	**Other capital reserves**	**Retained earnings**	**Total**	**Non-controlling interest**	**Total Equity**
Balance at 1 January 2017 (A)	**2,988**	**8**	**23**	**689**	**1**	**(63)**	**(1)**	**(54)**	**(4,526)**	**980**	**45**	**1,627**	**1,672**
Total comprehensive income for the year:													
Profit or loss (B)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**318**	**318**	**371**	**689**
Other comprehensive income:													
Foreign currency translation differences for foreign operations	-	-	-	-	-	2	-	-	-	-	**2**	(71)	**(69)**
Foreign currency translation differences from presentation currency	-	-	-	-	-	(4)	-	-	-	-	**(4)**	76	**72**
Effective portion of changes in fair value of cash flow hedges, net of tax	-	-	-	-	-	-	-	41	-	-	**41**	1	**42**
Total other comprehensive income (C)	-	-	-	-	**-**	**(2)**	**-**	**41**	**-**	**-**	**39**	**6**	**45**
Total comprehensive income for the year (D) = (B + C)	-	-	-	-	**-**	**(2)**	**-**	**41**	**-**	**318**	**357**	**377**	**734**
Contributions by and distributions to owners:													
Dividends to equity holders	-	-	-	-	-	-	-	-	-	(675)	**(675)**	(434)	**(1,109)**
Total contributions by and distributions to owners (E)	-	-	-	-	**-**	**-**	**-**	**-**	**-**	**(675)**	**(675)**	**(434)**	**(1,109)**
Changes in ownership interests in subsidiaries:													
Effect of changes in shareholding on non-controlling interests	-	-	-	-	-	-	-	-	-	(36)	**(36)**	(73)	**(109)**
Total changes in ownership interests in subsidiaries (F)	-	-	-	-	-	**-**	**-**	**-**	**-**	**(36)**	**(36)**	**(73)**	**(109)**
Total transactions with owners (G) = (E + F)	-	-	-	-	-	**-**	**-**	**-**	**-**	**(711)**	**(711)**	**(507)**	**(1,218)**
Balance at 31 December 2017 (H) = (A + D + G)	**2,988**	**8**	**23**	**689**	**1**	**(65)**	**(1)**	**(13)**	**(4,526)**	**587**	**(309)**	**1,497**	**1,188**

The notes presented on pages 46 to 159 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	Other capital funds from capital contributions	Other capital funds	Non-distributable reserves	Translation reserve	Fair value reserve	Hedging reserve	Other capital reserves	Retained earnings	Total	Non-controlling interest	Total Equity
Balance at 1 January 2016 (A)	**-**	**-**	**23**	**689**	**1**	**(46)**	**(14)**	**(31)**	**(935)**	**999**	**686**	**1,864**	**2,550**
Total comprehensive income for the year:													
Profit or loss (B)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**323**	**323**	**367**	**690**
Other comprehensive income:													
Foreign currency translation differences for foreign operations	-	-	-	-	-	4	-	-	-	-	**4**	5	**9**
Foreign currency translation differences from presentation currency	-	-	-	-	-	(2)	-	-	-	-	**(2)**	(3)	**(5)**
Fair value reserve included in other comprehensive income, net of tax	-	-	-	-	-	-	(1)	-	-	-	**(1)**	(1)	**(2)**
Effective portion of changes in fair value of cash flow hedges, net of tax	-	-	-	-	-	-	-	(23)	-	-	**(23)**	(26)	**(49)**
Total other comprehensive income (C)	**-**	**-**	**-**	**-**	**-**	**2**	**(1)**	**(23)**	**-**	**-**	**(22)**	**(25)**	**(47)**
Total comprehensive income for the year (D) = (B + C)	**-**	**-**	**-**	**-**	**-**	**2**	**(1)**	**(23)**	**-**	**323**	**301**	**342**	**643**
Contributions by and distributions to owners:													
Increase in share capital	2,988	8	-	-	-	-	-	-	-	-	**2,996**	-	**2,996**
Dividends to equity holders	-	-	-	-	-	-	-	-	-	(347)	**(347)**	(568)	**(915)**
Total contributions by and distributions to owners (E)	**2,988**	**8**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(347)**	**2,649**	**(568)**	**2,081**
Changes in ownership interests in subsidiaries:													
Effect of disposed entities (Note 6)	-	-	-	-	-	(19)	14	-	-	5	**-**	(11)	**(11)**
Effect of acquisitions under common control	-	-	-	-	-	-	-	-	(3,591)	-	**(3,591)**	-	**(3,591)**
Total changes in ownership interests in subsidiaries (F)	**-**	**-**	**-**	**-**	**-**	**(19)**	**14**	**-**	**(3,591)**	**5**	**(3,591)**	**(11)**	**(3,602)**
Total transactions with owners (G) = (E + F)	**2,988**	**8**	**-**	**-**	**-**	**(19)**	**14**	**-**	**(3,591)**	**(342)**	**(942)**	**(579)**	**(1,521)**
Balance at 31 December 2016 (H) = (A + D + G)	**2,988**	**8**	**23**	**689**	**1**	**(63)**	**(1)**	**(54)**	**(4,526)**	**980**	**45**	**1,627**	**1,672**

The notes presented on pages 46 to 159 form an integral part of these consolidated financial statements.

Consolidated statement of cash flows

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

	Note	2017	2016
OPERATING ACTIVITIES			
Profit (loss) for the year		689	690
Adjustments for:			
Income taxes	15	284	189
Depreciation and amortisation	16, 17	345	383
Dividend income	14	(3)	(1)
Impairment losses on property, plant and equipment, intangible assets and financial assets		-	12
Non-cash (gain) from commodity derivatives for trading with electricity and gas, net		1	(2)
(Gain) on disposal of property, plant and equipment, investment property and intangible assets	13	(11)	(3)
(Gain) loss on disposal of inventories		(1)	-
Emission rights	10	20	13
Gain on disposal of subsidiaries, joint-ventures, associates and non-controlling interests	6, 18	-	(60)
Share of (profit) loss of equity accounted investees	18	7	(7)
Loss on financial instruments	14	5	14
Net interest expense	14	170	210
Change in allowance for impairment to trade receivables and other assets, write-offs		3	8
Change in provisions		4	(2)
Other finance fees, net	14	5	3
Revenue from released deferred earn-out	14	-	(6)
Discontinued operations		-	(22)
Unrealised foreign exchange (gains) losses, net	14	20	-
Operating profit before changes in working capital		**1,538**	**1,419**
Change in trade receivables and other assets		(143)	(15)
Change in inventories (including proceeds from sale)		8	7
Change in assets held for sale		-	(596)
Change in liabilities linked to assets held for sale		(1)	525
Change in trade payables and other liabilities		90	65
Change in restricted cash		-	250
Cash generated from (used in) operations		**1,492**	**1,655**
Interest paid		(170)	(167)
Income taxes paid		(307)	(277)
Cash flows generated from (used in) operating activities		**1,015**	**1,211**

	Note	2017	2016
INVESTING ACTIVITIES			
Dividends received, other		3	1
Purchase of financial instruments		-	(22)
Change in financial instruments not at fair value		-	1
Loans provided to the owners		(428)	(155)
Loans provided to the other entities		(2)	(1)
Repayment of loans provided to other entities		-	6
Repayment of loans from discontinued operations		-	302
Proceeds (outflows) from sale (settlement) of financial instruments		(12)	21
Acquisition of property, plant and equipment, investment property and intangible assets	16, 17	(145)	(193)
Purchase of emission rights	17	(19)	(9)
Proceeds from sale of emission rights		-	1
Proceeds from sale of property, plant and equipment, investment property and other intangible assets		32	13
Acquisition of subsidiaries, joint-ventures and associates, net of cash acquired	22, 6	24	(56)
Net cash inflow from disposal of subsidiaries, joint-ventures and associates	6	-	79
Net cash inflow from disposal of discontinued operations	6	-	156
Increase (decrease) in participation in existing subsidiaries, special purpose entities, joint-ventures and associates.	6	(108)	-
Interest received		1	12
Cash flows from (used in) investing activities		**(654)**	**156**
FINANCING ACTIVITIES			
Contribution to equity from shareholders		-	54
Proceeds from loans received		393	1,641
Repayment of borrowings		(99)	(1,411)
Proceeds from bonds issued, net of transaction fees		-	-
Repayment of bonds issued		-	(378)
Finance fees paid from repayment of borrowings		(7)	(58)
Payment of finance lease liabilities		(4)	-
Other financing cash flow		-	(10)
Dividends paid		(799)	(860)
Cash flows from (used in) financing activities		**(516)**	**(1,022)**
Net increase (decrease) in cash and cash equivalents		(155)	345
Cash and cash equivalents at beginning of the year		**729**	**384**
Effect of exchange rate fluctuations on cash held		10	-
Cash and cash equivalents at end of the year		**584**	**729**

The notes presented on pages 46 to 159 form an integral part of these consolidated financial statements.

Notes to the consolidated financial statements

1. Background

EP Infrastructure, a.s. (the “Parent Company” or the “Company” or “EPIF” or “infrastructure subholding”) is a joint-stock company, with its registered office at Pařížská 130/26, 110 00 Praha 1, Czech Republic. The Company was founded by Energetický a průmyslový holding, a.s. (“EPH”) on 6 December 2013 as at that time a subsidiary that will hold/consolidate investments in entities belonging to the energy segment of Energetický a průmyslový holding, a.s. and its subsidiaries (the “EPH Group”).

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

The main activities of the EPIF Group are natural gas transmission, gas and power distribution and supply, gas storage and heat production and distribution.

On 10 March 2016 the Company’s shareholder decided to issue new shares. This issue of shares increased share capital of the Company by EUR 54 million. On 20 April 2016 the share capital of the Company was increased by EUR 2,934 million by a non-cash consideration in the form of shares in Czech Gas Holding Investment B.V. and EPH Gas Holding B.V.

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 where at the end of the transaction Daniel Křetínský (94%) and selected members of the existing management of EPH (6%), became sole owners of EPH.

The consolidated financial statements of the Company for the year ended 31 December 2017 include the statements of the Parent Company and its subsidiaries and the Group’s interests in associates and joint-ventures (together referred to as the “Group” or the “EPIF Group”). The Group entities are listed in Note 37 – Group entities.

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

	Interest in share capital		Voting rights
	MEUR	%	%
EPIF Investments a.s.	2,062	69.00	69.00
CEI INVESTMENTS S.a.r.l.	926	31.00	31.00
Total	**2,988**	**100.00**	**100.00**

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

	Interest in share capital		Voting rights
	MEUR	%	%
Energetický a průmyslový holding, a.s.	2,988	100.00	100.00
Total	**2,988**	**100.00**	**100.00**

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

- Daniel Křetínský (Chairman of the Board of Directors)
- Jiří Zrůst (Vice-chairman of the Board of Directors)
- Gary Mazzotti (Vice-chairman of the Board of Directors)
- Stéphane Louis Brimont (Member of the Board of Directors)
- Marek Spurný (Member of the Board of Directors)
- Pavel Horský (Member of the Board of Directors)
- Milan Jalový (Member of the Board of Directors)

Information relating to the establishment of the parent company Energetický a průmyslový holding, a.s. and its shareholder structure was disclosed in the 2010 consolidated financial statements of Energetický a průmyslový holding, a.s. published on 20 May 2011.

As the Company was established by its parent Energetický a průmyslový holding, a.s. under the common control principle (refer to Note 3 – Significant Accounting Policies), the Company opted to present the contributed entities as if sold by EPH to the Company on the date when the respective entities were acquired by the EPH Group or were contributed to the EPH Group.

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

2. Basis of preparation

A STATEMENT OF COMPLIANCE

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

The consolidated financial statements were approved by the board of directors on 28 March 2018.

B BASIS OF MEASUREMENT

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

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

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

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

C FUNCTIONAL AND PRESENTATION CURRENCY

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

D USE OF ESTIMATES AND JUDGMENTS

The preparation of financial statements in accordance with International Financial Reporting Standards requires the use of certain critical accounting estimates that affect the reported amounts of assets, liabilities, income and expenses. It also requires management to exercise judgment in the process of applying the Company's accounting policies. The resulting accounting estimates will, by definition, seldom equal the related actual results.

Estimates and assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

I. ASSUMPTIONS AND ESTIMATION UNCERTAINTIES

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

- Notes 6 and 17 – Accounting for business combinations, recognition of goodwill/negative goodwill, impairment testing of goodwill,
- Note 7 – Revenues,
- Note 29 – Recognition and measurement of provisions,
- Notes 28, 31 and 35 – Valuation of loans and borrowings and financial instruments,
- Note 38 – Litigations.

MEASUREMENT OF FAIR VALUES

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

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

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

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

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

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

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

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

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

II. JUDGEMENTS

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

- Notes 6 and 17 – accounting for business combinations, recognition of goodwill/negative goodwill, impairment testing of goodwill,
- Note 16 – assessment that IFRIC 12 is not applicable to the gas pipeline, transportation and distribution networks
- Note 29 – recognition and measurement of provisions.

E RECENTLY ISSUED ACCOUNTING STANDARDS

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

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

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

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

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

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

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

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

II. STANDARDS NOT YET EFFECTIVE

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- Classification of financial assets – under IFRS 9, the Group will classify financial assets into amortized cost, FTOCI or FVTPL category. The new classification requirements will not have a material impact on accounting for trade receivables, loans at amortized cost, derivatives managed on a fair value basis. Investments in equity instruments classified as available for sale under IFRS 9 will be designated as FVOCI with fair value gains and losses reported in OCI.
- Classification of financial liabilities – under IFRS 9, the Group will classify financial liabilities into amortized cost or FVTPL category. The new classification requirements will not have any impact on accounting of financial liabilities of the Group.
- Impairment of financial assets – the new impairment model will include expected credit losses based on forward looking information and will apply to financial assets measured at amortized cost and debt instruments FVOCI. The Group estimates that adjusted impairment model will increase slightly loss allowance for trade receivables and loans at amortized costs. Based on the performed analysis the overall impact on the financial statements will not be material. There is no estimated material effect to the opening balance of the Group's equity as at 1 January 2018.
- Hedge accounting – for hedge accounting, the Group has chosen to apply requirements of IFRS 9 from 1 January 2018. The Group confirmed that current hedge accounting relationships will meet the requirements of IFRS 9 and are aligned with the Group's risk management strategy and objectives.
- Disclosures – new disclosure requirements will change the nature and extent of the Group's disclosures about financial instruments.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

3. Significant Accounting Policies

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

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

A BASIS OF CONSOLIDATION

I. SUBSIDIARIES

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

II. EQUITY ACCOUNTED INVESTEES

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

III. ACCOUNTING FOR BUSINESS COMBINATIONS

The Group acquired its subsidiaries in two ways:

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

IV. NON-CONTROLLING INTERESTS

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

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

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

V. TRANSACTIONS ELIMINATED ON CONSOLIDATION

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

VI. UNIFICATION OF ACCOUNTING POLICIES

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

VII. PRICING DIFFERENCES

The Group accounted for pricing differences which arose from the acquisition of subsidiaries from Energetický a průmyslový holding, a.s. or subsidiaries contributed to the share capital of the Company by Energetický a průmyslový holding, a.s. As these acquired or contributed entities were under common control of Energetický a průmyslový holding, a.s., they were therefore excluded from the scope of IFRS 3, which defines recognition of goodwill raised from business combination as the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets, liabilities and contingent liabilities of the acquired subsidiary. Acquirees under common control are treated under the net book value presented in the consolidated financial statements of Energetický a průmyslový holding, a.s. (i.e. including historical goodwill less potential impairment) as at the date these entities were acquired by Energetický a průmyslový holding, a.s. (acquisition date). The difference between the cost of acquisition and carrying values of net assets of the acquiree and original goodwill carried forward as at the acquisition date were recorded to consolidated equity as pricing differences. Pricing differences are presented in Other capital reserves in Equity. "Note 6 – Acquisitions and contributions of subsidiaries, special purpose entities, joint-ventures and associates" summarises the effects of all common control transactions in both periods.

VIII. DISPOSAL OF SUBSIDIARIES AND EQUITY ACCOUNTED INVESTEES

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

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

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

B FOREIGN CURRENCY

I. FOREIGN CURRENCY TRANSACTIONS

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

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

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

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

A summary of the main foreign exchange rates applicable for the reporting period is presented in Note 35 – Risk management policies and disclosures.

II. FINANCIAL STATEMENTS OF FOREIGN OPERATIONS

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

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

III. TRANSLATION TO PRESENTATION CURRENCY

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

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

C NON-DERIVATIVE FINANCIAL ASSETS

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

I. CLASSIFICATION

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

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

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

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

II. RECOGNITION

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

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

III. MEASUREMENT

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

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

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

IV. GAINS AND LOSSES ON SUBSEQUENT MEASUREMENT

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

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

V. DE-RECOGNITION

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

VI. OFFSETTING OF FINANCIAL ASSETS AND LIABILITIES

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

D NON-DERIVATIVE FINANCIAL LIABILITIES

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

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

E DERIVATIVE FINANCIAL INSTRUMENTS

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

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

OTHER NON-TRADING DERIVATIVES

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

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

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

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

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

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

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

TRANSACTIONS WITH EMISSION RIGHTS AND ENERGY

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

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

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

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

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

F CASH AND CASH EQUIVALENTS

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

G INVENTORIES

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

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

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

H IMPAIRMENT

I. NON-FINANCIAL ASSETS

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

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

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

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

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

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

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

II. FINANCIAL ASSETS (INCLUDING TRADE AND OTHER RECEIVABLES)

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

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

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

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

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

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

I PROPERTY, PLANT AND EQUIPMENT

I. OWNED ASSETS

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

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

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

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

II. LEASED ASSETS

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

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

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

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

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

III. FREE-OF-CHARGE RECEIVED PROPERTY

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

IV. SUBSEQUENT COSTS

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

V. DEPRECIATION

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

The estimated useful lives are as follows:

• Power plant buildings and structures	50–100 years
• Buildings and structures	20–50 years
• Gas pipelines	30–70 years
• Machinery, electric generators, gas producers, turbines and drums	20–30 years
• Distribution network	10–30 years
• Machinery and equipment	4–20 years
• Fixtures, fittings and others	3–20 years

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

J INTANGIBLE ASSETS

I. GOODWILL AND INTANGIBLE ASSETS ACQUIRED IN A BUSINESS COMBINATION

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

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

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

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

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

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

II. RESEARCH AND DEVELOPMENT

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

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

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

III. EMISSION RIGHTS

RECOGNITION AND MEASUREMENT

Emission rights issued by a government are initially recognised at fair values. Where an active market exists fair value should be based on the market price in accordance with IFRS 13. The fair value for allocated emission rights is determined as the price at the date of allocation. Emission rights that are purchased are initially recognised at cost.

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

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

IMPAIRMENT OF EMISSION RIGHTS

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

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

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

RECOGNITION OF GRANTS

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

RECOGNITION, MEASUREMENT OF PROVISION

A provision is recognised regularly during the year based on the estimated number of tonnes of 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 rights on hand as compared to the estimated need exists at the reporting date, then the provision for the shortfall is recorded based on the current market value of the emission certificates at the end of the reporting period.

IV. SOFTWARE AND OTHER INTANGIBLE ASSETS

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

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

V. AMORTISATION

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

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

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

K PROVISIONS

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

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

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

I. EMPLOYEE BENEFITS

LONG-TERM EMPLOYEE BENEFITS

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

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

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

Pension plans

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

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

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

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

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

SHORT-TERM EMPLOYEE BENEFITS

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

II. WARRANTIES

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

III. PROVISION FOR LAWSUITS AND LITIGATIONS

Settlement of a lawsuit represents an individual potential obligation. It is determined as the best estimate of possible outcomes, stated based on a legal study and considering all risks and uncertainty.

IV. PROVISION FOR EMISSION RIGHTS

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

V. RESTRUCTURING

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

VI. ASSET RETIREMENT OBLIGATION AND PROVISION FOR ENVIRONMENTAL REMEDIATION

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

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

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

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

Rehabilitation provisions are recognised for the following restoration activities:

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

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

VII. ONEROUS CONTRACTS

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

L REVENUE

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

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

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

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

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

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

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

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

Other revenues represent revenues from non-energy activities.

REVENUES FROM SALE OF ELECTRICITY, HEAT AND GAS

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

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

ENERGY TRADING

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

II. GOVERNMENT GRANTS

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

III. REVENUES FROM FREE-OF-CHARGE PROPERTY

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

IV. RENTAL INCOME

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

M FINANCE INCOME AND COSTS

I. FINANCE INCOME

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

II. FINANCE COSTS

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

III. BORROWING COSTS

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

N INCOME TAXES

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

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

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

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

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

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

O DIVIDENDS

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

P NON-CURRENT ASSETS HELD FOR SALE AND DISPOSAL GROUPS

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

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

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

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

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

Q SEGMENT REPORTING

Due to the fact that the Group has 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 INVENTORIES

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

D NON-DERIVATIVE FINANCIAL ASSETS

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

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

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

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

E NON-DERIVATIVE FINANCIAL LIABILITIES

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

F DERIVATIVES

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

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

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

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

5. Operating segments

The Group operates in five reportable segments under IFRS 8: Gas transmission, Gas and power distribution, Gas storage, Heat Infra and Other.

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 ("EBITDA") and capital expenditures.

I. GAS TRANSMISSION

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 as the contract do not give flexibility to the Group that has always to provide its capacity to the customer. Revenue is recognised based on the contract (fixed element) and based on actual transmitted volume which drives the amount of gas-in-kind received from the shippers (see below).

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

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

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

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

Because of the contractual nature of the shipping arrangement with the Russian gas supplier, management carefully assessed the contractual conditions with the view of whether the contract includes any significant lease arrangement as per IFRIC 4, which could lead to a derecognition of the transmission pipelines.
As there is no indication that the Russian gas supplier is in control of the asset and there are several other shippers using the asset, management concluded that no material indications of such leasing relationship were noted and that the transmission pipeline should be recognised in eustream's fixed assets.

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 distribučná, a.s. (further “SSD”) and EP ENERGY TRADING, a.s.

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

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

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

III. GAS STORAGE

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

The 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, and three CHPs in Hungary, represented by Budapesti Erömü Zrt., which is supplying the City of Budapest. The heat generated in its co-generation power plants is supplied mainly

to retail customers through well maintained and robust district heating systems that the Group owns in most of the cases. Czech based heat supply is regulated in a way of cost plus a reasonable profit margin while the Hungarian operations are regulated using the standard RAB multiplied by WACC plus eligible operating expenditures and allowed depreciation formula. EP Sourcing, a.s. (former EP Coal Trading, a.s.) and EP Cargo a.s., as main suppliers of the above mentioned entities, are also included in this segment.

V. OTHER

The Other segment owns and operates three solar power plants and holds a minority interest in an additional solar power plant and a majority interest in one wind farm in the Czech Republic. The Group also runs two solar power plants in Slovakia, and a biogas facility in Slovakia. In 2016 the Other segment also included Mitteldeutsche Braunkohlengesellschaft GmbH (MIBRAG), Saale Energie GmbH and Helmstedter Revier GmbH, which were classified as discontinued operations and disposed in 2016. Profit (loss) from activities related to these entities is presented under line Profit (loss) from discontinued operations (net of tax).

VI. HOLDING

The Holding segment mainly represents 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. and Czech Gas Holding Investment B.V. The segment profit therefore primarily represents dividends received from its subsidiaries, finance expense and results from acquisition accounting or disposals of subsidiaries and associates.

PROFIT OR LOSS

FOR THE YEAR ENDED 31 DECEMBER 2017

In millions of EUR

	Gas trans-mission	Gas and power distribu-tion	Gas storage	Heat Infra	Other	Total seg-ments	Holding	Inter-segment elimina-tions	Con-solidated financial informa-tion
Sales: Energy	755	1,771	185	556	5	3,272	-	(189)	3,083
external revenues	*707*	*1,757*	*150*	*464*	*5*	*3,083*	-	-	*3,083*
inter-segment revenues	*48*	*14*	*35*	*92*	-	*189*	-	*(189)*	-
Sales: Other	-	7	-	16	4	27	-	-	27
external revenues	-	*7*	-	*16*	*4*	*27*	-	-	*27*
inter-segment revenues	-	-	-	-	-	-	-	-	-
Gain (loss) from commodity derivatives for trading with electricity and gas, net	-	(6)	-	-	-	(6)	-	-	(6)
Total sales	**755**	**1,772**	**185**	**572**	**9**	**3,293**	**-**	**(189)**	**3,104**
Cost of sales: Energy	(47)	(1,105)	(18)	(326)	-	(1,496)	-	189	(1,307)
external cost of sales	*(43)*	*(934)*	*(17)*	*(313)*	-	*(1,307)*	-	-	*(1,307)*
inter-segment cost of sales	*(4)*	*(171)*	*(1)*	*(13)*	-	*(189)*	-	*189*	-
Cost of sales: Other	-	(1)	-	(17)	(3)	(21)	-	-	(21)
external cost of sales	-	*(1)*	-	*(17)*	*(3)*	*(21)*	-	-	*(21)*
inter-segment cost of sales	-	-	-	-	-	-	-	-	-
Personnel expenses	(29)	(94)	(22)	(58)	(1)	(204)	(3)	-	(207)
Depreciation and amortisation	(88)	(163)	(19)	(72)	(3)	(345)	-	-	(345)
Repairs and maintenance	(1)	(4)	-	(2)	-	(7)	-	-	(7)
Emission rights, net	-	-	-	(20)	-	(20)	-	-	(20)
Taxes and charges	(1)	(1)	(3)	(3)	-	(8)	-	-	(8)
Other operating income	2	18	4	23	2	49	-	(1)	48
Other operating expenses	(15)	(34)	(2)	(12)	(2)	(65)	(9)	1	(73)
Operating profit	**576**	**388**	**125**	**85**	**2**	**1,176**	**(12)**	**-**	**1,164**

	Gas trans-mission	Gas and power distribu-tion	Gas storage	Heat Infra	Other	Total seg-ments	Holding	Inter-segment elimina-tions	Con-solidated financial informa-tion
Finance income	3	1	4	2	-	10	*1,014	*(1,020)	4
external finance revenues	*2*	*1*	-	*1*	-	*4*	-	-	*4*
inter-segment finance revenues	*1*	-	*4*	*1*	-	*6*	**1,014*	**(1,020)*	-
Finance expense	(44)	(19)	(7)	(8)	(2)	(80)	(182)	79	(183)
Profit (loss) from derivative financial instruments	-	(2)	(2)	1	-	(3)	(2)	-	(5)
Share of profit (loss) of equity accounted investees, net of tax	-	(1)	(3)	-	-	(4)	(3)	-	(7)
Gain (loss) on disposal of subsidiaries, special purpose entities, joint ventures and associates	-	-	-	-	-	-	-	-	-
Profit (loss) before income tax	**535**	**367**	**117**	**80**	**-**	**1,099**	***815**	***(941)**	**973**
Income tax expenses	(147)	(96)	(30)	(13)	-	(286)	2	-	(284)
Profit (loss) for the year before discontinued operations	**388**	**271**	**87**	**67**	**-**	**813**	***817**	***(941)**	**689**
Profit (loss) from discontinued operations	-	-	-	-	-	-	-	-	-
Profit (loss) for the year	**388**	**271**	**87**	**67**	**-**	**813**	***817**	***(941)**	**689**

* EUR 941 million 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.

Other financial information:									
EBITDA(1)	664	551	144	157	5	1,521	(12)	-	1,509

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

Operating segments

FOR THE YEAR ENDED 31 DECEMBER 2016

In millions of EUR

	Gas trans-mission	Gas and power distribu-tion	Gas storage	Heat Infra	Other	Total seg-ments	Holding	Inter-segment elimina-tions	Con-solidated financial informa-tion
Sales: Energy	760	1,691	192	576	5	3,224	-	(131)	3,093
external revenues	*760*	*1,667*	*158*	*503*	*5*	*3,093*	-	-	*3,093*
inter-segment revenues	-	*24*	*34*	*73*	-	*131*	-	*(131)*	-
Sales: Other	-	6	-	18	8	32	-	(2)	30
external revenues	-	*6*	-	*18*	*6*	*30*	-	-	*30*
inter-segment revenues	-	-	-	-	*2*	*2*	-	*(2)*	-
Gain (loss) from commodity derivatives for trading with electricity and gas, net	-	1	-	-	-	1	-	-	1
Total sales	**760**	**1,698**	**192**	**594**	**13**	**3,257**	**-**	**(133)**	**3,124**
Cost of sales: Energy	(39)	(1,158)	(20)	(340)	-	(1,557)	-	132	(1,425)
external cost of sales	*(34)*	*(1,054)*	*(20)*	*(317)*	-	*(1,425)*	-	-	*(1,425)*
inter-segment cost of sales	*(5)*	*(104)*	-	*(23)*	-	*(132)*	-	*132*	-
Cost of sales: Other	-	(2)	1	(19)	(5)	(25)	-	-	(25)
external cost of sales	-	*(2)*	*1*	*(19)*	*(5)*	*(25)*	-	-	*(25)*
inter-segment cost of sales	-	-	-	-	-	-	-	-	-
Personnel expenses	(32)	(89)	(22)	(58)	(1)	(202)	(2)	-	(204)
Depreciation and amortisation	(90)	(167)	(26)	(97)	(3)	(383)	-	-	(383)
Repairs and maintenance	(1)	(3)	-	(4)	-	(8)	-	1	(7)
Emission rights, net	2	-	-	(15)	-	(13)	-	-	(13)
Taxes and charges	(1)	(1)	(3)	(2)	-	(7)	-	-	(7)
Other operating income	6	21	-	13	-	40	-	(1)	39
Other operating expenses	(18)	(41)	(5)	(19)	(1)	(84)	(6)	1	(89)
Operating profit	**587**	**258**	**117**	**53**	**3**	**1,018**	**(8)**	**-**	**1,010**

	Gas trans-mission	Gas and power distribu-tion	Gas storage	Heat Infra	Other	Total seg-ments	Holding	Inter-segment elimina-tions	Con-solidated financial informa-tion
Finance income	6	-	4	7	-	17	*864	*(862)	19
external finance revenues	*6*	-	-	*6*	-	*12*	*7*	-	*19*
inter-segment finance revenues	-	-	*4*	*1*	-	*5*	**857*	**(862)*	-
Finance expense	(45)	(19)	(8)	(16)	(2)	(90)	(210)	75	(225)
Profit (loss) from derivative financial instruments	-	(2)	-	(3)	-	(5)	(9)	-	(14)
Share of profit (loss) of equity accounted investees, net of tax	-	-	3	1	-	4	3	-	7
Gain (loss) on disposal of subsidiaries, special purpose entities, joint ventures and associates	-	-	(4)	59	-	55	5	-	60
Profit (loss) before income tax	**548**	**237**	**112**	**101**	**1**	**999**	***645**	***(787)**	**857**
Income tax expenses	(120)	(35)	(27)	(6)	(1)	(189)	-	-	(189)
Profit (loss) for the year before discontinued operations	**428**	**202**	**85**	**95**	**-**	**810**	***645**	***(787)**	**668**
Profit (loss) from discontinued operations	-	-	-	-	(12)	(12)	34	-	22
Profit (loss) for the year	**428**	**202**	**85**	**95**	**(12)**	**798**	***679**	***(787)**	**690**

* EUR 786 million 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.

Other financial information:									
EBITDA[1]	677	425	143	150	6	1,401	(8)	-	1,393

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

EBITDA RECONCILIATION TO THE CLOSEST IFRS MEASURE

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

FOR THE YEAR ENDED 31 DECEMBER 2017

In millions of EUR

	Gas trans-mission	Gas and power distribu-tion	Gas storage	Heat Infra	Other	Total seg-ments	Holding	Inter-segment elimina-tions	Con-solidated financial informa-tion
Profit from operations	**576**	**388**	**125**	**85**	**2**	**1,176**	**(12)**	**-**	**1,164**
Depreciation and amortisation	88	163	19	72	3	345	-	-	345
EBITDA	**664**	**551**	**144**	**157**	**5**	**1,521**	**(12)**	**-**	**1,509**

FOR THE YEAR ENDED 31 DECEMBER 2016

In millions of EUR

	Gas trans-mission	Gas and power distribu-tion	Gas storage	Heat Infra	Other	Total seg-ments	Holding	Inter-segment elimina-tions	Con-solidated financial informa-tion
Profit from operations	**587**	**258**	**117**	**53**	**3**	**1,018**	**(8)**	**-**	**1,010**
Depreciation and amortisation	90	167	26	97	3	383	-	-	383
Adjusted EBITDA	**677**	**425**	**143**	**150**	**6**	**1,401**	**(8)**	**-**	**1,393**

SEGMENT ASSETS AND LIABILITIES

FOR THE YEAR ENDED 31 DECEMBER 2017

In millions of EUR

	Gas trans-mission	Gas and power distribu-tion	Gas storage	Heat Infra	Other	Total seg-ments	Holding	Inter-segment elimina-tions	Con-solidated financial informa-tion
Reportable segment assets	2,719	4,028	836	1,089	38	8,710	2,473	(2,689)	8,494
Reportable segment liabilities	(1,888)	(1,524)	(485)	(676)	(41)	(4,614)	(5,381)	2,689	(7,306)
Additions to tangible and intangible assets[(1)]	14	78	6	75	1	174	-	-	174
Additions to tangible and intangible assets (excl. emission rights and goodwill)	14	77	5	48	1	145	-	-	145
Equity accounted investees	-	1	-	-	-	1	-	-	1

(1) This balance includes additions to emission rights and goodwill.

FOR THE YEAR ENDED 31 DECEMBER 2016

In millions of EUR

	Gas trans-mission	Gas and power distribu-tion	Gas storage	Heat Infra	Other	Total seg-ments	Holding	Inter-segment elimina-tions	Con-solidated financial informa-tion
Reportable segment assets	2,907	3,992	787	1,083	43	8,812	2,319	(2,689)	8,442
Reportable segment liabilities	(1,860)	(1,535)	(463)	(560)	(47)	(4,465)	(4,992)	2,687	(6,770)
Additions to tangible and intangible assets[(1)]	12	95	18	87	-	212	-	-	212
Additions to tangible and intangible assets (excl. emission rights)	12	94	18	69	-	193	-	-	193
Equity accounted investees	-	2	28	14	-	44	28	-	72

(1) This balance includes additions to emission rights and goodwill.

INFORMATION ABOUT GEOGRAPHICAL AREAS

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

FOR THE YEAR ENDED 31 DECEMBER 2017

In millions of EUR

	Czech Republic	Slovakia	Other	Total
Property, plant and equipment	782	5,772	38	6,592
Intangible assets	141	89	3	233
Total	**923**	**5,861**	**41**	**6,825**

In millions of EUR

	Czech Republic	Slovakia	Other	Total
Sales: Gas	187	1,101	142	1,430
Sales: Electricity	316	868	115	1,299
Sales: Heat	273	-	68	341
Sales: Coal	10	1	2	13
Sales: Other	19	7	1	27
Gain (loss) from commodity derivatives for trading with electricity and gas, net	(6)	-	-	(6)
Total	**799**	**1,977**	**328**	**3,104**

The geographical area Other comprises income items primarily from Hungary, United Kingdom and Ukraine.

FOR THE YEAR ENDED 31 DECEMBER 2016

In millions of EUR

	Czech Republic	Slovakia	Other	Total
Property, plant and equipment	766	5,897	44	6,707
Intangible assets	131	112	5	248
Total	**897**	**6,009**	**49**	**6,955**

In millions of EUR

	Czech Republic	Slovakia	Other	Total
Sales: Gas	207	1,178	34	1,419
Sales: Electricity	309	842	141	1,292
Sales: Heat	281	-	74	355
Sales: Coal	20	5	2	27
Sales: Other	22	6	2	30
Gain (loss) from commodity derivatives for trading with electricity and gas, net	1	-	-	1
Total	**840**	**2,031**	**253**	**3,124**

The geographical area Other comprises income items primarily from Hungary, United Kingdom and France.

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

As described in the Note 1 – Background, the Company was established on 6 December 2013 by the parent company Energetický a průmyslový holding, a.s.

On 24 January 2014 EPIF acquired from EPH 100% shares in EPE for EUR 1,500 million, on 23 March 2016 acquired 100% share in EPH Gas Holding B.V. (“EPH Gas”) for EUR 3,235 million and on 30 March 2016 acquired 100% share in Czech Gas Holding Investment B.V. (“CGHI”) for EUR 356 million. For the purpose of preparation of these consolidated financial statements, the entities acquired as part of acquisition of shares in EPE, CGHI and EPH Gas are presented using one of the following two methods:

1. If the acquired entities were previously acquired by the parent company Energetický a průmyslový holding, a.s. under the scope of IFRS 3, the Company presents the acquired entities in its consolidated financial statements under the scope of IFRS 3 from the original date of acquisition by the parent company Energetický a průmyslový holding, a.s. From the view of the EPIF Group consolidated financial statements, these transactions are reflected as if carried out directly by the Company, including all goodwill or negative goodwill impacts. The consideration paid or payable by the EPIF Group is presented as a decrease of Other capital reserves in Equity.

2. If the acquired entities were previously acquired by the parent company Energetický a průmyslový holding, a.s. in a transaction under common control, the Company presents the acquired entities in its consolidated financial statements as common control acquisition from the original date of acquisition by the parent company Energetický a průmyslový holding, a.s. The difference between the value contributed to the equity of the Group as determined by the independent valuation specialist and the net book value of the contributed entity as at the date when contributed to EPH was presented as a pricing difference in Other capital reserves in Equity.

A ACQUISITIONS AND STEP-ACQUISITIONS

I. 31 DECEMBER 2017

In millions of EUR

	Date of acquisition	Consideration transferred	Cash paid	Other consideration	Equity interest acquired %	Equity interest after acquisition %
New subsidiaries						
POZAGAS a.s.	12/12/2017	73	22	(1)51	30	(2)100
		73	**22**	**51**	**30**	**100**

(1) Fair value of interest already held as at the date of step acquisition.
(2) Effective ownership of EPIF group is 61,98%.

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

STEP ACQUISITIONS

On 12 December 2017 NAFTA a.s. acquired a 30% share in POZAGAS a.s. for EUR 22 million. This transaction resulted in total change of the Group's ownership interest in POZAGAS a.s. from 41.29% to 61.98% and EPIF Group obtained control of this entity.

ACQUISITION OF NON-CONTROLLING INTEREST

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

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

II. 31 DECEMBER 2016

There were no acquisitions and step-acquistions in the period from 1 January 2016 to 31 December 2016 (excluding common control transactions).

B EFFECT OF ACQUISITIONS

I. 31 DECEMBER 2017

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

In millions of EUR

	Carrying amount(1)	Fair value adjustment	2017 Total(1)
Property, plant, equipment, land, buildings	33	4	37
Trade receivables and other assets	7	(1)	6
Cash and cash equivalents	47	-	47
Provisions	(9)	(2)	(11)
Deferred tax liabilities	(3)	-	(3)
Trade payables and other liabilities	(3)	-	(3)
Net identifiable assets and liabilities	**72**	**1**	**73**
Non-controlling interest			-
Goodwill on acquisitions of a subsidiary			-
Negative goodwill on acquisition of new subsidiaries			-
Cost of acquisition			**73**
Consideration paid, satisfied in cash (A)			22
Consideration, other			(2)51
Total consideration transferred			**73**
Less: Cash acquired (B)			47
Net cash inflow (outflow) (C) = (B – A)			**25**

(1) Represents values at 100% share.
(2) Consideration other is presented mainly by the fair value of previously recognized share in POZAGAS a.s.

II. 31 DECEMBER 2016

In 2016 the Group did not acquire (excl. common control transactions) any subsidiaries, joint-ventures or associates and therefore did not recognize any fair value of the consideration transferred and the amounts recognised for assets acquired and liabilities assumed as at the acquisition date.

III. RATIONALE FOR ACQUISITIONS

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

- The subsidiaries' businesses are complementary to Group's portfolio;
- Potential for synergic effects;
- The subsidiaries have an advantageous position within the market;
- Subject industries are expected to grow in the future.

As further expansion in energy sectors of the countries in which the Group currently has operations is one of the strategic aims, the Group 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.

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 104 million. For the development of historical goodwill, please refer to Note 17 – Intangible assets (including goodwill).

In 2017 and in 2016 the Group did not recognise any negative goodwill.

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

In millions of EUR	2017 Total
Revenue of the acquirees recognised since the acquisition date (subsidiaries)	-
Profit (loss) of the acquirees recognised since the acquisition date (subsidiaries)	-

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

In millions of EUR	2017 Total
Revenue of the acquirees recognised in the year ended 31 December 2017*	28
Profit (loss) of the acquires recognised in the year ended 31 December 2017*	(1)

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

C BUSINESS COMBINATIONS – ACQUISITION ACCOUNTING 2017 AND 2016

The acquiree's identifiable assets, liabilities and contingent liabilities were recognised and measured at their fair values at the acquisition date by the Group (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 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.

Acquisitions and disposals of subsidiaries, joint-ventures and associates

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

In millions of EUR

	Property, plant and equipment	Trade receivables and other assets	Provisions	Total net effect on financial position
Subsidiary				
POZAGAS a.s.	4	(1)	(2)	**1**
Total	**4**	**(1)**	**(2)**	**1**

There were no acquisitions in 2016 therefore the Group did not recognise any fair value adjustment resulting from the business combinations.

D DISPOSAL OF INVESTMENTS IN 2017 AND 2016

I. 31 DECEMBER 2017

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

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

II. 31 DECEMBER 2016

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

In millions of EUR

	Date of disposal	Sales price	Equity interest disposed %	Equity interest after disposal %
Subsidiaries disposed				
EOP & HOKA s.r.o. and its subsidiary	29/02/2016	5	99.79	-
EP COAL TRADING POLSKA S.A.	29/02/2016	-	100	-
PGP Terminal, a.s. and its associate	29/02/2016	-	60	-
JTSD Braunkohlebergbau GmbH and its subsidiaries and associates	01/04/2016	156	100	-
LokoTrain s.r.o.	04/04/2016	2	65	-
EP Cargo Deutschland GmbH	05/04/2016	-	100	-
EP CARGO POLSKA s.a.	05/04/2016	1	100	-
ADCONCRETUM REAL ESTATE ltd	04/05/2016	3	100	-
Pražská teplárenská LPZ, a.s.	31/05/2016	82	100	-
Total		**249**	**-**	**-**

The effects of disposals are provided in the following table:

In millions of EUR

	Net assets sold in 2016
Property, plant, equipment, land, buildings	27
Investment property	3
Trade receivables and other assets	7
Financial instruments – assets	1
Cash and cash equivalents	14
Deferred tax liabilities	(3)
Loans and borrowings	(1)
Trade payables and other liabilities	(9)
Assets held for sale	14
Liabilities held for sale	(11)
Net identifiable assets and liabilities	**42**
Non-controlling interest	(9)
Net assets value disposed	**33**
Sales price	93
Gain (loss) on disposal	**60**

For details on major disposals please refer also to Appendix 2.

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

In millions of EUR

	Net assets sold in 2016
Assets held for sale	1,251
Liabilities held for sale	(1,146)
Net identifiable assets and liabilities	**105**
Non-controlling interest	(2)
Translation reserve recycled to statement of comprehensive income	19
Net assets value disposed	**122**
Sales price	156
Gain (loss) on disposal[1]	**34**

(1) The total balance of Profit (loss) from discontinued operations, net of tax, amounting to EUR 22 million comprises the effect of disposal of discontinued operations in the amount of EUR 34 million and the loss from discontinued operations in the amount of EUR 12 million (see Appendix 1).

7. Sales

In millions of EUR

	2017	2016
Sales: Energy		
of which: Gas	1,430	1,419
Electricity	1,299	1,292
Heat	341	355
Coal	13	27
Total Energy	**3,083**	**3,093**
Sales: Other	**27**	**30**
Gain (loss) from commodity derivatives for trading with electricity and gas, net	**(6)**	**1**
Total for continuing operations	**3,104**	**3,124**

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

8. Cost of sales

In millions of EUR

	2017	2016
Cost of Sales: Energy		
Cost of sold electricity	828	921
Consumption of energy	234	221
Consumption of coal and other material	118	107
Cost of sold gas and other energy products	99	150
Other cost of sales	28	26
Total Energy	**1,307**	**1,425**
Cost of Sales: Other		
Other cost of goods sold	8	7
Consumption of material	6	6
Consumption of energy	3	4
Other cost of sales	4	8
Total Other	**21**	**25**
Total for continuing operations	**1,328**	**1,450**

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

9. Personnel expenses

In millions of EUR

	2017	2016
Wages and salaries	139	136
Compulsory social security contributions	51	49
Board members' remuneration (including boards of subsidiaries)	5	5
Expenses related to employee benefits (IAS 19)	1	1
Other social expenses	11	13
Total for continuing operations	**207**	**204**

The average number of employees during 2017 was 6,323 (2016: 6,561), of which 118 were executives (2016: 126).

10. Emission rights

In millions of EUR

	2017	2016
Deferred income (grant) released to profit and loss	10	12
Profit (loss) from sale (purchase) of emission rights	-	1
Creation of provision for emission rights	(29)	(26)
Use of provision for emission rights	26	23
Consumption of emission rights	(27)	(23)
Total for continuing operations	**(20)**	**(13)**

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

The companies that participate in the emission rights programme are United Energy, a.s., Plzeňská energetika a.s., Pražská teplárenská a.s., Elektrárny Opatovice, a.s., Stredoslovenská energetika, a.s., NAFTA a.s., SPP Storage, s.r.o., eustream, a.s. and Budapesti Erömü Zrt.

11. Taxes and charges

In millions of EUR

	2017	2016
Property tax and real estate transfer tax	2	2
Other taxes and charges expenses	6	5
Total for continuing operations	**8**	**7**

12. Other operating income

In millions of EUR

	2017	2016
Profit from disposal of tangible and intangible assets	11	3
Property acquired free-of-charge and fees from customers	7	7
Rental income	7	6
Compensation from insurance companies	5	3
Consulting fees	4	3
Contractual penalties	3	1
Revenues from liabilities written-off	2	-
Profit from sale of material	1	1
Emission rights revaluation	1	-
Inventories surplus	-	3
Fee and commission income – intermediation	-	1
Other	7	11
Total for continuing operations	**48**	**39**

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

13. Other operating expenses

In millions of EUR

	2017	2016
Outsourcing and other administration fees	22	20
Rent expenses	21	18
Consulting expenses	13	13
Information technologies costs	10	11
Office equipment and other material	8	7
Transport expenses	6	6
Insurance expenses	5	4
Change in provisions (continuing operations), net	3	4
Advertising expenses	3	3
Impairment losses	2	19
Of which relates to: Inventories	*2*	-
Property, plant and equipment and intangible assets	-	*12*
Trade receivables and other assets	-	*7*
Gifts and sponsorship	2	2
Communication expenses	1	1
Security services	1	1
Loss from receivables written-off	1	1
Training, courses, conferences	1	1
Administrative expenses	1	1
Contractual penalties	-	2
Shortages and damages	-	1
Operating work capitalized	(37)	(37)
Other	10	11
Total for continuing operations	**73**	**89**

No significant research and development expenses were recognised in profit and loss for the year ended 31 December 2017 and 31 December 2016.

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

RECOGNISED IN PROFIT OR LOSS

In millions of EUR

	2017	2016
Dividend income	3	1
Interest income	1	11
Revenue from released deferred earn-out	-	6
Other finance income	-	1
Finance income	**4**	**19**
Interest expense incl. various financing and refinancing related fees	(169)	(218)
Interest expense from unwind of provision discounting	(2)	(3)
Net foreign exchange loss	(7)	-
Fees and commissions expense for other financing services	(2)	(4)
Other	(3)	-
Finance costs	**(183)**	**(225)**
Profit (loss) from hedging derivatives	(2)	(3)
Profit (loss) from interest rate derivatives reported as trading[(1)]	(1)	(9)
Profit (loss) from other financial assets held at fair value	-	(2)
Impairment losses from financial assets	(2)	-
Profit (loss) from financial instruments	**(5)**	**(14)**
Net finance income (expense) recognised in profit or loss for continuing operations	**(184)**	**(220)**

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

15. Income tax expenses

INCOME TAXES RECOGNISED IN PROFIT OR LOSS

In millions of EUR

	2017	2016
Current taxes:		
Current year	(303)	(253)
Adjustment for prior periods	-	1
Total current taxes	**(303)**	**(252)**
Deferred taxes:		
Origination and reversal of temporary differences(2)	19	(1)63
Total deferred taxes	**19**	**63**
Total income taxes (expense) benefit recognised in profit or loss for continuing operations	**(284)**	**(189)**

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

(2) For details refer to Note 19 – Deferred tax assets and liabilities.

Deferred taxes are calculated using currently enacted tax rates expected to apply when the asset is realised or the liability settled. According to Czech legislation the corporate income tax rates is 19% for fiscal year 2017 (19% for 2016) and Hungarian legislation the corporate income tax rate is 9% for fiscal year 2017 (19% for 2016). The Slovak corporate income tax rate is 21% for fiscal year 2017 (22% for 2016). Current year income tax line includes also special sector tax effective in Slovakia and Hungary.

INCOME TAX RECOGNISED IN OTHER COMPREHENSIVE INCOME

In millions of EUR

	2017		
	Gross	Income tax	Net of income tax
Foreign currency translation differences for foreign operations	(69)	-	(69)
Foreign currency translation differences from presentation currency	72	-	72
Effective portion of changes in fair value of cash-flow hedges	53	(11)	42
Fair value reserve included in other comprehensive income	-	-	
Total	**56**	**(11)**	**45**

In millions of EUR

	2016		
	Gross	Income tax	Net of income tax
Foreign currency translation differences for foreign operations	9	-	9
Foreign currency translation differences from presentation currency	(5)	-	(5)
Effective portion of changes in fair value of cash-flow hedges	(62)	13	(49)
Fair value reserve included in other comprehensive income	(2)	-	(2)
Total	**(60)**	**13**	**(47)**

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

RECONCILIATION OF THE EFFECTIVE TAX RATE

In millions of EUR

		2017		2016
	%		%	
Profit from continuing operations before tax		973		857
Income tax using the Czech domestic rate (19%)	19.00%	185	19.00%	163
Effect of tax rates in foreign jurisdictions	1.95%	19	3.03%	26
Non-deductible expenses(1)	2.16%	21	6.18%	53
Other non-taxable income(2)	(1.34%)	(13)	(6.06%)	(52)
Effect of special levy for business in regulated services	6.57%	64	3.97%	34
Current year losses for which no deferred tax asset was recognised	0.74%	7	0.82%	7
Effect of changes in tax rate	0.10%	1	(5.01%)	(43)
Change in unrecognised temporary differences	-	-	0.12%	1
Income taxes recognised in profit or loss for continuing operations	**29,16%**	**284**	**22.05%**	**189**

(1) The basis consists mainly of non-deductible interest expense of EUR 67 million (2016: EUR 90 million).

(2) The basis represents mainly non-taxable interest income of EUR 16 million (2016: sales price of disposed investments of EUR 249 million).

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 2017	**1,969**	**4,510**	**1,643**	**7**	**97**	**8,226**
Effects of movements in foreign exchange rates	38	2	35	-	-	**75**
Additions	47	2	27	-	64	**140**
Acquisitions through business combinations	35	-	1	-	1	**37**
Disposals	(12)	(4)	(17)	-	(4)	**(37)**
Transfers	20	38	27	-	(85)	**-**
Disposed entities	-	-	(1)	-	-	**(1)**
Transfer to disposal group held for sale	(3)	-	-	-	-	**(3)**
Balance at 31 December 2017	**2,094**	**4,548**	**1,715**	**7**	**73**	**8,437**
Depreciation and impairment losses						
Balance at 1 January 2017	**(459)**	**(515)**	**(535)**	**(2)**	**(8)**	**(1,519)**
Effects of movements in foreign exchange rates	(16)	-	(13)	-	-	**(29)**
Depreciation charge for the year	(90)	(119)	(108)	-	-	**(317)**
Disposals	5	3	12	-	-	**20**
Impairment losses recognised in profit or loss	(2)	-	(2)	-	4	**-**
Balance at 31 December 2017	**(562)**	**(631)**	**(646)**	**(2)**	**(4)**	**(1,845)**
Carrying amounts						
At 1 January 2017	**1,510**	**3,995**	**1,108**	**5**	**89**	**6,707**
At 31 December 2017	**1,532**	**3,917**	**1,069**	**5**	**69**	**6,592**

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	**1,947**	**4,490**	**1,552**	**6**	**104**	**8,099**
Effects of movements in foreign exchange rates	(1)	-	-	-	-	**(1)**
Additions	49	4	52	-	74	**179**
Disposals	(10)	(5)	(15)	-	(4)	**(34)**
Transfers	10	21	45	1	(77)	**-**
Disposed entities[1]	(32)	-	(10)	-	-	**(42)**
Transfer from disposal group held for sale[2]	6	-	19	-	-	**25**
Balance at 31 December 2016	**1,969**	**4,510**	**1,643**	**7**	**97**	**8,226**
Depreciation and impairment losses						
Balance at 1 January 2016	**(378)**	**(397)**	**(431)**	**(1)**	**(6)**	**(1,213)**
Depreciation charge for the year	(97)	[3](120)	(115)	(1)	-	**(333)**
Disposals	9	4	10	-	-	**23**
Disposed entities[1]	9	-	6	-	-	**15**
Impairment losses recognised in profit or loss	(4)	-	(4)	-	(2)	**(10)**
Transfers	2	(2)	-	-	-	**-**
Transfer from disposal group held for sale[2]	-	-	(1)	-	-	**(1)**
Balance at 31 December 2016	**(459)**	**(515)**	**(535)**	**(2)**	**(8)**	**(1,519)**
Carrying amounts						
At 1 January 2016	**1,569**	**4,093**	**1,121**	**5**	**98**	**6,886**
At 31 December 2016	**1,510**	**3,995**	**1,108**	**5**	**89**	**6,707**

(1) The disposal of Pražská teplárenská LPZ, a.s.
(2) Specific assets and liabilities of Stredoslovenska energetika, a.s. were again reclassified to continuing assets and liabilities as the intention to sell these assets ceased.

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

IDLE ASSETS

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

FINANCE LEASE LIABILITIES

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

SECURITY

At 31 December 2017 property, plant and equipment with a carrying value of EUR 404 million (2016: EUR 395 million) is subject to pledges to secure bank loans.

17. Intangible assets (including goodwill)

In millions of EUR

	Goodwill	Software	Emission rights	Customer relationship and other contracts	Other intangible assets	Total
Cost						
Balance at 1 January 2017	**106**	**64**	**34**	**170**	**11**	**385**
Effect of movements in foreign exchange rates	5	1	1	1	-	**9**
Additions	1	3	28	-	2	**34**
Disposals	-	(3)	(27)	-	-	**(30)**
Transfers	-	2	-	-	(2)	**-**
Balance at 31 December 2017	**112**	**67**	**36**	**171**	**11**	**397**
Amortisation and impairment losses						
Balance at 1 January 2017	**(8)**	**(27)**	**-**	**(98)**	**(4)**	**(137)**
Effect of movements in foreign exchange rates	-	-	-	-	(1)	**(1)**
Amortisation for the year	-	(11)	-	(17)	-	**(28)**
Disposals	-	2	-	-	-	**2**
Balance at 31 December 2017	**(8)**	**(36)**	**-**	**(115)**	**(5)**	**(164)**
Carrying amount						
At 1 January 2017	**98**	**37**	**34**	**72**	**7**	**248**
At 31 December 2017	**104**	**31**	**36**	**56**	**6**	**233**

In millions of EUR

	Goodwill	Software	Emission rights	Customer relationship and other contracts	Other intangible assets	Total
Cost						
Balance at 1 January 2016	**106**	**58**	**38**	**187**	**6**	**395**
Effect of movements in foreign exchange rates	-	-	-	1	-	**1**
Additions	-	6	19	-	8	**33**
Disposals	-	(2)	(23)	(18)	(1)	**(44)**
Transfers	-	2	-	-	(2)	**-**
Balance at 31 December 2016	**106**	**64**	**34**	**170**	**11**	**385**
Amortisation and impairment losses						
Balance at 1 January 2016	**(8)**	**(18)**	**-**	**(77)**	**(4)**	**(107)**
Amortisation for the year	-	(11)	-	(39)	-	**(50)**
Disposals	-	2	-	18	-	**20**
Balance at 31 December 2016	**(8)**	**(27)**	**-**	**(98)**	**(4)**	**(137)**
Carrying amount						
At 1 January 2016	**98**	**40**	**38**	**110**	**2**	**288**
At 31 December 2016	**98**	**37**	**34**	**72**	**7**	**248**

In 2017, the Group purchased emission allowances of EUR 19 million (2016: EUR 9 million). The remaining part of EUR 9 million (2016: EUR 10 million) was allocated to the Group by the Ministry of the Environment of the Czech Republic, Slovakia and Hungary.

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

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

The Group did not capitalise any development costs in 2017 and 2016.

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

IMPAIRMENT TESTING FOR CASH-GENERATING UNITS CONTAINING GOODWILL

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

The aggregate carrying amounts of goodwill allocated to single cash generating units are as follows:

In millions of EUR

	31 December 2017	31 December 2016
Elektrárny Opatovice, a.s.	90	85
EP Cargo a.s.	5	5
EP ENERGY TRADING, a.s.[1]	5	5
Plzeňská energetika a.s.	3	3
SPV100, s.r.o.	1	-
Total goodwill	**104**	**98**

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

GOODWILL AND IMPAIRMENT TESTING

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

The calculation of the recoverable amounts as at 31 December 2017 was based on the following key assumptions:

Cash-flows were projected based on past experience, actual operating results and the one-year business plan followed by additional four years of modelled projections followed by projected results based on estimated growth factor plus a terminal value if relevant. Cash flows for a terminal period were extrapolated using a constant growth rate of 0% – 2%, which does not exceed the long-term average growth rate for the industry. Other key assumptions considered by management include forecasts of commodity market prices, future electricity and gas prices, investment activity, changes in working capital and changes in the regulatory framework.

The discount rates used in estimating value in use were estimated based on the principle of an average market participant using peer companies (i.e. companies operating in a comparable industry and listed on world markets) as a standard for observing respective betas, debt to equity ratios and size adjustment parameters used for calculation. The resulting pre-tax discount rates ranged from 5.31% to 7.33% (2016: 4.94% to 6.34%). Changes in used discount rates compared to prior year reflect recent market development, namely decrease in risk-free rates and cost of debt used for calculation.

The 2017 and 2016 year testing showed no need for impairment as no CGU with the recoverable value lower than the carrying value including goodwill was identified.

Intangible assets (including goodwill)

ADDITIONAL INFORMATION ON CGU WITH SIGNIFICANT GOODWILL ASSIGNED:

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

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

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

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

a. estimated 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.

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

18. Equity accounted investees

The Group has the investments in associates that are stated in the table below. All these associates are in line with the Group strategic activities.

In millions of EUR

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

In millions of EUR

Associates	Country	Ownership 31 December 2016 %	Carrying amount 31 December 2016
Pražská teplárenská Holding a.s.	Czech Republic	49.00	14
POZAGAS a.s.	Slovakia	41.30	56
Energotel, a.s.	Slovakia	20.00	2
Total		**-**	**72**

The Group had share in the loss from continuing operations of associates in amount of EUR 7 million for the year ended 31 December 2017 (EUR 7 million for the year ended 31 December 2016).

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

In millions of EUR

Associates	Revenue	Profit (loss)	Other compre-hensive income	Total compre-hensive income	Assets	Liabilities	Equity
Pražská teplárenská Holding a.s.(2)	27	(1)26	-	(1)26	119	-	(2)119
POZAGAS a.s. (3)	18	(7)	-	(7)	90	17	73
Energotel, a.s.	12	1	-	1	13	7	6
	57	**20**	**-**	**20**	**222**	**24**	**198**

(1) Profit (loss) primarily represents dividend income from Pražská teplárenská a.s.
(2) On 14 December 2017 the Group increased its share in Pražská teplárenská Holding, a.s. from 49% to 100%. Profit and Loss item represents the amounts from the beginning of the year to the date of the acquisition of remaining 51% share.
(3) On 12 December 2017 the Group increased its share in POZAGAS a.s. from 41.29% to 61.98% and gained management control over the entity. Profit and Loss item represents the amounts from the beginning of the year to the date of obtaining the control over the entity.

In millions of EUR

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

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

In millions of EUR

Associates	Revenue	Profit (loss)	Other compre-hensive income	Total compre-hensive income	Assets	Liabilities	Equity
Pražská teplárenská Holding a.s.	28	(1)28	-	(1)28	115	-	(2)115
POZAGAS a.s.	32	10	-	10	100	20	80
Energotel, a.s.	13	2	-	2	15	6	9
	73	**40**	**-**	**40**	**230**	**26**	**204**

In millions of EUR

Associates	Non-current assets	Current assets	Non-current liabilities	Current liabilities
Pražská teplárenská Holding a.s.	(2)86	29	-	-
POZAGAS a.s.	56	44	16	4
Energotel, a.s.	7	8	-	6
Total	**149**	**81**	**16**	**10**

(1) Profit (loss) primarily represents dividend income from Pražská teplárenská a.s.
(2) Carrying amount covers investment in Pražská teplárenská a.s., which is eliminated in consolidation.

19. Deferred tax assets and liabilities

RECOGNISED DEFERRED TAX ASSETS AND LIABILITIES

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

In millions of EUR

	31 December 2017	31 December 2017	31 December 2017	31 December 2016	31 December 2016	31 December 2016
Temporary difference related to:	Assets	Liabilities	Net	Assets	Liabilities	Net
Property, plant and equipment	-	(971)	(971)	1	(982)	(981)
Intangible assets	-	(16)	(16)	-	(16)	(16)
Inventories	2	-	2	2	-	2
Trade receivables and other assets	2	-	2	2	-	2
Provisions	28	-	28	28	-	28
Employee benefits (IAS 19)	5	-	5	5	-	5
Loans and borrowings	-	(22)	(22)	2	(11)	(9)
Tax losses	5	-	5	3	-	3
Derivatives	4	(5)	(1)	3	(6)	(3)
Other items	5	(25)	(20)	3	(23)	(20)
Subtotal	**51**	**(1,039)**	**(988)**	**49**	**(1,038)**	**(989)**
Set-off tax	(49)	49	-	(49)	49	-
Total	**2**	**(990)**	**(988)**	**-**	**(989)**	**(989)**

MOVEMENTS IN DEFERRED TAX DURING THE YEAR

In millions of EUR

Balances related to:	Balance at 1 January 2017	Recognised in profit or loss	Recognised in other comprehen-sive income	Acquired in business combina-tions(1)	Transfer to disposal group held for sale(2)	Effect of movements in foreign exchange rate	Balance at 31 December 2017
Property, plant and equipment	(981)	14	-	(3)	-	(1)	(971)
Intangible assets	(16)	-	-	-	-	-	(16)
Inventories	2	-	-	-	-	-	2
Trade receivables and other assets	2	-	-	-	-	(1)	2
Provisions	28	1	-	-	-	-	28
Employee benefits (IAS 19)	5	-	-	-	-	-	5
Loans and borrowings	(9)	(1)	(12)	-	-	-	(22)
Tax losses	3	2	-	-	-	-	5
Derivatives	(3)	2	1	-	-	(1)	(1)
Other	(20)	1	-	-	1	(2)	(20)
Total	**(989)**	**19**	**(11)**	**(3)**	**1**	**(5)**	**(988)**

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

In millions of EUR

Balances related to:	Balance at 1 January 2016	Recognised in profit or loss	Recognised in other comprehen-sive income	Transfer to disposal group held for sale(1)	Disposed entities(2)	Effect of movements in foreign exchange rate	Balance at 31 December 2016
Property, plant and equipment	(1,049)	64	-	1	3	-	(981)
Intangible assets	(16)	2	-	-	-	(2)	(16)
Financial instruments at fair value through profit or loss	1	(1)	-	-	-		-
Inventories	2	-	-	-	-	-	2
Trade receivables and other assets	2	-	-	-	-		2
Provisions	32	(4)	-	-	-	-	28
Employee benefits (IAS 19)	5	-	-	-	-	-	5
Loans and borrowings	(16)	7	-	-	-	-	(9)
Tax losses	9	(6)	-	-	-	-	3
Derivatives	(13)	(3)	13	-	-	-	(3)
Other	(24)	4	-	-	-	-	(20)
Total	**(1,067)**	**63**	**13**	**1**	**3**	**(2)**	**(989)**

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

UNRECOGNISED DEFERRED TAX ASSETS

A deferred tax asset has not been recognised in respect of the following tax losses that are available for carry forward by certain EPIF Group entities:

In millions of EUR

	31 December 2017	31 December 2017
Tax losses carried forward	288	260
Total	**288**	**260**

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

In millions of EUR

	31 December 2017	31 December 2016
Slovak Gas Holding B.V.	158	153
Seattle Holding B.V.	60	43
EPH Gas Holding B.V.	53	53
Czech Gas Holding Investment B.V.	9	7
PT Holding Investment B.V.	4	4
SPP Infrastructure, a.s.	4	-
Total	**288**	**260**

Considering the nature of revenues and expenses, the companies do not expect significant taxable profit growth, so no deferred tax was recognised. If sufficient taxable profit were to be achieved in 2017, then the associated tax income (savings) would be up to EUR 55 million (2016: 52 million).

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

In millions of EUR

	2018	2019	2020	2021	After 2022	Total
Tax losses	2	2	-	-	284	**288**

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.

20. Inventories

In millions of EUR

	31 December 2017	31 December 2016
Natural gas	164	169
Fossil fuel	26	34
Raw material and supplies	15	16
Spare parts	13	7
Work in progress	1	2
Total	**219**	**228**

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

21. Trade receivables and other assets

In millions of EUR

	31 December 2017	31 December 2016
Trade receivables	215	229
Accrued income	138	73
Estimated receivables	60	61
Advance payments	40	37
Receivables from government grants[(1)]	72	-
Other receivables and assets	18	12
Allowance for bad debts	(21)	(20)
Total	**522**	**392**
Non-current	76	15
Current	446	377
Total	**522**	**392**

(1) For details refer to Note 30 – Deferred income

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

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

As at 31 December 2017 trade receivables and other assets amounting EUR 494 million are not past due (2016: EUR 384 million), remaining balance of EUR 28 million is overdue (2016: EUR 8 million). For more detailed aging analysis refer to Note 35 (a)(ii) – Risk management – credit risk (impairment losses).

The Group's exposure to credit and currency risks and impairment losses related to trade and other receivables is disclosed in Note 35 – Risk management policies and disclosures.

22. Cash and cash equivalents

In millions of EUR

	31 December 2017	31 December 2016
Current accounts with banks	522	703
Bills of exchange for trading	25	-
Term deposits	37	26
Total	**584**	**729**

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

As at 31 December 2017 cash equivalents of EUR 366 million are subject to pledges (2016: EUR 113 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 Group and does not represent restricted cash.

SIGNIFICANT INVESTING AND FINANCING ACTIVITIES NOT REQUIRING CASH:

In millions of EUR

	31 December 2017	31 December 2016
Investing activities	158	3,535
Financing activities	-	3,357
Total	**158**	**6,892**

For the year 2017 non-cash investing activities include partial set-off of SPPI loan provided to Slovenský plynárenský priemysel, a.s. The total amount of the loan was EUR 428 million, of which the amount EUR 158 million was set-off against dividends declared by SPPI to Slovenský plynárenský priemysel, a.s.

For the year 2016 non-cash investing activities include acquisition of CGHI for a consideration of EUR 356 million and acquisition of EPH Gas for a consideration of EUR 3,235 million of which the part EUR 3,179 million was not settled in cash.

The consideration for acquisition of CGHI was settled by set-off against two receivables due from EPH in the amount EUR 106 million and EUR 250 million. The consideration for acquisition of EPH Gas was settled as follows:

- The part EUR 2,941 million was set-off against an increase in share capital of EPIF by EPH in the same amount.
- The part EUR 155 million was set-off against an up-stream loan provided by EPIF to EPH.
- The part EUR 83 million was set-off against other receivables due to EPIF from EPH.
- The remaining part of EUR 56 million was settled in cash.

In 2016 non-cash financing activities are represented by assumption of a payable due to EPE in the amount EUR 309 million by EPIF from EPH, the assumption of a payable due to CGHI of EUR 107 million by EPIF from EPH and an increase of share capital of EPIF by EPH in the amount EUR 2,941 million, which was set-off against a part of the consideration for the acquisition of EPH Gas as specified above.

23. Tax receivables

In millions of EUR

	31 December 2017	31 December 2016
Current income tax receivables	17	17
Value added tax receivables	6	6
Energy tax	2	2
Total	**25**	**25**

24. 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 2017	31 December 2016
Land and buildings	5	5
Total	**5**	**5**

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

In millions of EUR

	31 December 2017	31 December 2016
Deferred tax liability	1	1
Total	**1**	**1**

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

As part of the reorganization of the EP Infrastructure Group in 2016, the Company sold-off its power generation activities in Germany as well as its mining operations in Germany to its ultimate parent company EPH (effective on 1 April 2016). The decision to sell-off these activities, which comprise an isolated geographical segment (Germany), was reached at the end of 2015.

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

In millions of EUR

	31 December 2017	31 December 2016
	Discontinued	Discontinued
Revenues	-	129
Expenses	-	(131)
Profit (loss) from operations	**-**	**(2)**
Net finance income (expense)	-	(7)
Income tax (expense)/income	-	(2)
Profit (loss) for the year	**-**	**(12)**
Profit from disposal of discontinued operations	**-**	**34**
Total profit (loss) from discontinued operations	**-**	**22**

In 2016 the Group recognized loss from discontinued operations of EUR 12 million, which was fully attributable to owners of the Company and was represented by loss of JTSD and its subsidiaries and associates (for detail refer to Note 37 – Group entities).

CASH FLOWS FROM (USED IN) DISCONTINUED OPERATIONS

Cash flows from discontinued operations presented in the table below are included in the total amounts of cash flows presented in the consolidated statement of cash flows.

In millions of EUR

	2017	2016
Net cash from (used in) operating activities	-	9
Net cash from (used in) investing activities	-	18
Net cash from (used in) financing activities	-	7
Net cash flows for the year	**-**	**34**

25. Equity

SHARE CAPITAL AND SHARE PREMIUM

The authorised, issued and fully paid share capital as at 31 December 2017 consisted of 222,870,000 ordinary shares with a par value of CZK 250 each (2016: 226,100,000 ordinary shares) (“Shares A”) and 100,130,000 shares (with which special rights are connected as specified in the Articles of Incorporation) with a par value of CZK 250 each (2016: 96,900,000 shares) (“Shares B”).

The shareholder is entitled to receive dividends and to cast 1 vote per 1 share of nominal value CZK 250 at meetings of the Company’s shareholders.

In 2017 the Company declared dividends in amount of EUR 675 million (2015: EUR 347 million) to its shareholders.

31 DECEMBER 2017

In thousands of pieces

	Number of shares		Ownership	Voting rights
	250 CZK		%	%
	Shares A	Shares B		
Energetický a průmyslový holding, a.s.	222,870	-	69.00	69.00
CEI INVESTMENTS S.a.r.l.	-	100,130	31.00	31.00
Total	**222,870**	**100,130**	**100.00**	**100.00**

31 DECEMBER 2016

In thousands of pieces

	Number of shares		Ownership	Voting rights
	250 CZK		%	%
	Shares A	Shares B		
Energetický a průmyslový holding, a.s.	226,100	96,900	100.00	100.00
Total	**226,100**	**96,900**	**100.00**	**100.00**

Reserves recognised in equity comprise the following items:

In millions of EUR

	31 December 2017	31 December 2016
Non-distributable reserves	1	1
Fair value reserve	(1)	(1)
Hedging reserve	(13)	(54)
Translation reserve	(65)	(63)
Other capital reserves	(3,814)	(3,814)
Total	**(3,892)**	**(3,931)**

OTHER CAPITAL RESERVES

As stated in section 3 (a) vii – Pricing differences, the Group accounted for pricing differences which arose from the acquisition of subsidiaries from Energetický a průmyslový holding, a.s. or subsidiaries contributed to the share capital of the Company by Energetický a průmyslový holding, a.s. As these acquired or contributed entities were under common control of Energetický a průmyslový holding, a.s., they were therefore excluded from the scope of IFRS 3, which defines recognition of goodwill raised from business combination as the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets, liabilities and contingent liabilities of the acquired subsidiary. Acquirees under common control are treated under the net book value presented in the consolidated financial statements of Energetický a průmyslový holding, a.s. (i.e. including historical goodwill less potential impairment). The difference between the cost of acquisition and carrying values of net assets of the acquiree and original goodwill carried forward as at the acquisition date were recorded to consolidated equity as pricing differences. Pricing differences are presented in Other capital reserves in Equity. "Note 6 – Acquisitions and contributions of subsidiaries, special purpose entities, joint-ventures and associates" summarises the effects of all common control transactions in both periods.

TRANSLATION RESERVE

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

HEDGING RESERVES

The effective portion of fair value changes in financial derivatives designated as cash flow hedges are recognised in equity (for more details please refer to Note 31 – Financial instruments and Note 35 – Risk management policies and disclosure).

During the year the Group recycled EUR 0 million from Hedging reserves to Profit or loss (2016: EUR 1 million).

26. Earnings per share

BASIC EARNINGS PER SHARE

Basic earnings per share in EUR per 1 share of CZK 250 (2016: in EUR per 1 share of CZK 250) nominal value equal 0.98 (2016: 1.00).

The calculation of basic earnings per share as at 31 December 2017 was based on profit attributable to ordinary shareholders of EUR 318 million (2016: EUR 323 million), and a weighted average number of ordinary shares outstanding of 323,000,000 (2016: 321,221,567).

Basic earnings per share from continuing operations in EUR per 1 share of CZK 250 (2016: in EUR per 1 share of CZK 250) nominal value equal 0.98 (2016: 0.94).

The calculation of basic earnings per share from continuing operations as at 31 December 2017 was based on profit attributable to ordinary shareholders of EUR 318 million (2016: EUR 301 million), and a weighted average number of ordinary shares outstanding of 323,000,000 (2016: 321,221,567).

WEIGHTED AVERAGE NUMBER OF ORDINARY SHARES 2017

In pieces

	Nominal	Weighted
Issued shares	323,000,000	323,000,000
of which on 6 February 2017 classified as:		
Ordinary shares "A" (1 share/CZK 250)	*222,870,000*	*222,870,000*
Shares "B" (1 share/CZK 250)	*100,130,000*	*100,130,000*
Total	**323,000,000**	**323,000,000**

WEIGHTED AVERAGE NUMBER OF ORDINARY SHARES 2016

In pieces

	Nominal	Weighted
Issued shares at 6 December 2013 (1 share/CZK 200,000)	10	10
Issued ordinary shares at 10 March 2016 (1 share/CZK 200,000)	7,310	5,087
Effect of restructuring (1 share/CZK 200,000) – adjusted to 1 share/CZK 250	5,848,680	(1)4,072,470
Issued shares at 20 April 2016 (1 share/CZK 250)	317,144,000	(1)317,144,000
of which on 14 October 2016 classified as:		
Ordinary shares "A" (1 share/CZK 250)	*226,100,000*	*224,855,097*
Shares "B" (1 share/CZK 250)	*96,900,000*	*96,366,470*
Total	**323,000,000**	**321,221,567**

(1) Transaction does not represent increase in available resources, therefore it is reflected retrospectively in the calculation of weighted number of shares

DILUTIVE EARNINGS PER SHARE

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

27. Non-controlling interest

31 DECEMBER 2017

In millions of EUR

	Pražská teplárenská a.s. and its subsidiaries	Stredoslovenská energetika, a.s. and its subsidiaries	NAFTA a.s. and its subsidiaries	SPP Infrastructure, a.s. and its subsidiaries[3]	SPP – distribúcia, a.s. and its subsidiaries	eustream, a.s.	POZAGAS a.s.	Other individually immaterial subsidiaries	Total
Non-controlling percentage	**2%**	**51.00%**	**31.01%**	**51.00%**	**51.00%**	**51.00%**	**38.02%**		
Business activity	Production and distribution of heat	Distribution of electricity	Gas storage and exploration	Distribution of gas	Distribution of gas	Distribution of gas	Gas storage and exploration		
Country[1]	Czech Republic	Slovakia	Slovakia	Slovakia	Slovakia	Slovakia	Slovakia		
Carrying amount of NCI at 31 December 2017	**6**	**397**	**98**	**(318)**	**866**	**424**	**28**	**(4)**	**1,497**
Profit (loss) attributable to non-controlling interest	**6**	**58**	**22**	**(2)**	**79**	**198**	**-**	**10**	**371**
Dividends declared	**(14)**	**(40)**	**(2)**	**(378)**	**-**	**-**	**-**	**-**	**(434)**
Statement of financial position information[2]									
Total assets	346	1,095	688	6,582	2,814	2,719	90		
of which: non-current	*280*	*766*	*647*	*[4]6,228*	*2,367*	*2,291*	*38*		
current	*66*	*329*	*41*	*354*	*447*	*428*	*52*		
Total liabilities	65	316	371	2,142	1,116	1,888	17		
of which: non-current	*34*	*140*	*294*	*1,373*	*1,018*	*1,752*	*15*		
current	*30*	*176*	*77*	*769*	*98*	*136*	*3*		
Net assets	**281**	**779**	**317**	**4,440**	**1,698**	**831**	**73**	**-**	**-**
Statement of comprehensive income information[2]									
Total revenues	204	1,001	164	847	423	760	-		
of which: dividends received	-	-	-	*[5]800*	-	-	-		
Profit after tax	25	115	71	797	155	388	-		
Total comprehensive income for the year[2]	**25**	**115**	**71**	**797**	**155**	**388**	**-**	**-**	**-**
Net cash inflows (outflows)[2]	**(35)**	**1**	**(9)**	**-**	**(43)**	**(33)**	**(-)**		

(1) Principal place of business of subsidiaries and associates varies (for detail refer to Note 37 – Group entities).
(2) Financial information derived from individual financial statements prepared in accordance with IFRS including fair value adjustments arising from the acquisition by the Group
(3) Excluding NAFTA a.s. and its subsidiaries, SPP Storage, s.r.o. and SPP - distribúcia, a.s. and its subsidiaries, eustream, a.s. and POZAGAS a.s.
(4) Includes financial investments in eustream, a.s., SPP - distribúcia, a.s., NAFTA, a.s. and POZAGAS eliminated in calculation of NCI
(5) Includes dividends from eustream, a.s., SPP - distribúcia, a.s., NAFTA, a.s. and POZAGAS eliminated in calculation of NCI

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	Other individually immaterial subsidiaries	Total
Non-controlling percentage	**26.18%**	**51.00%**	**31.01%**	**51.00%**	**51.00%**		
Business activity	Production and distribution of heat	Distribution of electricity	Gas storage and exploration	Distribution of gas	Distribution of gas		
Country[1]	Czech Republic	Slovakia	Slovakia	Slovakia	Slovakia		
Carrying amount of NCI at 31 December 2016	**76**	**379**	**92**	**221**	**859**	**-**	**1,627**
Profit (loss) attributable to non-controlling interest	**22**	**27**	**21**	**218**	**74**	**5**	**367**
Dividends declared	**(15)**	**(33)**	**(33)**	**(428)**	**(51)**	**(8)**	**(568)**
Statement of financial position information[2]							
Total assets	365	1,044	686	4,771	2,815		
of which: non-current	*267*	*857*	*651*	*4,533*	*2,439*		
current	*98*	*187*	*35*	*238*	*376*		
Total liabilities	66	301	353	2,124	1,130		
of which: non-current	*32*	*137*	*304*	*1,908*	*1,028*		
current	*34*	*164*	*49*	*216*	*102*		
Net assets	**299**	**743**	**333**	**2,647**	**1,685**	**-**	**-**
Statement of comprehensive income information[2]							
Total revenues	325	914	179	975	413		
of which: dividends received	-	-	-	*172*	-		
Profit after tax	72	53	75	599	146		
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**	**-**	**-**
Net cash inflows (outflows)[2]	**34**	**(31)**	**4**	**10**	**27**		

(1) Principal place of business of subsidiaries and associates varies (for detail refer to Note 37 – 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, and SPP - distribúcia, a.s. and its subsidiaries.

28. Loans and borrowings

In millions of EUR

	31 December 2017	31 December 2016
Issued debentures	2,873	2,867
of which owed to related parties	-	-
Loans payable to credit institutions	2,294	2,020
Loans payable to other than credit institutions	-	14
of which owed to related parties	-	*14*
of which owed to the parent company	-	-
Bank overdraft	9	8
Liabilities from financial leases	5	9
Revolving credit facility	-	-
Subordinated liabilities	-	-
of which owed to the parent company	-	-
Total	**5,181**	**4,918**
Non-current	4,510	4,863
of which owed to related parties	-	*14*
Current	671	55
of which owed to the parent company	-	-
Total	**5,181**	**4,918**

The weighted average interest rate on loans for 2017 was 2.10% (2016: 2.25%).

ISSUED DEBENTURES AT AMORTISED COSTS

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

In millions of EUR

	Principal	Accrued interest	Unamortised fee	Maturity	Interest rate (%)	Effective interest rate (%)
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	12	-	12/02/2025	2.625	2.685
EP Energy 2018 notes	598	4	-	01/05/2018	4.375	4.691
SPPD bond	(3)497	7	-	23/06/2021	2.625	2.828
EP Energy 2019 notes	499	5	(4)	01/11/2019	5.875	6.301
Total	**2,837**	**41**	**(5)**	**-**	**-**	**-**

(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 37 – 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 499 million Senior Secured Notes due 2019 (the "2019 Notes"). The 2019 Notes bear interest at 5.875% per annum, payable semi-annually in arrears on 1 May and 1 November of each year.

The 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 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 Group may be required to offer to redeem the 2019 Notes at 101% of the principal amount redeemed, plus accrued and unpaid interest and additional amounts, if any.

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

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

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

The 2019 Notes are stated net of debt issue costs of EUR 12 million (at inception). These costs are allocated to the profit and loss account over the term of the 2019 Notes through the effective interest rate of 6.301%.

II. 2018 NOTES

On 18 April 2013 EPE issued additional Senior Secured Notes due in 2018 (the "2018 Notes"). These second notes are listed on the Irish Stock Exchange and amount to EUR 598 million. The 2018 Notes bear interest at 4.375% per annum, payable semi-annually in arrears on 1 May and 1 November of each year.

The Group 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 Group 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 Group may be required to offer to redeem the 2018 Notes at 101% of the principal amount redeemed, plus accrued and unpaid interest and additional amounts, if any.

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

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

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

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

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

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. 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%.

OTHER LOANS AND BORROWINGS

TERMS AND DEBT REPAYMENT SCHEDULE

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

In millions of EUR

	Currency	Nominal interest rate	Year of maturity (up to)	Balance at 31/12/17	Due within 1 year	Due in 1–5 years	Due in following years
Secured bank loan	EUR	variable*	2021	1,837	10	1,827	-
Secured bank loan	CZK	variable*	2021	1	-	1	-
Secured bank loan	CZK	fixed	2021	1	-	1	-
Unsecured bank loan	EUR	variable*	2024	430	6	344	80
Unsecured bank loan	EUR	fixed	2023	25	6	16	3
Overdraft	EUR	variable*		9	9	-	-
Liabilities from financial leases	EUR			5	2	3	-
Total interest-bearing liabilities				**2,308**	**33**	**2,192**	**83**

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

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

In millions of EUR

	Currency	Nominal interest rate	Year of maturity (up to)	Balance at 31/12/16	Due within 1 year	Due in 1–5 years	Due in following years
Secured bank loan	EUR	variable*	2021	1,596	2	1,594	-
Secured bank loan	EUR	fixed	2023	2	-	-	2
Secured bank loan	CZK	variable*	2021	2	-	2	-
Secured bank loan	CZK	fixed	2021	1	-	1	-
Unsecured bank loan	EUR	variable*	2024	310	-	230	80
Unsecured bank loan	EUR	fixed	2023	109	9	95	5
Unsecured loan	CZK	fixed	2019	14	-	14	-
of which owed to related parties				*14*	-	*14*	-
Overdraft	EUR	variable*		8	8	-	-
Liabilities from financial leases	EUR			9	4	5	-
Total interest-bearing liabilities				**2,051**	**23**	**1,941**	**87**

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

EPIF FACILITY AGREEMENT

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

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

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

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

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

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

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

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

FAIR VALUE INFORMATION

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

In millions of EUR

	31 December 2017		31 December 2016	
	Carrying amount	Fair value	Carrying amount	Fair value
Issued debentures at amortised costs	2,873	2,907	2,867	2,945
Loans payable to credit institutions	1,994	2,013	1,764	1,832
Revolving credit facility	300	306	256	260
Loans payable to other than credit institutions	-	-	14	14
Bank overdraft	9	9	8	8
Liabilities from financial leases	5	5	9	9
Subordinated liabilities	-	-	-	-
Total	**5,181**	**5,240**	**4,918**	**5,068**

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).

29. Provisions

In millions of EUR

	Employee benefits	Provision for emission rights	Provision for restoration and decommis-sioning	Other	Total
Balance at 1 January 2017	**25**	**26**	**112**	**8**	**171**
Provisions made during the year	3	29	1	(3)7	**40**
Provisions used during the year	-	(26)	(4)	-	**(30)**
Provisions reversed during the year	(1)	-	(2)	-	**(3)**
Acquisition through business combination(2)	-	-	11	-	**11**
Unwinding of discount(1)	-	-	2	-	**2**
Effect of movement in foreign exchange rates	(1)	1	-	-	**-**
Balance at 31 December 2017	**26**	**30**	**120**	**15**	**191**
Non-current	**25**	**-**	**112**	**2**	**139**
Current	**1**	**30**	**8**	**13**	**52**

(1) Unwinding of discount is included in interest expense.
(2) Acquisition of POZAGAS a.s.
(3) The Group recognised a provision (reported under Other provisions) for the real estate tax that the Company expects to pay in connection with past transactions.

In millions of EUR

	Employee benefits	Provision for emission rights	Provision for restoration and decommis-sioning	Other	Total
Balance at 1 January 2016	**25**	**23**	**116**	**3**	**167**
Provisions made during the year	4	26	-	7	**37**
Provisions used during the year	(2)	(23)	(5)	(2)	**(32)**
Provisions reversed during the year	(2)	-	(2)	-	**(4)**
Unwinding of discount(1)	-	-	3	-	**3**
Balance at 31 December 2016	**25**	**26**	**112**	**8**	**171**
Non-current	**24**	**-**	**109**	**2**	**135**
Current	**1**	**26**	**3**	**6**	**36**

(1) Unwinding of discount is included in interest expense.

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 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 26 million (2016: EUR 25 million) was recorded mainly by Stredoslovenská energetika, a.s., Stredoslovenská distribučná, a.s., NAFTA a.s., SPP - distribúcia, a.s. and eustream, a.s.

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

PENSION PLANS

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

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

UNFUNDED PENSION PLAN WITH DEFINED BENEFIT

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

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 RESTORATION AND DECOMMISSIONING

The provision of EUR 120 million (2016: 116 million) was primarily recorded by NAFTA a.s. (EUR 92 million; 2016: EUR 97 million), POZAGAS a.s. (EUR 11 million) and by the remaining entities from the SPPI Group (EUR 14 million; 2016: EUR 12 million).

POZAGAS 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 of 2,15%.

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

The provision for abandonment and restoration has been estimated using existing technology and reflects expected future inflation. The present value of these costs was calculated using a discount rate, which reflects the current market assessment of the time value of money – risk free rate (2017: 2.15%; 2016: 2.65%). The provision takes into account the estimated costs for the abandonment of production and storage wells and centres, and the costs of restoring the sites to their original condition. These costs are expected to be incurred between 2017 and 2093.

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 (2017: 2.15%; 2016: 2.48%). 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 expected costs, inflation and discount rate shocks, i.e. simulated immediate increase/decrease of expected costs by 10% and increases in inflation or the discount rate by 1%.

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

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

In millions of EUR

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

30. Deferred income

In millions of EUR

	31 December 2017	31 December 2016
Government grants	112	43
Free-of-charge received property	42	17
Other deferred income	59	62
Total	**213**	**122**
Non-current	195	99
Current	18	23
Total	**213**	**122**

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

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

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

Balance of other deferred income in amount of EUR 59 million (2016: EUR 62 million) is represented mainly by Stredoslovenská distribučná, a.s. and EP Cargo a.s. Stredoslovenská distribučná, a.s. recorded as other deferred income following items: fee for grid connection paid by customers EUR 31 million (2016: EUR 26 million relating to Stredoslovenska energetika a.s.) and contributions paid by customers for the restoration of tangible assets related to distribution network EUR 3 million (2016: EUR 3 million relating to Stredoslovenska energetika a.s.). EP Cargo a.s. recorded as other deferred income a compensation raised from unrealized business case in amount of EUR 15 million.

31. Financial instruments

FINANCIAL INSTRUMENTS AND OTHER FINANCIAL ASSETS

In millions of EUR

	31 December 2017	31 December 2016
Assets carried at amortised cost		
Loans to other than credit institutions	276	6
of which receivables from the parent company	-	-
of which receivables from the related parties	*6*	*6*
Shares available for sale	10	10
Total	**286**	**16**
Assets carried at fair value		
Hedging: *of which*	10	12
Commodity derivatives cash flow hedge[(1)]	*9*	*12*
Interest rate swaps cash flow hedge	*1*	-
Risk management purpose: *of which*	1	-
Currency forwards reported as trading	*1*	-
Total	**11**	**12**
Non-current	14	5
of which receivables from the parent company	-	-
of which receivables from the related parties	*6*	*5*
Current	284	23
of which receivables from the parent company	-	-
of which receivables from the related parties	-	*1*
Total	**298**	**28**

(1) Commodity derivatives designated as cash flow hedges primarily relate to forwards for sale/purchase of electricity which EP ENERGY TRADING, a.s. used to hedge the cash flows related to purchase/sale of electricity utilised for electricity supply to final customers. The effectiveness of the hedging relationship is typically assessed by comparison of hedged volume to actual volumes sourced or delivered.
Additionally, eustream, a.s. is active in hedging cash inflows predominantly from gas-in-kind received from shippers. eustream, a.s. regularly performs estimations of the surplus of natural gas from received gas-in-kind and enters into short and mid-term commodity swaps in order to hedge its natural gas selling prices.

FINANCIAL INSTRUMENTS AND OTHER FINANCIAL LIABILITIES

In millions of EUR

	31 December 2017	31 December 2016
Liabilities carried at fair value		
Hedging: *of which*	34	22
Interest rate swaps cash flow hedge	*27*	*12*
Commodity derivatives cash flow hedge	*5*	*9*
Currency forwards cash flow hedge	*2*	*1*
Risk management purpose: *of which*	15	32
Interest rate swaps reported as trading	*8*	*29*
Commodity derivatives reported as trading	*7*	*3*
Currency forwards reported as trading	-	-
Total	**49**	**54**
Non-current	22	41
Current	27	13
Total	**49**	**54**

The weighted average interest rate on loans to other than credit institutions for 2017 was 0.40% (2016: 3.90%).

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

In millions of EUR

	31 December 2017 Nominal amount buy	31 December 2017 Nominal amount sell	31 December 2017 Positive fair value	31 December 2017 Negative fair value
Hedging: *of which*	2,260	(2,254)	10	(34)
Interest rate swaps cash flow hedge	*2,059*	*(2,059)*	*1*	*(27)*
Commodity derivatives cash flow hedge	*168*	*(162)*	*9*	*(5)*
Currency forwards cash flow hedge	*33*	*(33)*	-	*(2)*
Risk management purpose: *of which*	745	(746)	1	(15)
Interest rate swaps reported as trading	*432*	*(432)*	-	*(8)*
Commodity derivatives reported as trading	*58*	*(58)*	-	*(7)*
Currency forwards reported as trading	*255*	*(256)*	*1*	-
Total	**3,005**	**(3,000)**	**11**	**(49)**

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*	438	(437)	12	(22)
Interest rate swaps cash flow hedge	*239*	*(239)*	-	*(12)*
Commodity derivatives cash flow hedge	*171*	*(170)*	*12*	*(9)*
Currency forwards cash flow hedge	*28*	*(28)*	-	*(1)*
Risk management purpose: *of which*	1,821	(1,821)	-	(32)
Interest rate swaps reported as trading	*1,372*	*(1,372)*	-	*(29)*
Commodity derivatives reported as trading	*347*	*(347)*	-	*(3)*
Currency forwards reported as trading	*102*	*(102)*	-	-
Total	**2,259**	**(2,258)**	**12**	**(54)**

Swap derivatives are recognised in respect of interest rate swaps as described in detail in Note 35 – Risk management policies and disclosures.

Commodity derivatives are recognised in respect of contracts for purchase and sale of electricity and gas, 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 35 – Risk management policies and disclosures.

FAIR VALUE HIERARCHY FOR FINANCIAL INSTRUMENTS CARRIED AT FAIR VALUE

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

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

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

In millions of EUR

	2017			
	Level 1	Level 2	Level 3	Total
Financial assets carried at fair value:				
Hedging: *of which*	-	10	-	**10**
Commodity derivatives cash flow hedge	-	*9*	-	***9***
Interest rate swaps cash flow hedge	-	*1*	-	***1***
Risk management purpose: *of which*	-	*1*	-	***1***
Currency forwards reported as trading	-	*1*	-	***1***
Total	**-**	**11**	**-**	**11**
Financial liabilities carried at fair value:				
Hedging: *of which*	-	34	-	**34**
Interest rate swaps cash flow hedge	-	*27*	-	***27***
Commodity derivatives cash flow hedge	-	*5*	-	***5***
Currency forwards cash flow hedge	-	*2*	-	***2***
Risk management purpose: *of which*	-	15	-	**15**
Interest rate swaps reported as trading	-	*8*	-	***8***
Commodity derivatives reported as trading	-	*7*	-	***7***
Total	**-**	**49**	**-**	**49**

In millions of EUR

	2016			
	Level 1	Level 2	Level 3	Total
Financial assets carried at fair value:				
Hedging: *of which*	-	12	-	**12**
Commodity derivatives cash flow hedge	-	*12*	-	*12*
Total	**-**	**12**	**-**	**12**
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*	-	32	-	**32**
Interest rate swaps reported as trading	-	*29*	-	***29***
Commodity derivatives reported as trading	-	*3*	-	***3***
Total	**-**	**54**	**-**	**54**

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

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

In millions of EUR

	Carrying value	Fair value
Financial assets	31 December 2017	31 December 2017
Shares available for sale held at cost, net	10	(1)-
Loans to other than credit institutions	276	276
Total	**286**	**276**

In millions of EUR

	Carrying value	Fair value
Financial assets	31 December 2016	31 December 2016
Shares available for sale held at cost, net	10	(1)-
Loans to other than credit institutions	6	6
Total	**16**	**6**

(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).

TRANSACTIONS WITH EMISSION RIGHTS

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

FORWARD OPERATIONS

As at 31 December 2017 the Group is contractually obliged to purchase 3,033,421 pieces (2016: 2,668,113 pieces) of emission rights at an average price 5.85 EUR/piece (2016: 6.78 EUR/piece).

32. Trade payables and other liabilities

In millions of EUR

	31 December 2017	31 December 2016
Trade payables	158	167
Advance payments received	101	94
Liabilities to partners and associations	222	57
Estimated payables	54	54
Payroll liabilities	39	37
Other tax liabilities	26	28
Other liabilities	58	51
Total	**658**	**488**
Non-current	29	22
Current	629	466
Total	**658**	**488**

As at 31 December 2017 the EPIF Group reported EUR 222 million as a liability to Slovenský plynárenský priemysel, a.s. (“SPP”) (51% shareholder of SPP Infrastructure, a. s.) from unsettled dividend, and at the same time the company recognized a financial receivable against SPP of EUR 270 million. These mutual positions were not offset as of 31 December 2017 and therefore presented in the consolidated statement of financial position separately. The setoff was carried out on 13 February 2018.

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

33. Commitments and contingencies

OFF BALANCE SHEET LIABILITIES

In millions of EUR

	31 December 2017	31 December 2016
Granted pledges – securities	8,972	8,946
Commitments	255	113
Other granted pledges	1,252	925
Total	**10,479**	**9,984**

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

COMMITMENTS

Majority of commitments is represented by contracts to purchase energy in following years in amount of EUR 239 million (2016: EUR 113 million), where physical delivery of the energy will be realised in future.

OTHER GRANTED PLEDGES

In millions of EUR

	31 December 2017	31 December 2016
Property, plant and equipment	404	395
Loans granted[1]	411	325
Cash and cash equivalents [2]	366	113
Trade receivables	51	62
Inventories	20	30
Total	**1,252**	**925**

(1) Total balance of pledged granted loans includes intercompany loans of EUR 404 million (2016: EUR 319 million), which are eliminated in these consolidated financial statements.
(2) According to the bond documentation cash balances at specific entities are pledged in favour of the bondholders in case EPE defaults on bonds payments. As such, the pledged cash is readily available to the Group and does not represent restricted cash.

OFF BALANCE SHEET ASSETS

In millions of EUR

	31 December 2017	31 December 2016
Received promises	372	336
Other received guarantees and warranties	155	163
Total	**527**	**499**

RECEIVED PROMISES

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

REGULATORY CONTINGENT ASSETS RELATED TO GREEN ENERGY

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

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

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

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

OTHER RECEIVED GUARANTEES AND WARRANTIES

Other received guarantees and warranties mainly consist of guarantees received to secure trade receivables in the amount of EUR 82 million (2016: EUR 99 million) recognised by eustream, a.s. and SPP - distribúcia, a.s. and EUR 73 million (2016: EUR 60 million) recognised by NAFTA a.s.

34. Operating leases

During the year ended 31 December 2017, EUR 21 million (2016: EUR 18 million) was recognised as an expense in profit or loss in respect of operating leases.

During the year ended 31 December 2017, EUR 7 million (2016: EUR 6 million) was recognised as income in profit or loss in respect of operating leases.

35. Risk management policies and disclosures

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

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

A CREDIT RISK

I. EXPOSURE TO CREDIT RISK

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

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

ADDITIONAL ASPECTS MITIGATING CREDIT RISK

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

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

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

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

CREDIT RISK BY TYPE OF COUNTERPARTY

AS AT 31 DECEMBER 2017

In millions of EUR

	Corporate (non-financial institutions)	State, government	Financial institutions	Banks	Individuals	Other	Total
Assets							
Cash and cash equivalents	-	-	-	584	-	-	**584**
Restricted cash	-	-	1	-	-	-	**1**
Trade receivables and other assets	441	17	-	1	1	62	**522**
Financial instruments and other financial assets	285	-	-	13	-	-	**298**
Total	**726**	**17**	**1**	**598**	**1**	**62**	**1,405**

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	-	-	-	729	-	-	**729**
Restricted cash	-	-	-	1	-	-	**1**
Trade receivables and other assets	374	1	-	2	1	14	**392**
Financial instruments and other financial assets	25	-	-	3	-	-	**28**
Total	**399**	**1**	**-**	**735**	**1**	**14**	**1,150**

CREDIT RISK BY LOCATION OF DEBTOR

AS AT 31 DECEMBER 2017

In millions of EUR

	Czech Republic	Slovakia	Germany	United Kingdom	Netherlands	Hungary	Other	Total
Assets								
Cash and cash equivalents	389	175	-	-	7	13	-	**584**
Restricted cash	-	-	-	-	-	1	-	**1**
Trade receivables and other assets	159	238	7	8	-	12	98	**522**
Financial instruments and other financial assets	11	272	-	2	-	6	7	**298**
Total	**559**	**685**	**7**	**10**	**7**	**32**	**105**	**1,405**

AS AT 31 DECEMBER 2016

In millions of EUR

	Czech Republic	Slovakia	Germany	United Kingdom	Netherlands	Hungary	Other	Total
Assets								
Cash and cash equivalents	528	197	-	-	-	2	2	**729**
Restricted cash	1	-	-	-	-	-	-	**1**
Trade receivables and other assets	133	188	10	7	-	18	36	**392**
Financial instruments and other financial assets	7	4	-	-	1	-	16	**28**
Total	**669**	**389**	**10**	**7**	**1**	**20**	**54**	**1,150**

II. IMPAIRMENT LOSSES

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

CREDIT RISK – IMPAIRMENT OF FINANCIAL ASSETS

AS AT 31 DECEMBER 2017

In millions of EUR

	Loans to other than credit institutions	Trade receivables and other assets	Total
Before maturity (net)	276	494	**770**
After maturity (net)	-	28	**28**
Total	**276**	**522**	**798**
A – Assets for which a provision has been created (overdue and impaired)			
– Gross	-	44	**44**
– specific loss allowance	-	(21)	**(21)**
– collective loss allowance[1]	-	-	**-**
Net	**-**	**23**	**23**
B – Assets for which a provision has not been created (overdue but not impaired)			
– after maturity <30 days	-	3	**3**
– after maturity 31–180 days	-	2	**2**
Net	**-**	**5**	**5**
Total	**-**	**28**	**28**

(1) All companies within the Group carry out the detailed analysis of trade receivables and other assets and based on the results of this analysis create a specific loss allowance. The Group carefully assessed the need to create a collective loss allowance and concluded that the impact of the collective loss allowance is immaterial to these financial statements. Therefore no collective loss allowance was recognized as at 31 December 2017 and 31 December 2016.

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

In millions of EUR

	Loans to other than credit institutions	Trade receivables and other assets	Total
Balance at 1 January 2017	**-**	**(20)**	**(20)**
Impairment losses recognised during the year	-	(1)	**(1)**
Reversals of impairment losses recognised during the year	-	1	**1**
Effect of movement in foreign exchange rates	-	(1)	**(1)**
Balance at 31 December 2017	**-**	**(21)**	**(21)**

CREDIT RISK – IMPAIRMENT OF FINANCIAL ASSETS

AS AT 31 DECEMBER 2016

In millions of EUR

	Loans to other than credit institutions	Trade receivables and other assets	Total
Before maturity (net)	6	384	**390**
After maturity (net)	-	8	**8**
Total	**6**	**392**	**398**
A – Assets for which a provision has been created (overdue and impaired)			
– Gross	-	23	**23**
– specific loss allowance	-	(20)	**(20)**
– collective loss allowance(1)	-	-	**-**
Net	**-**	**3**	**3**
B – Assets for which a provision has not been created (overdue but not impaired)			
– after maturity <30 days	-	4	**4**
– after maturity 31–180 days	-	1	**1**
Net	**-**	**5**	**5**
Total	**-**	**8**	**8**

(1) All companies within the Group carry out the detailed analysis of trade receivables and other assets and based on the results of this analysis create a specific loss allowance. Therefore none of the companies recorded any significant collective loss allowance.

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	Trade receivables and other assets	Total
Balance at 1 January 2016	**-**	**(14)**	**(14)**
Impairment losses recognised during the year	-	(7)	**(7)**
Reversals of impairment losses recognised during the year	-	1	**1**
Balance at 31 December 2016	**-**	**(20)**	**(20)**

Impairment losses on trade receivables and other assets at 31 December 2017 and 31 December 2016 relate to several customers that have indicated that they do not expect to be able to pay their outstanding balances, mainly due to economic circumstances. The Group believes that the unimpaired amounts that are past due by more than 30 days are still collectible, based on extensive analyses of the underlying ratings of the customers.

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

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

B LIQUIDITY RISK

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

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

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

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

MATURITIES OF FINANCIAL ASSETS AND LIABILITIES

AS AT 31 DECEMBER 2017

In millions of EUR

	Carrying amount	Contractual cash flows[1]	Up to 3 months	3 months to 1 year	1–5 years	Over 5 years	Undefined maturity
Assets							
Cash and cash equivalents	**584**	584	584	-	-	-	-
Restricted cash	**1**	1	-	1	-	-	-
Trade receivables and other assets	[2]**482**	482	295	111	70	2	4
Financial instruments and other financial assets	**298**	301	280	1	9	7	4
out of which Derivatives – inflow	***11***	*530*	*114*	*17*	*19*	*380*	-
outflow		*(524)*	*(109)*	*(17)*	*(18)*	*(380)*	-
Total	**1,365**	**1,368**	**1,159**	**113**	**79**	**9**	**8**
Liabilities							
Loans and borrowings	[4]**5,181**	5,617	73	731	4,194	617	2
Trade payables and other liabilities	[3]**608**	608	534	42	27	-	5
Financial instruments and financial liabilities	**49**	49	5	11	12	21	-
out of which Derivatives – inflow		*2,475*	*190*	*652*	*102*	*1,531*	-
outflow	***(49)***	*(2,476)*	*(191)*	*(652)*	*(103)*	*(1,530)*	-
Total	**5,837**	**6,273**	**612**	**784**	**4,233**	**637**	**7**
Net liquidity risk position	**(4,472)**	**(4,905)**	**547**	**(671)**	**(4,154)**	**(628)**	**1**

(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 40 million are excluded from the carrying amount as these items will cause no future cash inflow.
(3) Advances received in amount of EUR 50 million are excluded from the carrying amount as these items will cause no future cash outflow.
(4) The Group has available committed undrawn term facilities and revolving facilities in amount of EUR 644 million.

Risk management policies and disclosures

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	**729**	729	729	-	-	-	-
Restricted cash	**1**	1	-	1	-	-	-
Trade receivables and other assets	[2]**355**	355	293	55	2	-	5
Financial instruments and other financial assets	**28**	31	4	8	-	9	10
out of which Derivatives – inflow	***12***	*117*	*31*	*69*	*17*	-	-
outflow		*(115)*	*(30)*	*(68)*	*(17)*	-	-
Total	**1,113**	**1,116**	**1,026**	**64**	**2**	**9**	**15**
Liabilities							
Loans and borrowings	**4,918**	5,518	64	109	4,632	713	-
Trade payables and other liabilities	[3]**425**	423	356	23	20	-	24
Financial instruments and financial liabilities	**54**	54	2	14	22	16	-
out of which Derivatives – inflow		*2,142*	*51*	*640*	*850*	*601*	-
outflow	***(54)***	*(2,143)*	*(51)*	*(640)*	*(850)*	*(602)*	-
Total	**5,397**	**5,995**	**422**	**146**	**4,674**	**729**	**24**
Net liquidity risk position	**(4,284)**	**(4,879)**	**604**	**(82)**	**(4,672)**	**(720)**	**(9)**

(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 37 million are excluded from the carrying amount as these items will cause no future cash inflow.
(3) Advances received in amount of EUR 63 million are excluded from the carrying amount as these items will cause no future cash outflow.

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

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

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

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

In millions of EUR

	Up to 1 year	1 year to 5 years	Over 5 years	Undefined maturity (or non-interest bearing)	Total
Assets					
Cash and cash equivalents	558	-	-	26	**584**
Restricted cash	-	-	-	1	**1**
Trade receivables and other assets	2	-	1	519	**522**
Financial instruments and other financial assets[1]	-	6	1	291	**298**
out of which Derivatives – inflow	*380*	-	-	*150*	***530***
outflow	-	-	*(380)*	*(143)*	***(523)***
Total	**560**	**6**	**2**	**837**	**1,405**
Liabilities					
Loans and borrowings[2]	2,919	1,760	497	5	**5,181**
Trade payables and other liabilities	7	-	-	651	**658**
Financial instruments and financial liabilities[1]	-	8	27	14	**49**
out of which Derivatives – inflow	*2,111*	-	-	*364*	***2,475***
outflow	*(32)*	*(400)*	*(1,679)*	*(366)*	***(2,477)***
Total	**2,926**	**1,768**	**524**	**670**	**5,888**
Net interest rate risk position	**(2,366)**	**(1,762)**	**(522)**	**167**	**(4,483)**
Net interest rate risk position (incl. IRS)	**93**	**(2,162)**	**(2,581)**	**167**	**(4,483)**

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

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

Interest rate risk exposure as at 31 December 2016 was 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	729	-	-	-	**729**
Restricted cash	1	-	-	-	**1**
Trade receivables and other assets	-	-	-	392	**392**
Financial instruments and other financial assets[1]	-	-	6	22	**28**
out of which Derivatives -inflow	-	-	-	*117*	***117***
outflow	-	-	-	*(115)*	***(115)***
Total	**730**	**-**	**6**	**414**	**1,150**
Liabilities					
Loans and borrowings[2]	2,039	2,366	501	12	**4,918**
Trade payables and other liabilities	-	-	-	488	**488**
Financial instruments and financial liabilities[1]	4	21	16	13	**54**
out of which Derivatives – inflow	*1,607*	-	-	*535*	***2,142***
outflow	*(350)*	*(656)*	*(601)*	*(536)*	***(2,143)***
Total	**2,043**	**2,387**	**517**	**513**	**5,460**
Net interest rate risk position	**(1,313)**	**(2,387)**	**(511)**	**(99)**	**(4,310)**
Net interest rate risk position (inc. IRS)	**(56)**	**(3,043)**	**(1,112)**	**(99)**	**(4,310)**

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

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

SENSITIVITY ANALYSIS

The Group performs stress testing using a standardised interest rate shock, i.e. an immediate decrease/ increase in interest rates by 1% along the whole yield curve is applied to the interest rate positions of the portfolio.

At the reporting date, a change of 1% in 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

	2017	2016
	Profit (loss)	Profit (loss)
Decrease in interest rates by 1%	(3)	(9)
Increase in interest rates by 1%	-	(2)

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

D FOREIGN EXCHANGE RISK

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

The Group is exposed to a currency risk on sales, purchases and borrowings that are denominated in currency other that the respective functional currencies of Group entities, primarily EUR and 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 functional currency against the foreign currencies is fully offset by a corresponding change in the fair value and/or the expected future cash flows of the underlying position.

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

As of 31 December 2017, Group's financial assets and liabilities based on denomination translated to millions of EUR was as follows:

In millions of EUR

	CZK	EUR	PLN	HUF	Other	Total
Assets						
Cash and cash equivalents	219	351	-	13	1	**584**
Restricted cash	-	-	-	1	-	**1**
Trade receivables and other assets	125	377	-	20	-	**522**
Financial instruments and other financial assets	9	283	-	6	-	**298**
	353	**1,011**	**-**	**40**	**1**	**1,405**
Off balance sheet assets						
Received promises and guarantees	-	372	-	-	-	**372**
Receivables from derivative operations	176	2,778	-	51	-	**3,005**
	176	**3,150**	**-**	**51**	**-**	**3,377**
Liabilities						
Loans and borrowings	2	5,179	-	-	-	**5,181**
Trade payables and other liabilities	125	510	-	23	-	**658**
Financial instruments and financial liabilities	31	18	-	-	-	**49**
	158	**5,707**	**-**	**23**	**-**	**5,888**
Off balance sheet liabilities						
Commitments	-	255	-	-	-	**255**
Payables related to derivative operations	293	2,672	-	31	4	**3,000**
	293	**2,927**	**-**	**31**	**4**	**3,255**
Net FX risk position	**195**	**(4,696)**	**-**	**17**	**1**	**(4,483)**

Off-balance sheet assets and liabilities include notional amounts of financial instruments (refer to Note 31 – Financial instruments for more details).

As of 31 December 2016, Group's financial assets and liabilities based on denomination translated to millions of EUR was as follows:

In millions of EUR

	CZK	EUR	PLN	HUF	Other	Total
Assets						
Cash and cash equivalents	138	573	2	16	-	**729**
Restricted cash	1	-	-		-	**1**
Trade receivables and other assets	102	272	-	17	1	**392**
Financial instruments and other financial assets	7	21	-	-	-	**28**
	248	**866**	**2**	**33**	**1**	**1,150**
Off balance sheet assets						
Received promises and guarantees	-	336	-	-	-	**336**
Receivables from derivative operations	1,249	1,003	-	-	7	**2,259**
	1,249	**1,339**	**-**	**-**	**7**	**2,595**
Liabilities						
Loans and borrowings	16	4,902	-		-	**4,918**
Trade payables and other liabilities	173	289	1	25	-	**488**
Financial instruments and financial liabilities	22	32	-	-	-	**54**
	211	**5,223**	**1**	**25**	**-**	**5,460**
Off balance sheet liabilities						
Guarantees given	4	108	-	-	1	**113**
Payables related to derivative operations	1,248	979	-	24	7	**2,258**
	1,252	**1,087**	**-**	**24**	**8**	**2,371**
Net FX risk position	**37**	**(4,357)**	**1**	**8**	**1**	**(4,310)**

Off-balance sheet assets and liabilities include notional amounts of financial instruments (refer to Note 31 – Financial instruments for more details).

The following significant exchange rates applied during the period:

CZK

	31 December 2017		31 December 2016	
	Average rate	Reporting date spot rate	Average rate	Reporting date spot rate
EUR 1	26.33	25.54	27.033	27.020
HUF 100	8.517	8.230	8.682	8.721
PLN 1	6.185	6.114	6.198	6.126

SENSITIVITY ANALYSIS

A strengthening (weakening) of the Czech crown, as indicated below, against the EUR, PLN and HUF at the reporting date would have increased (decreased) net assets by the amounts shown in the following table. This analysis is based on foreign currency exchange rate variances that the Group considered to be reasonably likely at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant.

Effect in millions of EUR

	2017	2016
	Profit (loss)	Profit (loss)
EUR (5% strengthening)	48	63
HUF (5% strengthening)	(1)	(1)

Effect in millions of EUR

	2017	2016
	Other comprehensive income	Other comprehensive income
EUR (5% strengthening)	-	55

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

E COMMODITY RISK

The Group's exposure to commodity risk principally consists of exposure to fluctuations in the prices of commodities, especially energy, gas and emission allowances, both on the supply and the demand side. The Group's primary exposure to commodity price risks arises from the nature of its physical assets, namely power plants and to a lesser extent from proprietary trading activities.

In case of favourable power prices, the Group manages the natural commodity risk connected with its electricity generation by selling the power it expects to produce in the cogeneration power plants and in ancillary services on an up to two-year forward basis. In case of low power prices, instead of entering into such forward contracts, the Group uses the flexibility of its own power generating capacities to react to current power prices with the aim to achieve better average selling price.

In addition, the Group purchases emission allowances on a forward basis.

The Group aims to reduce exposure to fluctuations in commodity prices through the use of swaps and various other types of derivatives.

The Group manages the commodity price risks associated with its proprietary trading activities by generally trading on a back-to-back basis, i.e., purchasing from the market where it has a customer in place to purchase the commodity.

Commodity derivatives primarily represents forwards on purchase or sale of electricity and swaps relating to gas which is typically used to hedge the commodity price for eustream's operations, specifically locking the sales prices for surplus of gas-in-kind received from shippers (for more details refer to Note 31 – 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 31 – Financial instruments by the amount as shown in the table below.

An increase/decrease in the price of natural gas by 5% would have increased/decreased profit from the related commodity derivatives described in Note 31 – Financial instruments by the amount as shown in the table below.

Impact in millions of EUR

	2017	2016
	Profit (loss)	Profit (loss)
Increase by 5%	(7)	(7)
Decrease by 5%	7	7

F REGULATORY RISK

The Group is exposed to risks resulting from the state regulation of electricity selling prices by the states in which it undertakes business activities. In Slovakia electricity prices for households and small enterprises is regulated providing for a capped profit margin per MWh.

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

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

results of operations, cash flows and prospects. The fact that the price of heat is not set by the ERO as a fixed amount per unit, gives rise to a degree of uncertainty on the part of the operator as there is the possibility that the calculation it carried out will be assessed as incorrect by the ERO.

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

The basic framework for the price regulation of gas supplies is provided by Act No. 250/2012 Coll. on Regulation in Network Industries and the Regulation Policy for the current 2017 – 2021 regulation period. Details related to the scope and method of conducting price regulation are determined in the generally-binding legal regulations issued by the RONI.

Gas Transmission business is obliged regularly to submit tariff structure proposals in respect of the relevant regulatory period to the RONI for approval. The current regulatory period started on 1 January 2017 and will end on 31 December 2021.

G CONCENTRATION RISK

Major part of gas transmission, gas and power distribution and gas storage revenues, which are primarily recognized by SPPI Group and Stredoslovenská distribučná, a.s., are concentrated to a small number of customers. This is caused by the nature of business which has high barriers of entry. At the same time, majority of these revenues is subject to regulation as well as recognized under long-term contracts, often under ‚take or pay' schemes which limit the volatility of revenues year-on-year. From the credit risk perspectives, the counterparties are typically high-profile entities which are dependent on the supplied service which naturally limits the present credit risk.

H CAPITAL MANAGEMENT

The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of its business.

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

The Group manages its capital based on the proportionate net leverage. Defined as proportionate Net Debt / proportionate EBITDA.

In millions of EUR

	31 December 2017	31 December 2016
Proportionate Gross Debt*	4,076	3,806
Less: proportionate cash and cash equivalents*	479	593
Net debt	**3,597**	**3,213**
Proportionate EBITDA*	848	768
Proportionate net debt to proportionate EBITDA	**4.24**	**4.18**

* Proportionate values are calculated as values reported by individual companies (incl. eliminations and consolidation adjustments) multiplied by effective shareholding of the Company in them.

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

In millions of EUR

	31 December 2017	31 December 2016
Total liabilities	7,306	6,770
Less: cash and cash equivalents	584	729
Net debt	**6,722**	**6,041**
Total equity attributable to the equity holders	(309)	45
Less: Other capital reserves related to common control transactions	(4,526)	(4,526)
Less: amounts accumulated in equity relating to cash flow hedges	(13)	(54)
Adjusted capital	**4,204**	**4,517**
Debt to adjusted capital	**1.59**	**1.34**

I HEDGE ACCOUNTING

The balance as at 31 December 2017 represents primarily derivative agreements to hedge on interest rate concluded by POWERSUN a.s. and EP Energy, a.s., an electricity price and a foreign exchange rate concluded by EP ENERGY TRADING, a.s., 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 EPIF Group level.

The effective portion of fair value changes in financial derivatives designated as cash flow hedges are recognised in equity.

CASH FLOW HEDGES – HEDGE OF FOREIGN CURRENCY RISK WITH NON-DERIVATIVE FINANCIAL LIABILITY

The Group applied hedge accounting for financial instruments designed to hedge the foreign currency risk cash-flows denominated in foreign currency (EUR). The hedging instruments were bonds issued in EUR in total amount of EUR 1,097 million. The hedged cash inflows in EUR arising from EUR

denominated transactions (primarily at Elektrárny Opatovice, a.s., United Energy, a.s., Plzeňská energetika a.s., EP ENERGY TRADING, a.s.) were expected to occur and impact profit or loss in periods of 2020 to 2029. The hedging relationship on the Group consolidated level was terminated in November 2017 when the FX rate reached the level which the transaction was hedged for. Due to the termination of this hedging transaction the Group doesn't report any foreign currency cash flow hedge reserve connected with this hedging act (2016: negative EUR 49 million) as of 31 December 2017.

CASH FLOW HEDGES – HEDGE OF FOREIGN CURRENCY RISK AND COMMODITY PRICE RISK OF REVENUES OF POWER PRODUCTION WITH NON-DERIVATIVE FINANCIAL LIABILITY AND FINANCIAL DERIVATIVES

The Group applies hedge accounting for hedging instruments designed to hedge the commodity price risk and the foreign currency risk of cash-flows from Group's power production sold to third parties. This includes commodity derivatives with net settlement for commodity risk, and Group's liabilities denominated in EUR. As a result of the hedge relationship on the Group level, the Group recorded a foreign currency cash flow hedge reserve of EUR 9 million (2016: EUR 7 million). For risk management policies, refer to Note 35 (d) and (e) – Risk management policies and disclosures.

CASH FLOW HEDGES – HEDGE OF COMMODITY PRICE RISK

The Group applies hedge accounting for commodity hedging instruments designed to hedge cash flow from sales of gas. The hedging instruments are commodity swaps used by eustream, a.s. in order to hedge selling price for its surplus of gas in-kind. A decline in the prices could result in a decrease in net income and cash flows.

CASH FLOW HEDGES – HEDGE OF INTEREST RATE RISK

The Group applies hedge accounting for hedging instruments designed to hedge interest rate risk of its debt financing. The hedging instruments are interest rate swaps used by the Company and EP Energy, a.s. in order to hedge risk related to repricing of interest rates on its financing. As a result of the hedge relationship on the Group level, the Group recorded a negative interest rate cash flow hedge reserve of EUR 6 million (2016: negative EUR 4 million). For risk management policies, refer to Note 35 (c) – Risk management policies and disclosures.

36. Related parties

The Group has a related party relationship with its shareholders and other parties, as identified in the following table:

A THE SUMMARY OF OUTSTANDING BALANCES WITH RELATED PARTIES AS AT 31 DECEMBER 2017 AND 31 DECEMBER 2016 WAS AS FOLLOWS:

In millions of EUR

	Accounts receivable and other financial assets	Accounts payable and other financial liabilities	Accounts receivable and other financial assets	Accounts payable and other financial liabilities
	2017	2017	2016	2016
Ultimate shareholder[1]	-	-	-	56
Companies controlled by ultimate shareholders	14	25	7	12
Companies under significant influence by ultimate shareholders	3	9	4	15
Associates	7	-	6	14
Other related parties	-	-	-	-
Total	**24**	**34**	**17**	**97**

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

B THE SUMMARY OF TRANSACTIONS WITH RELATED PARTIES DURING THE PERIOD ENDED 31 DECEMBER 2017 AND 31 DECEMBER 2016 WAS AS FOLLOWS:

In millions of EUR

	Revenues	Expenses	Revenues	Expenses
	2017	2017	2016	2016
Ultimate shareholder[1]	-	-	160	-
Companies controlled by ultimate shareholders	62	94	47	115
Companies under significant influence by ultimate shareholders	33	90	19	50
Associates	15	-	7	-
Other related parties	-	-	-	1
Total	**110**	**184**	**233**	**166**

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

TRANSACTIONS WITH THE KEY MANAGEMENT PERSONNEL

For the financial years ended 31 December 2017 and 2016 the EPIF Group´s key management personnel is represented by members of the Board of Directors of the following major entities: EP Infrastructure, a.s., 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. and EP ENERGY TRADING, a.s.

Total compensation and related social and health insurance charges incurred by the respective entities were as follows:

In millions of EUR

	2017	2016
Nr. of personnel	73	77
Compensation, fees and rewards	3	3
Compulsory social security contributions	1	1
Total	**4**	**4**

Other remuneration of Group management (management of all components within the Group) is included in Note 9 – Personnel expenses.

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

37. Group entities

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

		31 December 2017		31 December 2016		2017	2016
	Country of incorporation	Ownership %	Ownership interest	Ownership %	Ownership interest	Consolidation method	Consolidation method
EP Infrastructure, a.s. (CE Energy, a.s.)*	Czech Republic	-	-	-	-	-	-
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	100	Direct	49	Direct	Full	Equity
Pražská teplárenská a.s.	Czech Republic	47.42	Direct	47.42	Direct	Full	Full
Pražská teplárenská Trading, a.s.[5]	Czech Republic	100	Direct	100	Direct	Full	Full
Termonta Praha a.s.	Czech Republic	100	Direct	100	Direct	Full	Full
Energotrans SERVIS, a.s.[4]	Czech Republic	100	Direct	95	Direct	Full	Full
Teplo Neratovice, spol. s r.o.	Czech Republic	100	Direct	100	Direct	Full	Full
PT Real Estate, a.s.	Czech Republic	47.42	Direct	47.42	Direct	Full	Full
RPC, a.s.	Czech Republic	100	Direct	100	Direct	Full	Full
Nový Veleslavín, a.s.	Czech Republic	-	-	100	Direct	-	IFRS 5
Pod Juliskou, a.s.	Czech Republic	100	Direct	100	Direct	IFRS 5	Full
Nová Invalidovna, a.s.	Czech Republic	100	Direct	100	Direct	IFRS 5	IFRS 5
Michelský trojúhelník, a.s.	Czech Republic	100	Direct	100	Direct	Full	Full
Nové 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
GABIT spol. s r.o.	Czech Republic	100	Direct	-	-	At cost	-
EP Sourcing, a.s. (former EP Coal Trading, a.s.)	Czech Republic	100	Direct	100	Direct	Full	Full
EP ENERGY TRADING, a.s.	Czech Republic	100	Direct	100	Direct	Full	Full
Plzeňská energetika a.s.	Czech Republic	100	Direct	100	Direct	Full	Full
VTE Moldava II, a.s.*	Czech Republic	100	Direct	100	Direct	Full	Full
MR TRUST s.r.o.*	Czech Republic	100	Direct	99.50	Direct	Full	Full
Arisun, s.r.o.	Slovakia	100	Direct	100	Direct	Full	Full
Greeninvest Energy, a.s.	Czech Republic	41.70	Direct	41.70	Direct	IFRS 5	IFRS 5
POWERSUN a.s.	Czech Republic	100	Direct	100	Direct	Full	Full
Triskata, s.r.o.	Slovakia	100	Direct	100	Direct	Full	Full

		31 December 2017		31 December 2016		2017	2016
	Country of incorporation	Ownership %	Ownership interest	Ownership %	Ownership interest	Consolidation method	Consolidation method
MR TRUST s.r.o.*	Czech Republic	-	-	0.50	Direct	Full	Full
VTE Pchery, s.r.o.	Czech Republic	64	Direct	64	Direct	Full	Full
CHIFFON ENTERPRISES LIMITED*	Cyprus	100	Direct	100	Direct	Full	Full
Claymore Equity, s.r.o.*	Slovakia	80	Direct	80	Direct	Full	Full
Alternative Energy, s.r.o.	Slovakia	90	Direct	90	Direct	Full	Full
EBEH Opatovice, a.s. v likvidaci[2]	Czech Republic	-	-	100	Direct	-	Full
Elektrárny Opatovice, a.s.	Czech Republic	100	Direct	100	Direct	Full	Full
V A H O s.r.o.	Czech Republic	100	Direct	100	Direct	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.[5]	Czech Republic	100	Direct	100	Direct	Full	Full
Termonta Praha a.s.	Czech Republic	100	Direct	100	Direct	Full	Full
Energotrans SERVIS, a.s.[4]	Czech Republic	100	Direct	95	Direct	Full	Full
Teplo Neratovice, spol. s r.o.	Czech Republic	100	Direct	100	Direct	Full	Full
PT Real Estate, a.s.	Czech Republic	50.58	Direct	50.58	Direct		Full
RPC, a.s.	Czech Republic	100	Direct	100	Direct	Full	Full
Nový Veleslavín, a.s.	Czech Republic	-	-	100	Direct	-	IFRS 5
Pod Juliskou, a.s.	Czech Republic	100	Direct	100	Direct	IFRS 5	Full
Nová Invalidovna, a.s.	Czech Republic	100	Direct	100	Direct	IFRS 5	IFRS 5
Michelský trojúhelník, a.s.	Czech Republic	100	Direct	100	Direct	Full	Full
Nové Modřany, a.s.	Czech Republic	100	Direct	100	Direct	Full	Full
PT Properties I, a.s.	Czech Republic	100	Direct	100	Direct	Full	Full
PT Properties II, a.s.	Czech Republic	100	Direct	100	Direct	Full	Full
PT Properties III, a.s.	Czech Republic	100	Direct	100	Direct	Full	Full
PT Properties IV, a.s.	Czech Republic	100	Direct	100	Direct	Full	Full
PT měření, a.s.	Czech Republic	50.58	Direct	50.58	Direct	Full	Full
Stredoslovenská energetika, a.s.	Slovakia	49	Direct	49	Direct	Full	Full
Stredoslovenská energetika – Distribúcia, a.s.[3]	Slovakia	100	Direct	100	Direct	Full	Full
Elektroenergetické montáže, a.s.	Slovakia	100	Direct	100	Direct	Full	Full
SSE – Metrológia s.r.o.	Slovakia	100	Direct	100	Direct	Full	Full
Stredoslovenská energetika – Projekt Development, s.r.o.	Slovakia	100	Direct	100	Direct	Full	Full
SSE–Solar, s.r.o.	Slovakia	100	Direct	100	Direct	Full	Full
SPX, s.r.o.	Slovakia	33.33	Direct	33.33	Direct	Equity	Equity
Energotel, a.s.	Slovakia	20	Direct	20	Direct	Equity	Equity
SSE CZ, s.r.o.	Czech Republic	100	Direct	100	Direct	Full	Full
SPV100 s.r.o.	Slovakia	100	Direct	-	-	At cost	-
EP ENERGY HR d.o.o.	Croatia	100	Direct	100	Direct	Full	Full
EP Cargo a.s.	Czech Republic	100	Direct	100	Direct	Full	Full
EP Hungary, a.s. *[1]	Czech Republic	100	Direct	100	Direct	Full	Full
Budapesti Erömü Zrt.	Hungary	95.62	Direct	95.62	Direct	Full	Full
KÖBÁNYAHÖ Kft.	Hungary	25	Direct	25	Direct	At cost	At cost
ENERGZET SERVIS a.s.	Czech Republic	100	Direct	100	Direct	Full	Full

	Country of incorporation	31 December 2017 Ownership %	31 December 2017 Ownership interest	31 December 2016 Ownership %	31 December 2016 Ownership interest	2017 Consolidation method	2016 Consolidation method
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
POZAGAS a.s.	Slovakia	65	Direct	35	Direct	Full	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	100	Direct	Full	Full
CNG Holdings Netherlands B.V.*	Netherlands	50	Direct	50	Direct	Equity	Equity
CNG LLC	Ukraine	100	Direct	100	Direct	Equity	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
Plynárenská metrológia, s.r.o.	Slovakia	100	Direct	100	Direct	Full	Full
SPP – distribúcia, a.s.	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
POZAGAS a.s.	Slovakia	65	Direct	35	Direct	Full	Equity
NAFTA Services, s.r.o.	Slovakia	100	Direct	100	Direct	Full	Full
NAFTA International B.V.*	Netherlands	100	Direct	100	Direct	Full	Full
NAFTA RV	Ukraine	100	Direct	100	Direct	Full	Full
CNG Holdings Netherlands B.V.*	Netherlands	50	Direct	50	Direct	Equity	Equity
CNG LLC	Ukraine	100	Direct	100	Direct	Equity	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
POZAGAS a.s.	Slovakia	35	Direct	35	Direct	Full	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	0.50	Direct	0.50	Direct	At cost	At cost
GALANTATERM spol. s r.o.	Slovakia	17.50	Direct	17.50	Direct	At cost	At cost
SPP Infrastructure Financing B.V.	Netherlands	100	Direct	100	Direct	Full	Full

* Holding entity
(1) EP Hungary, a.s.merged with EP ENERGY, a.s. as at 1 January 2017. EP ENERGY, a.s. is the successor company.
(2) On 4 October 2017 the process of liquidation of EBEH Opatovice, a.s. v likvidaci was terminated.
(3) On 1 March Stredoslovenská energetika – Distribúcia, a.s. was renamed to Stredoslovenská distribučná, a.s.
(4) On 1 February 2018 Energotrans SERVIS, a.s. was renamed to PT Transit, a.s.
(5) On 1 February 2018 Pražská teplárenská Trading, a.s. was renamed to PT Koncept, a.s.

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

38. Litigations and claims

ELEKTRÁRNY OPATOVICE, A.S.

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

UNITED ENERGY, A.S.

United Energy, a.s. is involved in several disputes with its former shareholders, who claim that compensation received for their shares subject to a compulsory squeeze-out procedure was inadequate, and who are challenging the validity of the underlying resolution of the general shareholders meeting. The matter is currently in a mediation phase, the outcome is unforeseeable and no provision for these claims was recorded as of 31 December 2017.

PLZEŇSKÁ ENERGETIKA A.S.

In August 2012, Škoda Investment a.s. (SI) filed a claim for unjust enrichment against Plzeňská energetika a.s. (PE) for approximately EUR 2 million. This unjust enrichment claim allegedly arises from the fact that Plzeňská energetika a.s. owns and operates utility distribution systems (e.g., for gas, water and heat), which lie on the property of Škoda Investment a.s., thereby illegally restricting the ownership of Škoda Investment a.s. In February 2016 both parties, i.e. PE as well as SI, received an official request from the court to settle the dispute by mediation. Following this request the hearing has been adjourned until further notice. In June 2016 SI has filed an additional claim for unjust enrichment against PE for approximately EUR 1 million.

Additional claim covers period 2013 – 2014. After considering all the circumstances Plzeňská energetika a.s. created an adequate provision as at 31 December 2017. In January 2018, another court hearing was held and the Court ruled in favor of Plzeňská energetika, a.s. Given that there is no formal written judgement yet available and the counterparty has the option of appealing, the provision wasn't released but was reduced.

STREDOSLOVENSKÁ ENERGETIKA, A.S. GROUP ("SSE GROUP")

The SSE Group is a party to various legal proceedings. As at 31 December 2017 and 2016 no legal provisions were recorded. The Group management has decided not to disclose details in respect of material legal claims as they are currently ongoing and disclosure may prejudice the SSE Group.

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

PT is involved in regulatory proceedings commenced in October 2015 by ERO claiming that prices charged to customers of PT’s local small-scale heating infrastructures in 2011 were in breach of the Czech Act on Prices. In March 2016, ERO issued a decision ordering PT to pay EUR 9 million (CZK 240 million) consisting of a penalty in the amount of EUR 4.5 million (CZK 120 million) and restitution to affected customers in the amount of EUR 4.5 million (CZK 120 million). PT appealed the decision on 24 March 2016 with supplemental information provided on 14 April 2016. On 7 July 2016 PT received a resolution from ERO by which the Chairman of ERO returned the case again to the first instance for a new hearing. In November 2016 PT received new decision which confirmed the result of the court of the first instance. PT appealed again and on 23 December 2016 ERO issued a decision changing the amount to be paid to EUR 8 million (CZK 222 million) consisting of a penalty in the amount of EUR 4 million (CZK 111 million) and restitution to affected customers in the amount of EUR 4 million (CZK 111 million). On 26 January 2017 PT filed an appeal on the decision and applied for suspensive effect. At the same time PT submitted a fine of EUR 4 million to the ERO’s account. On 23 February 2017 the regional court satisfied the request for a suspensive effect in full and on 28 April 2017 the ERU returned the fine back to PT and PT again conservatively recorded a provision of EUR 4 million. No development has taken place since then.

39. Subsequent events

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

In 2018 EPIF has been assigned investment grade ratings from three major rating agencies. These ratings were issued by S&P Global Ratings (Preliminary BBB), Moody’s (Baa 3) and Fitch Ratings (Preliminary BBB-), all with a stable outlook.

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

Except for the matters described above and elsewhere in the Notes, the Company’s management is not aware of any other material subsequent events that could have an effect on the consolidated financial statements as at 31 December 2017.

APPENDICES*:

Appendix 1 – Consolidated statement of comprehensive income from discontinued operations

Appendix 2 – Disposals of investments and related transactions

* Information contained in the appendices form part of the complete set of these consolidated financial statements.

Date:	Signature of the authorised representative	
28 March 2018	Daniel Křetínský Chairman of the Board of Directors of EP Infrastructure, a.s.	Pavel Horský Member of the Board of Directors of EP Infrastructure, a.s.

Appendix 1 – Analysis of results from discontinued operations

FOR THE YEAR ENDED 31 DECEMBER 2016

In millions of EUR ("MEUR")

	Discontinued operations for the year ended 31 December 2016	Inter-company eliminations	Discontinued operations after inter-company eliminations
Discontinued operations			
Sales: Energy	121	(12)	109
of which: Coal	*74*	*(12)*	*62*
Electricity	*46*	-	*46*
Heat	*1*	-	*1*
Sales: Other	16	(2)	14
Total sales	**137**	**(14)**	**123**
Cost of sales: Energy	(44)	14	(30)
Cost of sales: Other	(3)	-	(3)
Total cost of sales	**(47)**	**14**	**(33)**
	90	**-**	**90**
Personnel expenses	(43)	-	(43)
Depreciation and amortisation	(31)	-	(31)
Emission rights, net	(6)	-	(6)
Taxes and charges	(3)	-	(3)
Other operating income	18	(12)	6
Other operating expenses	(27)	12	(15)
Profit (loss) from operations	**(2)**	**-**	**(2)**
Finance income	2	(1)	1
Finance expense	(9)	1	(8)
Net finance income (expense)	**(7)**	**-**	**(7)**
Share of profit (loss) of equity accounted investees, net of tax	(1)	-	(1)
Profit (loss) before income tax	**(10)**	**-**	**(10)**
Income tax expenses	(2)	-	(2)
Profit (loss) from discontinued operations	**(12)**	**-**	**(12)**
Profit (loss) attributable to:			
Owners of the Company	(12)	-	(12)
Non-controlling interest	-	-	-
Profit (loss) for the year	**(12)**	**-**	**(12)**

Appendix 2 – Disposals of investments and related transactions

The following tables provide further information on the amounts of assets and liabilities disposed as at the disposal date for individually significant business disposals.

On 29 February 2016 the Group accounted for disposal of its 99.79% investment in EOP & HOKA s.r.o. and its subsidiary EOP HOKA POLSKA SPOŁKA Z OGRANICZONA ODPOWIEDZIALNOSCIA and EP COAL TRADING POLSKA S.A. The effects of disposal are provided in the following table:

In millions of EUR

	Net assets sold in 2016
Assets held for sale	13
Liabilities held for sale	(9)
Net identifiable assets and liabilities	**4**
Sales price	5
Gain (loss) on disposal	**1**

On 31 May 2016 the Group accounted for disposal of its 100% investment in Pražská teplárenská LPZ, a.s. The effects of disposal are provided in the following table:

In millions of EUR

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

EP Infrastructure

Independent Auditor’s Report to the Statutory Financial Statements

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

Opinion

We have audited the accompanying financial statements of EP Infrastructure, a.s. ("the Company"), prepared in accordance with Czech accounting legislation, which comprise the balance sheet as at 31 December 2017, and the income statement, the statement of changes in equity and the cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory notes. Information about the Company is set out in Note 1 to the financial statements.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2017, and of its financial performance and its cash flows for the year then ended in accordance with Czech accounting legislation.

Basis for Opinion

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

Other Information

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

As described in Note 2 (k) to the financial statements, EP Infrastructure, a.s. has not prepared an annual report as at 31 December 2017, as it plans to include the respective information in a consolidated annual report. Consequently, this auditor´s report does not include our statement on the other information.

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Statutory Auditor Responsible for the Engagement

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

Prague
22 February 2018

KPMG Česká republika Audit

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

Karel Charvát

Karel Charvát
Partner
Registration number 2032

EP Infrastructure

Statutory Financial Statements and Notes to the Statutory Financial Statements

ANNUAL REPORT 2017

Balance Sheet

EP Infrastructure, a.s.
Corporate ID 024 13 507

FULL VERSION

Pařížská 130/26
Josefov
110 00 Praha 1

As of 31 December 2017
(in CZK thousand)

		31.12.2017			31.12.2016
		Gross	Adjustment	Net	Net
	TOTAL ASSETS	**172 490 310**	**39**	**172 490 271**	**176 348 196**
B.	**Fixed assets**	**123 830 656**	**39**	**123 830 617**	**131 005 153**
B.I.	***Intangible fixed assets***	**1 159**	**33**	**1 126**	
B.I.2.	*Valuable rights*	**1 159**	**33**	**1 126**	
B.I.2.2.	Other valuable rights	1 159	33	1 126	
B.II.	***Tangible fixed assets***	**52**	**6**	**46**	
B.II.2.	Tangible movable assets and sets of tangible movable assets	52	6	46	
B.III.	***Non-current financial assets***	**123 829 445**		**123 829 445**	**131 005 153**
B.III.1.	Equity investments – controlled or controlling entity	123 829 445		123 829 445	131 005 153
C.	**Current assets**	**48 659 640**		**48 659 640**	**45 343 043**
C.II.	***Receivables***	**48 257 751**		**48 257 751**	**44 297 402**
C.II.1.	Long-term receivables	**48 240 863**		**48 240 863**	**23 327 195**
C.II.1.2.	Receivables – controlled or controlling entity	48 222 524		48 222 524	23 327 195
C.II.1.5.	*Receivables – other*	**18 339**		**18 339**	
C.II.1.5.4.	Sundry receivables	18 339		18 339	
C.II.2.	***Short-term receivables***	**16 888**		**16 888**	**20 970 207**
C.II.2.1.	Trade receivables	8 485		8 485	1
C.II.2.2.	Receivables – controlled or controlling entity				20 964 818
C.II.2.4.	*Receivables – other*	**8 403**		**8 403**	**5 388**
C.II.2.4.3.	State – tax receivables	7 869		7 869	
C.II.2.4.4.	Short-term prepayments made	529		529	5 267
C.II.2.4.6.	Sundry receivables	5		5	121
C.IV.	***Cash***	**401 889**		**401 889**	**1 045 641**
C.IV.1.	Cash on hand	11		11	
C.IV.2.	Cash at bank	401 878		401 878	1 045 641
D.	**Other assets**	**14**		**14**	
D.1.	Deferred expenses	14		14	

		31.12.2017	31.12.2016
	TOTAL LIABILITIES & EQUITY	**172 490 271**	**176 348 196**
A.	**Equity**	**124 157 416**	**130 484 570**
A.I.	***Share capital***	**80 750 000**	**80 750 000**
A.I.1.	Share capital	80 750 000	80 750 000
A.II.	***Share premium and capital funds***	**12 214 583**	**18 985 640**
A.II.1.	Share premium	222 826	222 826
A.II.2.	*Capital funds*	**11 991 757**	**18 762 814**
A.II.2.1.	Other capital funds	19 157 975	19 157 975
A.II.2.2.	Gains or losses from the revaluation of assets and liabilities (+/-)	-7 166 218	-395 161
A.IV.	***Retained earnings (+/-)***	**13 003 089**	
A.IV.1.	Accumulated profits brought forward	13 003 089	
A.V.	***Profit or loss for the current period (+/-)***	**18 189 744**	**37 377 179**
A.VI.	Profit share prepayments declared (-)		-6 628 249
B.+C.	**Liabilities**	**48 332 138**	**45 863 626**
B.	**Reserves**	**128 111**	**14 714**
B.2.	Income tax reserve		14 714
B.4.	Other reserves	128 111	
C.	**Payables**	**48 204 027**	**45 848 912**
C.I.	***Long-term payables***	**47 742 717**	**43 767 751**
C.I.2.	Payables to credit institutions	47 172 380	43 232 000
C.I.8.	Deferred tax liability	81 285	58 939
C.I.9.	*Payables – other*	**489 052**	**476 812**
C.I.9.3.	Sundry payables	489 052	476 812
C.II.	***Short-term payables***	**461 310**	**2 081 161**
C.II.4.	Trade payables	35 397	16 223
C.II.6.	Payables – controlled or controlling entity		1 525 536
C.II.8.	*Other payables*	**425 913**	**539 402**
C.II.8.3.	Payables to employees	1 701	
C.II.8.4.	Social security and health insurance payables	443	
C.II.8.5.	State – tax payables and subsidies	426	225
C.II.8.6.	Estimated payables	421 877	423 567
C.II.8.7.	Sundry payables	1 466	115 610
D.	**Other liabilities**	**717**	
D.1.	Accrued expenses	717	

Profit and Loss Account

EP Infrastructure, a.s.
Corporate ID 024 13 507
Pařížská 130/26
Josefov
110 00 Praha 1

STRUCTURED BY THE NATURE OF EXPENSE METHOD

Year ended 31 December 2017
(in CZK thousand)

		Year ended 31.12.2017	Year ended 31.12.2016
I.	Sales of products and services	6 580	
A.	Purchased consumables and services	51 651	34 000
A.2.	Consumed material and energy	403	53
A.3.	Services	51 248	33 947
D.	Staff costs	27 231	
D.1.	Payroll costs	21 497	
D.2.	Social security and health insurance costs and other charges	5 734	
D.2.1.	Social security and health insurance costs	5 726	
D.2.2.	Other charges	8	
E.	Adjustments to values in operating activities	39	
E.1.	Adjustments to values of intangible and tangible fixed assets	39	
E.1.1.	Adjustments to values of intangible and tangible fixed assets – permanent	39	
III.	Other operating income	656	
III.3.	Sundry operating income	656	
F.	Other operating expenses	128 960	11
F.3.	Taxes and charges	17	6
F.4.	Reserves relating to operating activities and complex deferred expenses	128 111	
F.5.	Sundry operating expenses	832	5
*	**Operating profit or loss (+/-)**	**-200 645**	**-34 011**
IV.	Income from non-current financial assets – equity investments	19 550 999	39 214 135
IV.1.	Income from equity investments – controlled or controlling entity	19 550 999	39 214 135
VI.	Interest income and similar income	653 685	565 326
VI.1.	Interest income and similar income – controlled or controlling entity	653 685	565 326
J.	Interest expenses and similar expenses	1 118 892	1 985 501
J.1.	Interest expenses and similar expenses – controlled or controlling entity	4 441	39 770
J.2.	Other interest expenses and similar expenses	1 114 451	1 945 731
VII.	Other financial income	2 760 201	392 531
K.	Other financial expenses	3 528 688	759 643
*	**Financial profit or loss (+/-)**	**18 317 305**	**37 426 848**
**	**Profit or loss before tax (+/-)**	**18 116 660**	**37 392 837**
L.	Income tax	-73 084	15 658
L.1.	Due income tax	-513	15 658
L.2.	Deferred income tax (+/-)	-72 571	
**	**Profit or loss net of tax (+/-)**	**18 189 744**	**37 377 179**
***	**Profit or loss for the current period (+/-)**	**18 189 744**	**37 377 179**
*	Net turnover for the current period	22 972 121	40 171 992

Statement of Changes in Equity

EP Infrastructure, a.s.
Corporate ID 024 13 507
Pařížská 130/26
Josefov
110 00 Praha 1

Year ended 31 December 2017
(in CZK thousand)

	Share capital	Share premium	Gains or losses from the revaluation of assets	Capital funds	Accumula-ted profits brought forward	Profit or loss for the current period	Profit share prepa-yments declared	TOTAL EQUITY
Balance at 31 December 2015	**2 000**		**-309 834**	**19 157 975**	**1 309 493**	**1 519 25**		**21 678 893**
Distribution of profit or loss					1 519 259	-1 519 259		
Cash increase in share capital	1 462 000							1 462 000
Non cash increase in share capital	79 286 000							79 286 000
Share premium		222 826						222 826
Dividends declared					-2 828 752			-2 828 752
Gains or losses from the revaluation of assets			-67 263					-67 263
Effect from hedge accounting			-18 064					-18 064
Profit share prepayments declared							-6 628 249	-6 628 249
Profit or loss for the current period						37 377 179		37 377 179
Balance at 31 December 2016	**80 750 000**	**222 826**	**-395 161**	**19 157 975**		**37 377 179**	**-6 628 249**	**130 484 570**
Distribution of profit or loss					37 377 179	-37 377 179		
Profit share prepayments declared							-1 179 541	-1 179 541
Dividends declared					-24 374 090		7 807 790	-16 566 300
Gains or losses from the revaluation of assets			-7 175 708					-7 175 708
Effect from hedge accounting			404 651					404 651
Profit or loss for the current period						18 189 744		18 189 744
Balance at 31 December 2017	**80 750 000**	**222 826**	**-7 166 218**	**19 157 975**	**13 003 089**	**18 189 744**		**124 157 416**

Cash Flow Statement

EP Infrastructure, a.s.
Corporate ID 024 13 507

Pařížská 130/26
Josefov
110 00 Praha 1

Year ended 31 December 2017
(in CZK thousand)

		Year ended 31.12.2017	Year ended 31.12.2016
P.	**Opening balance of cash and cash equivalents**	**1 045 641**	**900 547**
Z.	Profit or loss from ordinary activities before tax	18 116 660	37 392 837
A.1.	Adjustments for non-cash transactions	-18 197 585	-37 426 738
A.1.1.	Depreciation of fixed assets	39	
A.1.2.	Change in provisions and reserves	128 111	
A.1.4.	Revenues from profit shares	-19 550 999	-39 214 135
A.1.5.	Interest expense and interest income	465 207	1 420 175
A.1.6.	Adjustments for other non-cash transactions	669 033	-238 840
	Settlement of derivatives and other financial operations	91 024	606 062
A.*	**Net operating cash flow before changes in working capital**	**-80 925**	**-33 901**
A.2.	Change in working capital	-65 870	57 110
A.2.1.	Change in operating receivables and other assets	-3 644	-4 558
A.2.2.	Change in operating payables and other liabilities	-62 226	61 668
A.**	**Net cash flow from operations before tax**	**-146 795**	**23 209**
A.3.	Interest paid	-1 097 516	-1 920 526
A.5.	Income tax paid from ordinary operations	-22 070	-231
A.***	**Net operating cash flows**	**-1 266 381**	**-1 897 548**
B.1.	Fixed assets expenditures	-1 211	-5 719 236
B.3.	Loans and borrowings to related parties		-22 812 034
	Received profit shares	12 223 550	8 788 683
B.***	**Net investment cash flows**	**12 222 339**	**-19 742 587**
C.1.	Change in payables from financing	7 553 518	28 254 693
C.2.	Impact of changes in equity	-19 153 228	-6 469 464
C.2.1.	Cash increase in share capital		1 462 000
C.2.6.	Profit shares paid	-19 153 228	-7 931 464
C.***	**Net financial cash flows**	**-11 599 710**	**21 785 229**
F.	**Net increase or decrease in cash and cash equivalents**	**-643 752**	**145 094**
R.	**Closing balance of cash and cash equivalents**	**401 889**	**1 045 641**

Notes to the Czech statutory financial statements (non-consolidated)

EP INFRASTRUCTURE, A.S.

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

1. Incorporation and Description of the Business

ESTABLISHMENT AND DESCRIPTION OF THE COMPANY

EP Infrastructure, a.s. ("EPIF", formerly CE Energy, a.s., hereinafter referred to as "the Company") was incorporated on 6 December 2013 by subscribing registered capital in the form of a monetary contribution of TCZK 2 000.

The Company's principal activity is the management of its own assets. The primary mission of the Company is to coordinate and strategically manage the development of directly or indirectly controlled entities, and to acquire and manage the Company's equity interests and other assets.

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% ownership interest in EP Infrastructure, a.s. The transaction was settled on 24 February 2017. The remaining 69% stake in EPIF was sold to EPIF Investments a.s. (a wholly-owned subsidiary of EPH) and thus continues to be held by EPH, which also retains managerial control over EPIF.

OWNERSHIP STRUCTURE

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

EPIF Investments a.s.	69%
CEI INVESTMENTS S.a.r.l.	31%

REGISTERED OFFICE AND NAME AT 31 DECEMBER 2017

EP Infrastructure, a.s.
Pařížská 130/26
Josefov
110 00 Praha 1
Czech Republic

IDENTIFICATION NUMBER

024 13 507

MEMBERS OF THE BOARD OF DIRECTORS AND SUPERVISORY BOARD AS AT 31 DECEMBER 2017

MEMBERS OF THE BOARD OF DIRECTORS

Daniel Křetínský (chairman)
Jiří Zrůst (vice-chairman)
Gary Mazzotti (vice-chairman)
Marek Spurný (member)
Pavel Horský (member)
Milan Jalový (member)
Stéphane Louis Brimont (member)

MEMBERS OF THE SUPERVISORY BOARD

Jan Špringl (chairman)
William David George Price (vicechairman)
Petr Sekanina (member)
Jiří Feist (member)
Jan Stříteský (member)
Rosa Maria Villalobos Rodriguez (member)

2. Basis of accounting and general accounting policies applied by the Company

These accompanying financial statements have been prepared in compliance with Act No. 563/1991 Coll., on Accounting, as amended, and related accounting regulations, in particular Decree No. 500/2002 Coll., implementing certain provisions of Act No. 563/1991 Coll., on Accounting.

The financial statements have been prepared on the historical cost basis.

The Company's financial statements have been prepared for the period from 1 January 2017 to 31 December 2017. The prior period was from 1 January 2016 to 31 December 2016.

All information is stated in thousands of Czech crowns, unless otherwise indicated.

A INTANGIBLE FIXED ASSETS

Intangible fixed assets include assets with an estimated useful life greater than one year and an acquisition cost greater than CZK 60 thousand.

Purchased intangible fixed assets are stated at acquisition cost less accumulated amortisation and any recognised impairment losses.

Intangible fixed assets, except assets under construction, are amortised on a straight-line basis over their estimated useful lives as follows:

Type of asset	Amortisation method *(straight-line, declining-balance, units-of-production)*	Number of years
Trademarks	Straight-line	20

B NON-CURRENT FINANCIAL ASSETS

Non-current financial assets principally consist of equity investments in controlled entities.

As at the balance sheet date, investments are recognised at acquisition cost, and if a particular investment has been impaired, an adjustment is recognised.

Where securities are held in foreign currencies, they are translated at the balance sheet date using the prevailing Czech National Bank official rates, with any foreign exchange gains and losses recorded in "Gains or losses from the revaluation of assets and liabilities" in equity.

C RECEIVABLES

Receivables are recorded at nominal value. Assigned receivables are stated at acquisition cost, including other related costs (Section 25 of Act No. 563/1991 Coll.). At the reporting date, the temporary impairment of doubtful receivables is recognised using adjustments that are debited to expenses and shown in the balance sheet's "Adjustment" column. Provisions are recognised to receivables that are more than 180 days overdue and based on an internal analysis of the credit status of customers.

At the reporting date, the amount of receivables from loans granted increases by uncollected interest (except for default interest).

D PAYABLES

Payables are recorded at their nominal value.

E LOANS RECEIVED

Short-term and long-term loans are initially recorded at their nominal value. The Company classifies as short-term any part of long-term loans that is due within one year of the reporting date.

At the reporting date, the balance of non-bank loans is increased by unpaid interest charged by creditors. Interest on bank loans that was not included in the bank statement for the period is recorded in estimated payables.

F RESERVES

Reserves are intended to cover future risks and expenditure, the nature of which is clearly defined and which are likely to be incurred, but which are uncertain as to the amount or the date on which they will arise.

G FOREIGN CURRENCY TRANSACTIONS

The Company translates a foreign currency asset/liability to Czech crowns using the Czech National Bank official rate at the date of acquisition of the asset/inception of the liability. Realised foreign exchange gains and losses are recorded in the current year's profit or loss.

At the reporting date, foreign currency assets and liabilities were translated at the prevailing Czech National Bank official rates, with any foreign exchange gains and losses recorded in financial revenues or expenses.

H DERIVATIVES

CASH FLOW HEDGES – HEDGING THE RISK OF EXCHANGE RATE FLUCTUATIONS BY NON-DERIVATIVE FINANCIAL LIABILITIES

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

The realised portion of financial derivatives is recognised under Other financial expenses/revenues in the income statement. As at the balance sheet date, the unrealised portion is recorded in revaluation of assets and liabilities and recognised as part of equity.

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

TRADING DERIVATIVES

At the balance sheet date, financial 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 "Other financial expenses/income".

HEDGING DERIVATIVES (A HEDGE OF FUTURE INTEREST EXPENSE)

The Company uses hedging derivatives (interest rate swaps) to mitigate interest rate risks relating to payments of interest on loans received. Hedging derivatives are recognised at fair value. The hedge is fully in line with the Company's risk management strategy. All interest rate swap transactions are documented and their effectiveness is evaluated on a continuous basis.

The realised portion of financial derivatives is recorded under Other financial expenses/income in the income statement. As at the balance sheet date, the unrealised portion is recorded in revaluation of assets and liabilities and recognised as a part of equity.

I 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 accordance with the principle of prudence, the Company debits to expenses the establishment of provisions and adjustments to cover all risks, losses and impairment known as at the reporting date.

J EXTERNAL FINANCING COSTS

Costs related to obtaining external financing, including relating fees, are charged to current year expenses as incurred.

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

K INCOME TAX

Current income tax is calculated by applying the enacted tax rate to the accounting profit increased or decreased by permanently or temporarily tax non-deductible expenses and non-taxable revenues (e.g. establishment and utilisation of other provisions and adjustments, entertainment expenses, the difference between accounting and tax depreciation, revenue from investments in subsidiaries and associated companies).

Deferred tax is determined for companies constituting a group and for all entities that are required to have their financial statements audited. Deferred tax is calculated based on the balance sheet liability method, i.e. temporary differences between the carrying and tax value of assets and liabilities, multiplied by the tax rate expected to be valid for the following 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 recognised 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.

L CONSOLIDATION

The Company prepares consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the EU. The Czech translation of the consolidated financial statements, along with the consolidated annual report, will be published in the Commercial Register.

The consolidated financial statements of the widest group of entities are prepared by Energetický a průmyslový holding, a.s., with its registered office at Pařížská 130/26, Josefov, 110 00 Praha 1, Czech Republic. Its consolidated financial statements for 2017 will be published in accordance with Section 21a of the Accounting Act and stored at the registered office of Energetický a průmyslový holding, a.s.

M LOANS, BONDS AND SHORT-TERM FINANCIAL ASSISTANCE DUE WITHIN ONE YEAR

The Company classifies as short-term any part of long-term loans, bonds and other short-term financial assistance that is due within one year of the balance sheet date.

N DIVIDENDS

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established. Profit share prepayments are recognised in current year revenues, i.e. in the period when the profit share prepayment was declared.

3. Cash flow statement

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

Cash and cash equivalents can be analysed as follows:

(in TCZK)

	Balance at 31/12/2017	Balance at 31/12/2016
Cash on hand	11	-
Cash at bank	401 878	1 045 641
Total cash and cash equivalents	**401 889**	**1 045 641**

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

4. Intangible fixed assets

Intangible fixed assets comprise EPIF's trademarks.

ACQUISITION COST

(in TCZK)

	Opening balance	Additions	Disposals	Transfers	Closing balance
Other valuable rights	-	1 159	-	-	1 159
Total 2017	**-**	**1 159**			**1 159**

ADJUSTMENTS AND ACCUMULATED AMORTISATION

(in TCZK)

	Opening balance	Additions	Disposals	Transfers	Closing balance	Adjustments	Carrying amount
Other valuable rights	-	33	-	-	33	-	33
Total 2017	**-**	**33**	**-**	**-**	**33**	**-**	**33**

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

5. Non-current financial assets

At 31 December 2017 and 31 December 2016

Equity investments – controlled or controlling entity					
Name of the entity	Total profit (+) loss (-) for the period 1/1/2017–31/12/2017* (in TCZK/TEUR)	Equity at 31/12/2017* (in TCZK/TEUR)	Value of equity investment in foreign currency at 31/12/2017 (in TEUR)	Net value of equity investment at 31/12/2017 (in TCZK)	Net value of equity investment at 31/12/2016 (in TCZK)
EP Energy, a.s. ("EPE")	1 939 469 (CZK)	20 567 134 (CZK)	1 257 751	32 122 967	33 984 439
Czech Gas Holding Investment B.V. ("CGHI")	30 650 (EUR)	60 228 (EUR)	355 700	9 084 578	9 611 014
EPH Gas holding B. V. ("EPHGH")	694 510 (EUR)	103 677 (EUR)	3 235 000	82 621 900	87 409 700
Total				**123 829 445**	**131 005 153**

* Information based on unaudited financial statements at 31 December 2017.

All equity investments are fully owned by the Company.

As at 31 December 2017 the registered offices of the companies were as follows

EP Energy, a.s.	Pařížská 130/26, Josefov, 110 00 Praha 1, Czech Republic
Czech Gas Holding Investment B.V.	Schiphol Boulevard 477 Tower C4, 1118 BK Schiphol, Netherlands
EPH Gas holding B. V.	Schiphol Boulevard 477 Tower C4, 1118 BK Schiphol, Netherlands

6. Long-term receivables

Long-term receivables comprise a loan provided to Slovak Gas Holding B.V. ("SGH"), amounting to TCZK 21 518 720 (MEUR 842.6), plus accrued interest of TCZK 1 163 804 (MEUR 45.6). The loan, including interest, is to be repaid as a lump sum on 16 March 2023. Long-term receivables also include an interest-free loan of TCZK 25 540 000 (EUR 1 billion) to EPH Gas Holding B. V., repayable in 2022.

OTHER RECEIVABLES

Other receivables comprise positive fair values derivatives, totalling TCZK 18 339, as described below:

31 DECEMBER 2017

Forward exchange contracts	Counterparty	Due date (expiry)	Fair value at 31/12/2017	Nominal value (in TEUR)
Interest rate swap (hedging)	Citibank	2026	9 701	180 000
Interest rate swap (hedging)	Komerční banka, a.s. ("KB")	2026	8 638	200 000
Total derivatives			**18 339**	

7. Short-term receivables

Trade receivables total TCZK 8 485 (at 31 December 2016: TCZK 1). As at the balance sheet date, no trade receivables were due in more than five years.

As at 31 December 2016, short-term receivables presented in "Receivables – controlled or controlling entity" comprised an outstanding dividend of TCZK 20 964 818 to be paid by EPHGH.

8. Equity

CHANGES IN SHARE CAPITAL

As at 31 December 2017, the approved, issued and fully paid-up share capital comprised 323 000 000 ordinary shares at CZK 250 per share.

Reconciliation of the number of issued shares at the start and end of the period.

	Number of issued shares	Number of issued shares
Nominal value of shares (CZK)	**200 000**	**250**
Issued shares at 31 December 2015	**10**	**-**
New shares issued at 10 March 2016 (ordinary shares)	7 310	-
Split of 7 320 shares at 20 April 2016 (1 share with a nominal value of CZK 200 000 into 800 shares at CZK 250 per share)	-7 320	5 856 000
New shares issued at 20 April 2016 (ordinary shares)	-	317 144 000
Issued shares at 31 December 2016	**-**	**323 000 000**
Decrease in number of Shares A – from 226 100 000 to 222 870 000 shares	-	-3 230 000
Increase in number of Shares B – from 96 900 000 to 100 130 000 shares	-	3 230 000
Issued shares at 31 December 2017	**-**	**323 000 000**

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

The total issue price of all shares at 20 April 2016 was TCZK 79 508 826, of which TCZK 222 826 was share premium.

Based on the decision of the sole shareholder dated 14 October 2016, all of the Company's shares, i.e. 323 000 000 registered ordinary book-entry shares at CZK 250 per share, were converted to share certificates.

226 100 000 registered ordinary share certificates at CZK 250 per share ("Shares A"), and 96 900 000 registered share certificates at CZK 250 per share that confer special rights as specified by Article 22 of the Company's articles of association ("Shares B"). The special rights conferred by Shares B comprise special rights related to the distribution of the Company's profit and other capital funds.

Based on the decision of the sole shareholder (Energetický a průmyslový holding, a.s.) dated 6 February 2017, 3 230 000 of the Company's Shares A were converted to 3 230 000 Shares B, with a nominal value of CZK 250 per share (see table above).

The change in "Gains or losses from the revaluation of assets and liabilities" is due to a foreign exchange difference arising from the revaluation of foreign currency ownership interests; a foreign exchange difference arising from the revaluation of foreign currency liabilities used as a cash flow hedging instrument; and the revaluation of hedging derivatives, including deferred tax (see table below).

On 23 January 2017, EP Infrastructure, a.s. declared a profit share prepayment of TCZK 1 179 542 payable to EPH.

In 2017 and 2016, having been approved by the general meeting, the profit for 2016 and 2015, respectively, was transferred to retained profits. The general meeting held on 20 February 2017 affirmed the previously paid advance profit distribution (totalling TCZK 7 807 790).

Based on a decision made in May and June 2017, the Company declared dividends totalling TCZK 16 566 300, which were paid out in full.

CHANGES IN FAIR VALUE RECORDED IN ACCOUNT GROUP 41 (GAINS OR LOSSES FROM THE REVALUATION OF ASSETS AND LIABILITIES) DURING THE ACCOUNTING PERIOD

	Revaluation of foreign currency ownership interests	Cash flow hedges (currency risk)	Cash flow hedges (currency risk) – deferred tax	Interest rate swap (hedging)	Interest rate swap (hedging) – deferred tax	Total
Balance at 31/12/2016	**-646 422**	**310 200**	**-58 939**	**-**	**-**	**-395 161**
Revaluation of foreign currency ownership interests	-7 175 708	-	-	-	-	**-7 175 708**
Utilisation of cash flow hedges	-	-45 675	-	-	-	**-45 675**
Revaluation of cash flow hedges	-	651 200	-	-	-	**651 200**
Deferred tax – cash flow hedges	-	-	-115 049	-	-	**-115 049**
Change in fair value of interest rate swaps	-	-	-	-105 957	-	**-105 957**
Deferred tax – interest rate swaps	-	-	-	-	20 132	**20 132**
Balance at 31/12/2017	**-7 822 130**	**915 725**	**-173 988**	**-105 957**	**20 132**	**-7 166 218**

9. Reserves

The Company recognised a reserve for the real estate tax that the Company expects to pay in connection with past transactions.

10. Long-term payables

A PAYABLES TO CREDIT INSTITUTIONS

On 21 June 2017, EPIF concluded a loan facility agreement with, among others, several banks as arrangers and creditors and with UniCredit Bank AG London Branch as the agent and security agent ("the EPIF Loan Facility Agreement").

The EPIF Loan Facility Agreement provides the following loan facilities totalling MEUR 1 950:

- Loan Facility A, amounting to MEUR 533;
- Loan Facility B1, amounting to MEUR 304;
- Loan Facility B2, amounting to MEUR 229;
- Loan Facility C, amounting to MEUR 534;
- Loan Facility D, amounting to MEUR 150;
- Loan Facility E, amounting to MEUR 200.

As at 31 December 2017 the total amount of principal outstanding under the EPIF Loan Facility Agreement was MEUR 1 847 (TCZK 47 172 380). The due date of Loan Facility A is three years after the date of signing the EPIF Loan Facility Agreement; the due date of Loan Facilities B1 and B2 is four years after the date of signing the EPIF Loan Facility Agreement; and the due date of Loan Facilities C, D and E is five years after the date of signing the EPIF Loan Facility Agreement.

The interest rate under the EPIF Loan Facility Agreement equals a margin plus a reference rate. EURIBOR is used as the reference rate. If EURIBOR is negative, the reference rate is zero percent.

Total outstanding interest as at 31 December 2017, presented in estimated payables under short-term liabilities, was TCZK 263 870 (at 31 December 2016: TCZK 336 260).

B RISK MANAGEMENT DERIVATIVES

Long-term payables also comprise liabilities arising from derivatives (see the following table):

Forward rate agreements presented in "Sundry payables" in TCZK	Counterparty	Due date (expiry)	Fair value at 31/12/2017	Nominal value (in TEUR)	Fair value at 31/12/2016
Interest rate swap (for trading)	KB	2019	211 800	400 000	315 385
Interest rate swap (for trading)*	KB	2018	-	-	7 046
Interest rate swap (for trading)*	ČSOB CZ	2018	-	-	1 425
Interest rate swap (hedging)	KB	2025	114 735	300 000	152 956
Interest rate swap (hedging)	KB	2026	9 767	200 000	-
Interest rate swap (hedging)	Commerzbank	2026	107 803	400 000	-
Interest rate swap (hedging)	Citibank	2026	44 259	240 000	-
Interest rate swap (hedging)	ING	2026	688	100 000	-
Total derivatives			**489 052**	**1 640 000**	**476 812**

* Presented in other short-term payables as at 31 December 2017

CASH FLOW HEDGES – HEDGING THE RISK OF EXCHANGE RATE FLUCTUATIONS BY NON-DERIVATIVE FINANCIAL LIABILITIES

The Company applies hedge accounting for hedging instruments designated to hedge foreign exchange risk of revenues denominated in foreign currency (EUR). The hedging instruments comprise the respective portions of the nominal value of euro-denominated credit lines drawn, amounting to MEUR 440 (31 December 2016: MEUR 440) of the total drawn loan amount of MEUR 1 600. The hedged euro-denominated cash inflows that are considered highly probable by the Company and that arise from dividends paid by the subsidiaries are expected in the period from 2017 to 2031. The impact on profit or loss is also expected in that period. As at 31 December 2017, TCZK 915 725 (31 December 2016 – TCZK 310 200), including a related deferred tax of TCZK 173 988 (31 December 2016 – TCZK 58 939), arising from this hedging relationship was recorded in the Company's equity. In 2017, as a result of the utilisation of cash flow hedges, TCZK 45 675 (2016: TCZK 24 500) of the amount recorded in equity in connection with the application of hedge accounting was reclassified to revenues.

Notes to the Czech statutory financial statements (non-consolidated)
EP Infrastructure, a.s.
Year ended 31 December 2017
(amounts are shown in thousands of Czech crowns "TCZK")

11. Short-term payables

TRADE PAYABLES

As at the balance sheet date, no trade payables were due in more than five years.

PAYABLES TO EPH

As at 31 December 2016 the item "Payables – controlled or controlling entity" included an outstanding liability to EPH arising from a declared profit share prepayment distribution of TCZK 1 525 536.

Estimated payables primarily comprise an estimate relating to interest on a long-term bank loan (see note 10. (a)), amounting to TCZK 263 870 (31 December 2016: TCZK 336 260), and an estimate relating to guarantees, advisory, accounting and administration services.

Short-term payables also comprise liabilities arising from derivatives (see the following table):

31 DECEMBER 2017

Forward exchange contracts recorded in "Other payables" in TCZK	Counterparty	Due date (expiry)	Fair value at 31/12/2017	Nominal value (in TEUR)
Interest rate swap (for trading)	KB	2018	239	5 260
Interest rate swap (for trading)	ČSOB CZ	2018	1 190	26 300
Total derivatives			**1 429**	**31 560**

31 DECEMBER 2016

Forward exchange contracts recorded in "Other payables" in TCZK	Counterparty	Due date (expiry)	Fair value at 31/12/2016	Nominal value (in TEUR)
Interest rate swap	ČSOB CZ	27/12/2017	19 702	71 923
Interest rate swap	ČSOB CZ	27/12/2017	7 062	26 154
Interest rate swap	ČSOB SK	27/12/2017	5 296	19 615
Interest rate swap	ING	29/12/2017	12 366	45 769
Interest rate swap	KB	29/12/2017	7 001	26 154
Interest rate swap	RB	29/12/2017	3 527	13 077
Interest rate swap	SG	29/12/2017	35 939	130 769
Interest rate swap	TB	29/12/2017	8 815	32 673
Interest rate swap	UCBCZ	29/12/2017	10 597	19 635
Interest rate swap	UCBSK	31/12/2017	5 305	39 231
Total derivatives			**115 610**	**425 000**

12. Expenses and revenues

Costs of services primarily comprise expenses related to legal and expert appraisal services, audit, accounting and consolidation, and professional advisory.

Income from equity investments – controlled or controlling entity comprise dividends declared by EP Energy, a.s. of TCZK 2 069 439 (at 31 December 2016: TCZK 9 587 551), by CGHI of TCZK 855 299 (2016: TCZK 1 783 285), and by EPHGH of TCZK 16 626 261 (2016: TCZK 27 843 299).

The item "Other interest expenses and similar expenses" primarily includes bank loan interest.

Other financial income comprise foreign exchange gains and revenue from the recharging of a proportionate part of the fees related to the increased drawing of the bank loan from UniCredit Bank AG London Branch (as described in note 10.) to SGH.

Other financial expenses primarily comprise foreign exchange losses, expenses related to the refinancing of the bank loan, and costs of derivative transactions.

13. Employees and executives

As at 31 December 2017 the Company had in total 13 employees (as at 31 December 2016 the Company had no employees).

Members of the board of directors and supervisory board of EP Infrastructure, a.s. received remuneration of TCZK 4 320 in connection with their roles (2016: 0 TCZK).

No social security and health insurance liabilities were overdue.

14. Fees payable to statutory auditors

The information will be disclosed in the notes to the consolidated financial statements as at 31 December 2017.

Notes to the Czech statutory financial statements (non-consolidated)
EP Infrastructure, a.s.
Year ended 31 December 2017
(amounts are shown in thousands of Czech crowns "TCZK")

15. Income tax

CURRENT TAX

The Company recognised no income tax provision for 2017. Income tax advances amount to TCZK 7 869 and are presented in State – tax receivables. As at 31 December 2016 the Company recognised an income tax provision of TCZK 15 098, reduced by income tax prepayments of TCZK 384.

The expense of TCZK -513 relating to current tax for 2017 represents the difference between the tax liability for 2016 and the release of the tax reserve recognised as at 31 December 2016.

DEFERRED TAX

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

Deferred tax liability can be analysed as follows:

	Balance as at 31/12/2017	Balance as at 31/12/2016
Deferred tax – cash flow hedges (currency risk) as described in note 8.	173 988	58 939
Deferred tax – interest rate swap (hedging) as described in note 8.	-20 132	-
Deferred tax asset – Tax loss	-72 571	-
Total	**81 285**	**58 939**

16. Significant off-balance sheet transactions

The long-term bank loan is secured by 50% minus one share in EP Energy, a.s.; shares in Czech Gas Holding Investment B. V. ("CGHI"); cash in bank accounts; and receivables from Slovak Gas Holding B.V. ("SGH") and EPH Gas Holding B. V. ("EPHGH"). In addition, SGH joined the EPIF Loan Agreement as a guarantor. Furthermore, Loans B1 and C are secured by shares in EPH Gas Holding B. V., Seattle Holding B.V, Slovak Gas Holding B.V. and SPP Infrastructure, a.s.

The Company has provided a loan commitment of TCZK 190 280 to SGH.

The Company's off-balance sheet accounts also include receivables of TCZK 52 396 842 (31 December 2016: TCZK 31 676 627) and liabilities of TCZK 52 396 842 (31 December 2016: TCZK 31 676 627), which comprise the nominal values of derivatives held.

17. Significant subsequent events

The Company is currently considering a refinancing of significant part of its existing bank loans. For this purpose the Company also approached selected rating agencies. As of the date of these financial statements, S&P already published a preliminary rating: BBB, outlook stable.

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

Prepared on: 22 February 2018

Daniel Křetínský

Chairman of the board of directors

Pavel Horský

Member of the board of directors

Notes

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