Teplárna Otrokovice a.s.

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

For the years ended 31 December 2016 and 31 December 2015

Consolidated Statement of Profit or Loss

for the years ended 31 December 2016 and 31 December 2015

	Note	2016 *CZK 000*	2015 *CZK 000*
Revenue	4	**1,150,558**	**1,194,904**
Consumption of material and energy		(613,402)	(729,427)
Services		(118,369)	(81,601)
Personnel expenses	5.5	(113,471)	(104,795)
Depreciation and amortization		(154,541)	(161,788)
Other operating income	5.1	21,403	39,595
Other operating expenses	5.2	(71,517)	(78,162)
Profit or loss on operating activities		**100,661**	**78,726**
Interest expense, net	5.3	(65,127)	(67,152)
Other financial items, net	5.4	(5,129)	2,939
Financial profit/loss		**(70,256)**	**(64,213)**
Pre-tax profit		**30,405**	**14,513**
Income tax	6	(5,950)	(2,880)
Net profit for the year		**24,455**	**11,633**

Consolidated Statement of Other Comprehensive Income

for the years ended 31 December 2016 and 31 December 2015

	Note	2016	2015
		CZK 000	*CZK 000*
Net profit for the year		**24,455**	**11,633**
Other comprehensive income (loss) for the year, net of tax		-	-
Total comprehensive income for the year, net of tax		**24,455**	**11,633**

Consolidated Statement of Financial Position

as at 31 December 2016 and 31 December 2015

	Note	2016 *CZK 000*	2015 *CZK 000*	1 January 2015 *CZK 000*
NON-CURRENT ASSETS				
Intangible assets	8	89,707	74,127	107,879
Tangible assets	7	1,813,597	1,889,860	1,999,884
Land		*159,823*	*158,823*	*158,823*
Structures		*944,348*	*950,675*	*996,046*
Movable assets and sets of movable assets		*650,638*	*720,118*	*819,995*
Tangible fixed assets in progress		*57,653*	*55,583*	*21,408*
Advances granted for tangible fixed assets		*1,135*	*4,661*	*3,612*
Long-term receivables		618	561	206
Total non-current assets		**1,903,922**	**1,964,548**	**2,107,969**
CURRENT ASSETS				
Inventories	10	88,233	74,476	64,045
Trade receivables and other assets	11	132,680	130,999	126,343
Current income tax receivable		-	229	18,877
Cash	12	106,178	73,702	67,263
Prepaid expenses and accrued income		77	1,553	1,802
Total current assets		**327,168**	**280,959**	**278,330**
TOTAL ASSETS		**2,231,090**	**2,245,507**	**2,386,299**
EQUITY				
Basic capital	13	10,000	10,000	10,000
Reserves from profit		2,000	2,000	2,000
Retained earnings of previous years		514,316	502,683	502,683
Net profit for the year		24,455	11,633	-
Total equity		**550,771**	**526,316**	**514,683**
LIABILITIES				
Non-current liabilities				
Interest bearing loans from related parties	9.2	401,000	401,000	401,000
Interest bearing loans from credit institutions	9.2	733,309	737,710	719,347
Provisions	15	3,422	3,508	3,534
Deferred tax liability	6	274,934	295,609	315,837
Total non-current liabilities		1,412,665	1,437,827	1,439,718
Current liabilities				
Provisions	15	59,251	68,769	92,408
Trade payables	17	107,105	124,473	138,442
Interest bearing loans from related parties	9.2	-	-	-
Interest bearing loans from credit institutions	9.2	5,577	5,452	119,541
Liabilities to employees	17	15,429	11,594	11,384
Current income tax liabilities		7,870	27	108
Other liabilities	17	62,119	55,390	57,628
Accruals and deferred income	16	10,303	15,659	12,387
Total current liabilities		267,654	281,364	431,898
Total liabilities		**1,680,319**	**1,719,191**	**1,871,616**
TOTAL EQUITY AND LIABILITIES		**2,231,090**	**2,245,507**	**2,386,299**

Consolidated Statement of Changes in Equity

for the years ended 31 December 2016 and 31 December 2015

	Basic capital	Reserves from profit	Retained earnings of previous years	Net profit for the year	Total
	CZK 000	*CZK 000*	*CZK 000*	*CZK 000*	*CZK 000*
As at 1 January 2015	**10,000**	**2,000**	**502,683**	**-**	**514,683**
Profit for the year	-	-	-	11,633	11,633
Other comprehensive income	-	-	-	-	-
Total comprehensive income	-	-	-	11,633	11,633
As at 31 December 2015	**10,000**	**2,000**	**502,683**	**11,633**	**526,316**
Profit allocation to retained earnings	-	-	11,633	(11,633)	-
Profit for the year	-	-	-	24,455	24,455
Other comprehensive income	-	-	-	-	-
Total comprehensive income	-	-	-	24,455	24,455
As at 31 December 2016	**10,000**	**2,000**	**514,316**	**24,455**	**550,771**

Consolidated Statement of Cash-Flows

for the years ended 31 December 2016 and 31 December 2015

	2016 CZK 000	2015 CZK 000
Cash flows from operating activities		
Profit or loss on ordinary activities before taxation (+/-)	**30,405**	**14,513**
Adjustments to reconcile profit or loss to net cash provided by or used in operating activities	**225,385**	**224,740**
Depreciation and amortization of fixed assets and write-off of receivables	*154,541*	*161,788*
Change in allowances	*674*	*(498)*
Change in provisions	*(9,604)*	*(23,665)*
Foreign exchange differences	-	-
(Gain)/Loss on disposal of fixed assets	*418*	-
Interest expense and interest income	*65,127*	*67,152*
Other non-cash movements (e.g. revaluation at fair value to profit or loss)	*14,229*	*19,963*
Net cash from operating activities before taxation, changes in working capital and extraordinary items	**255,790**	**239,253**
Change in non-cash components of working capital	**(20,935)**	**(24,146)**
Change in inventory	*(14,431)*	*(9,933)*
Change in trade receivables	*(12,046)*	*(2,972)*
Change in other receivables and in prepaid expenses and unbilled revenue	*10,923*	*(18)*
Change in trade payables	*(10,112)*	*(12,029)*
Change in other payables, and in accruals and deferred income	*4,731*	*806*
Net cash from operating activities before taxation, interest paid and extraordinary items	**234,855**	**215,107**
Interest paid	(63,931)	(66,878)
Income tax paid	(18,649)	(4,492)
Net cash provided by (used in) operating activities	**152,275**	**143,737**
Cash flows from investing activities		
Purchase of fixed assets	(114,437)	(45,781)
Proceeds from sale of fixed assets	471	-
Loans granted	-	-
Interest received	-	-
Dividends received	-	-
Net cash provided by (used in) investing activities	**(113,966)**	**(45,781)**
Cash flows from financing activities		
Change in long-term liabilities, and long-term and short-term loans	(5,833)	(91,517)
Effect of other changes in equity on cash	-	-
Profit shares paid	-	-
Effect of other changes in own capital on cash	-	-
Net cash provided by (used in) financing activities	**(5,833)**	**(91,517)**
Net increase (decrease) in cash	**32,476**	**6,439**
Cash and cash equivalents at beginning of year	**73,702**	**67,263**
Cash and cash equivalents at end of year	**106,178**	**73,702**

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1. Corporate information

The consolidated financial statements of Teplárna Otrokovice a.s. and its subsidiaries (collectively, the Group) for the years ended 31 December 2016 and 31 December 2015 were authorised for issue in accordance with a resolution of the board of directors on 6 November 2017.

Teplárna Otrokovice a.s. (the Company) is a joint-stock company incorporated and domiciled in the Czech Republic whose shares are not publicly traded. The registered office is located at Objízdná 1777, 765 02 Otrokovice. The Group is principally engaged production and distribution of heat and generation and trading of electricity.

The Group's parent and ultimate parent company is LAMA ENERGY GROUP a.s., with its registered office at Hradec nad Moravicí 747 41, Gudrichova 763, holding 100% interest in the Company.

Information on other related party relationships of the Group is provided in Note 20.

2. Significant accounting policies

2.1. Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) as endorsed by the European Union (hereinafter 'IFRS as endorsed by the EU', or 'IFRS').

The reason for preparation of the consolidated financial statements is intended issue of bonds.

For all periods up to and including the year ended 31 December 2016 the Company prepared its stand-alone financial statements in accordance with local generally accepted accounting principles (Czech GAAP). The Group has not been preparing its consolidated financial statements under Czech GAAP as it was not legally required to do so as its results were included in the parent company's consolidated financial statements, which prepares consolidated financial statements in accordance with Czech GAAP.

These financial statements for the years ended 31 December 2016 and 31 December 2015 are the first the Group has prepared in accordance with IFRS. Refer to Note 2.4 for information on how the Group adopted IFRS.

The consolidated financial statements have been prepared under going concern assumption on a historical cost basis, except when IFRS requires other measurement basis as disclosed in the accounting policies below.

The consolidated financial statements are presented in Czech crowns (CZK), which had been determined the Group's functional currency, and all values are rounded to the nearest thousand (CZK 000), except when otherwise indicated.

2.2. Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 31 December 2016 and 31 December 2015.

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee
- The ability to use its power over the investee to affect its returns

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement(s) with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary
- Derecognises the carrying amount of any non-controlling interest
- Derecognises the cumulative translation differences, recorded in equity
- Recognises the fair value of the consideration received
- Recognises the fair value of any investment retained
- Recognises any surplus or deficit in profit or loss
- Reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities

2.3. Summary of significant accounting policies

The following are the significant accounting policies applied by the Group in preparing its consolidated financial statements:

2.3.1. Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at the acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interest in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. All contingent consideration (except that which is classified as equity) is measured at fair value with the changes in fair value in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests and any previous interest held, over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a cash-generating unit (CGU) and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash generating unit retained.

2.3.2. Current versus non-current classification

The Group presents assets and liabilities in the statement of financial position based on current/non-current classification. An asset is current when it is:

- Expected to be realised or intended to be sold or consumed in the normal operating cycle
- Held primarily for the purpose of trading
- Expected to be realised within twelve months after the reporting period, or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in the normal operating cycle
- It is held primarily for the purpose of trading
- It is due to be settled within twelve months after the reporting period, or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period

The Group classifies all other liabilities as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

2.3.3. Fair value measurement

The Group measures financial instruments, such as derivatives, and non-financial assets such as investment properties, at fair value at each balance sheet date. Fair value related disclosures for financial instruments and non-financial assets that are measured at fair value or where fair values are disclosed, are summarised in the following notes:

Accounting policy disclosures	Note 2.3.3
Disclosures for valuation methods, significant estimates and assumptions	Notes 3, 9
Quantitative disclosures of fair value measurement hierarchy	Note 9
Financial instruments (including those carried at amortised cost)	Note 9

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability

Or

- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits from the asset's highest and best use or by selling it to another market participant that would utilise the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy. This is described, as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements at fair value on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

The Group's management determines the policies and procedures for both recurring fair value measurement, such as investment properties and unquoted available-for-sale financial assets, and for nonrecurring measurement, such as assets held for distribution in discontinued operations. The management is comprised of the head of the investment properties segment, head of the Group's internal mergers and acquisitions team, the head of the risk management department, chief finance officers and the managers of each property.

External valuers are involved for valuation of significant assets, such as properties and AFS financial assets, and significant liabilities, such as contingent consideration.

Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. The Company's management decides, after discussions with the Group's external valuers, which valuation techniques and inputs to use for each case.

At each reporting date, the management analyses the movements in the values of assets and liabilities which are required to be remeasured or re-assessed as per the Group's accounting policies. For this analysis, the management verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents.

The management, in conjunction with the Group's external valuers, also compares the change in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable.

On an interim basis, the management and the Group's external valuers present the valuation results to the Group's independent auditors. This includes a discussion of the major assumptions used in the valuations.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy, as explained above.

2.3.4. Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is received. Revenues and expenses are recognized on an accrual basis, that is, they are recognized in the periods in which the actual flow of the related goods or services occurs, regardless of when the related monetary flow arises.

Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Group has concluded that it is acting as a principal in all of its revenue arrangements. The following specific recognition criteria must also be met before revenue is recognised:

Revenue from sale of thermal energy and electricity

Revenue from the sale of thermal energy and electricity (hereinafter referred as 'the energies') is recognized upon their delivery. Total revenue from the sale of energies consists of billed amount of the energies supplied based on the reading of the measuring device as at the balance sheet date in the case of thermal and electrical energy or through unbilled revenue if the reading is not available as at the balance sheet date); the sales revenue is presented net of discounts and value added.

Sale of goods

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on delivery of the goods. Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates.

Interest income

For all financial instruments measured at amortised cost and interest bearing financial assets classified as available-for-sale, interest income or expense is recorded using the effective interest rate (EIR). The EIR is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset. Interest income is included in finance income in the statement of profit or loss.

2.3.5. Foreign currencies

The Group's consolidated financial statements are presented in Czech crowns (CZK), which is also the parent company's functional currency. For each entity, the Group determines the functional currency and items included in the financial statements of each entity are measured using that functional currency. The Group uses the direct method of consolidation and on disposal of a foreign operation, the gain or loss that is reclassified to profit or loss reflects the amount that arises from using this method.

Transactions and balances

Transactions in foreign currencies are initially recorded by the Group entities at their respective functional currency spot rate at the date the transaction first qualifies for recognition.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange ruling at the reporting date.

Differences arising on settlement or translation of monetary items are recognised in profit or loss with the exception of monetary items that are designated as part of the hedge of the Group's net investment of a foreign operation. These are recognised in OCI until the net investment is disposed of, at which time, the cumulative amount is classified to profit or loss. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in OCI.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary measured at fair value is treated in line with the recognition of gain or loss on change in fair value in the item (i.e., the translation differences on items whose fair value gain or loss is recognised in OCI or profit or loss are also recognised in OCI or profit or loss, respectively).

Any goodwill arising on the acquisition of a foreign operation subsequent to 1 January 2015 and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the spot rate of exchange at the reporting date.

Prior to 1 January 2015, the date of transition to IFRS, the Group treated goodwill and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition as assets and liabilities of the parent. Therefore, those assets and liabilities are non-monetary items already expressed in the functional currency of the parent and no further translation differences occur.

Group companies

The company's subsidiaries are incorporated in the Czech Republic and their functional currency is CZK. Consequently, no exchange differences arise on translation of their operations.

2.3.6. Government grants

Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed. Where the grant relates to an asset, it is recognised as income in equal amounts over the expected useful life of the related asset.

When the Group receives non-monetary grants, the asset and the grant are recorded gross at fair value and released to profit or loss over the expected useful life of the asset, based on the pattern of consumption of the benefits of the underlying asset by equal annual instalments. When loans or similar assistance are provided by governments or related institutions with an interest rate below the current applicable market rate, the effect of this favourable interest is regarded as a government grant.

For more details on accounting policy related to emission rights refer to Note 2.3.11.

2.3.7. Taxes

Current income tax

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted, or substantively enacted at the reporting date in the countries where the Group operates and generates taxable income.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the statement of profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation, and it establishes provisions where appropriate.

Deferred tax

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future

Deferred tax assets are recognised for: all deductible temporary differences: the carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences. The carry forward of unused tax credits and unused tax losses can be utilised, except:

- When the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, are recognised subsequently if new information about facts and circumstances change. The adjustment is either be treated as a reduction to goodwill (as long as it does not exceed goodwill) if it is incurred during the measurement period or recognised in profit or loss.

Value added tax

Revenues, expenses and assets are recognised net of the amount of value added tax, except:

- Where the value added tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case, the value added tax is recognised as part of the cost of acquisition of the asset or as part of the expense item, as applicable
- Receivables and payables are stated with the amount of value added tax included

The net amount of value added tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

2.3.8. Property, plant and equipment

Construction in progress, plant and equipment are stated at cost, net of accumulated depreciation and/or accumulated impairment losses, if any. Such cost includes the cost of replacing parts of the property, plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. When significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in the profit or loss as incurred. The present value of the expected cost for the decommissioning of the asset after its use, is included in the cost of the respective asset if the recognition criteria for a provision are met.

Depreciation is calculated based on the acquisition costs and the estimated useful life of the related asset. The useful economic lives are as follows:

	Years
Construction	30 – 45
Machinery	15 – 30
Vehicles	8 – 15
Furniture and fixtures	4 – 8

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of profit or loss when the asset is derecognised.

The residual values, useful lives and methods of depreciation of property, plant and equipment are reviewed at each financial year end and adjusted prospectively, if appropriate.

For more details on the deemed costs of property, plant and equipment used in preparation of the statement of financial position as at the date of transition to IFRS (1 January 2015) please refer to Note 2.4.

2.3.9. Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at the inception date. The arrangement is assessed for whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement.

For arrangements entered into prior to 1 January 2015, the date of inception is deemed to be 1 January 2015 in accordance with IFRS 1 First-time Adoption of International Reporting Standards.

Group as a lessee

Finance leases that transfer to the Group substantially all of the risks and benefits incidental to ownership of the leased item, are capitalised at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and a reduction in the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance costs in the statement of profit or loss.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

An operating lease is a lease other than a finance lease. Operating lease payments are recognised as an operating expense in the statement of profit or loss on a straight-line basis over the lease term.

2.3.10. Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective asset. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Borrowing costs incurred on or after the date of transition (1 January 2015) for all eligible qualifying assets are capitalised. The borrowing costs capitalised under Local GAAP on qualifying assets to the date of transition to IFRS are included in the carrying amount of assets at that date.

2.3.11. Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less accumulated amortisation and accumulated impairment losses, if any. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is recognised in the statement of profit or loss when it is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortised over their useful economic lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the statement of profit or loss in the expense category consistent with the function of the intangible assets.

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the statement of profit or loss when the asset is derecognised.

The Group assessed all intangibles having finite useful lives and are amortized over period not exceeding five years.

Emission Rights

Emission rights held under national and international emission-rights systems for the settlement of obligations are reported as intangible assets. Because emission rights are not depleted as part of the production process, they are reported as intangible assets not subject to amortization. Emission rights are capitalized at cost at the time of acquisition or at fair value in case of emission rights provided for free.

A provision is recognized for emissions produced. The provision is measured at the carrying amount of the emission rights held or, in the case of a shortfall, at the current fair value of the emission rights needed. The expenses incurred for the recognition of the provision, if any, are reported under other operating expenses.

2.3.12. Financial instruments — initial recognition and subsequent measurement

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

i) Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, AFS financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition.

All financial assets are recognised initially at fair value plus, in the case of assets not at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognised on the trade date, i.e., the date on which the Group commits to purchase or sell the asset

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as described below:

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held-for-trading if they are acquired for the purpose of selling or repurchasing in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IAS 39. Derivatives, including separated embedded derivatives are also classified as held-for-trading unless they are designated as effective hedging instruments. Financial assets at fair value through profit and loss are carried in the statement of financial position at fair value with net changes in fair value presented as finance income (positive net changes in fair value) or finance costs (negative net changes in fair value) in the statement of profit or loss. The Group has not designated any financial assets upon initial recognition as at fair value through profit or loss.

Derivatives embedded in host contracts are accounted for as separate derivatives if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held-for-trading or designated at fair value though profit or loss. These embedded derivatives are measured at fair value, with changes in fair value recognised in the statement of profit or loss. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss.

Loans and receivables

This category is the most relevant to the Group. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate (EIR) method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance income in the statement of profit or loss. The losses arising from impairment are recognised in the statement of profit or loss in finance costs for loans and in cost of sales or other operating expenses for receivables. This category generally applies to trade and other receivables. For more information on receivables, refer to Note 11.

Available-for-sale (AFS) financial investments

AFS financial investments include equity and debt securities. Equity investments classified as available-for-sale are those neither classified as held-for-trading nor designated at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial measurement, available-for-sale financial investments are subsequently measured at fair value with unrealised gains or losses recognised as OCI in the AFS reserve until the investment is derecognised, at which time, the cumulative gain or loss is recognised in other operating income, or the investment is determined to be impaired, at which time, the cumulative loss is reclassified to the statement of profit or loss in finance costs and removed from the AFS reserve. Interest income on available-for-sale debt securities is calculated using the effective interest method and is recognised in profit or loss.

The Group evaluates its available-for-sale financial assets to determine whether the ability and intention to sell them in the near term is still appropriate. When the Group is unable to trade these financial assets due to inactive markets and management's intention to do so significantly changes in the foreseeable future, the Group may elect to reclassify these financial assets in rare circumstances.

For a financial asset reclassified out of the AFS category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the EIR. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the EIR. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the statement of profit or loss.

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- The rights to receive cash flows from the asset have expired, or
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through arrangement, and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and, to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset nor transferred control of it, the asset is recognised to the extent of its continuing involvement in it. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

ii) Impairment of financial assets

Disclosures relating to impairment of financial assets are summarised in the following notes:

▪ Accounting policy disclosures	Note 2.3.12
▪ Disclosures for significant assumptions	Note 3
▪ Financial assets	Note 9
▪ Trade receivables	Note 11

The Group assesses, at each reporting date, whether there is any objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that has occurred since the initial recognition of the asset (an incurred 'loss event'), has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment. The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of profit or loss. Interest income continues to be accrued on the reduced carrying amount using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income in the statement of profit or loss. Loans, together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to finance costs in profit or loss.

Available-for-sale financial investments

For AFS financial investments, the Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as AFS, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. 'Significant' is evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss — measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of profit or loss — is removed from other comprehensive income and recognised in profit or loss. Impairment losses on equity investments are not reversed through profit or loss; increases in their fair value after impairments are recognised in other comprehensive income.

The determination of what is 'significant' or 'prolonged' requires judgement. In making this judgement, the Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

In the case of debt instruments classified as AFS, impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of profit or loss.

Future interest income continues to be accrued based on the reduced carrying amount of the asset, using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the statement of profit or loss, the impairment loss is reversed through the statement of profit or loss.

iii) Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, loans and borrowings including bank overdrafts, financial guarantee contracts, and derivative financial instruments.

Subsequent measurement

The measurement of financial liabilities depends on their classification, as follows:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held-for-trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held-for-trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IAS 39. Separated embedded derivatives are also classified as held-for-trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held-for-trading are recognised in the statement of profit or loss.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IAS 39 are satisfied. The Group has not designated any financial liabilities as at fair value through profit or loss.

Loans and borrowings

This is the category most relevant to the Group. After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in the statement of profit or loss when the liabilities are derecognised as well as through the effective interest rate method (EIR) amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance costs in the statement of profit or loss.

This category generally applies to interest-bearing loans and borrowings.

Financial guarantee contracts

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. Financial guarantee contracts are recognised initially as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequently, the liability is measured at the higher of the best estimate of the expenditure required to settle the present obligation at the reporting date and the amount recognised less cumulative amortisation.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

iv) Offsetting of financial instruments

Financial assets and financial liabilities are offset with the net amount reported in the consolidated statement of financial position only if there is a current enforceable legal right to offset the recognised amounts and an intent to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

2.3.13. Derivative financial instruments and hedge accounting

Initial recognition and subsequent measurement

The Group uses derivative financial instruments such as forward currency contracts, interest rate swaps and forward commodity contracts to hedge its foreign currency risks, interest rate risks and commodity price risks, respectively. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

The fair value of commodity contracts that meet the definition of a derivative as defined by IAS 39 are recognised in the statement of profit or loss as cost of sales. Commodity contracts that are entered into and continue to be held for the purpose of the receipt or delivery of a non-financial item in accordance with the Group's expected purchase, sale or usage requirements are held at cost.

Any gains or losses arising from changes in the fair value of derivatives are taken directly to the statement of profit or loss, except for the effective portion of cash flow hedges, which is recognised in OCI and later reclassified to profit or loss when the hedged item affects profit or loss.

For the purpose of hedge accounting, hedges are classified as:

- Fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment (except for foreign currency risk)
- Cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognised firm commitment
- Hedges of a net investment in a foreign operation

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Hedges which meet the strict criteria for hedge accounting are accounted for as described below:

Fair value hedges

The change in the fair value of an interest rate hedging derivative is recognised in the statement of profit or loss in finance costs. The change in the fair value of the hedged item attributable to the risk hedged is recorded as part of the carrying value of the hedged item and is also recognised in the statement of profit or loss in finance costs.

For fair value hedges relating to items carried at amortised cost, the adjustment to carrying value is amortised through the statement of profit or loss over the remaining term of the hedge using the EIR method. Effective interest rate amortisation may begin as soon as an adjustment exists and no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged.

If the hedge item is derecognised, the unamortised fair value is recognised immediately in the statement of profit or loss.

When an unrecognised firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognised as an asset or liability with a corresponding gain or loss recognised in the statement of profit or loss.

Cash flow hedges

The effective portion of the gain or loss on the hedging instrument is recognised in OCI in the cash flow hedge reserve, while any ineffective portion is recognised immediately in the statement of profit or loss as other operating expenses.

Amounts recognised as OCI are transferred to profit or loss when the hedged transaction affects profit or loss, such as when the hedged financial income or financial expense is recognised or when a forecast sale occurs. When the hedged item is the cost of a non-financial asset or non-financial liability, the amounts recognised as other comprehensive income are transferred to the initial carrying amount of the non-financial asset or liability.

If the forecast transaction or firm commitment is no longer expected to occur, the cumulative gain or loss previously recognised in equity is transferred to profit or loss. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover (as part of the hedging strategy), or if its designation as a hedge is revoked, or when the hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss previously recognised in other comprehensive income remains separately in equity until the forecast transaction occurs or the foreign currency firm commitment affects profit or loss.

Hedges of a net investment

Hedges of a net investment in a foreign operation, including a hedge of a monetary item that is accounted for as part of the net investment, are accounted similar to cash flow hedges. Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognised as other comprehensive income while any gains or losses relating to the ineffective portion are recognised in the statement of profit or loss. On disposal of the foreign operation, the cumulative value of any such gains or losses recorded in equity is transferred to the statement of profit or loss.

2.3.14. Inventories

Inventories are valued at the lower of cost and net realisable value. The inventories are stated at actual costs being determined using the weighted average method. Costs of purchased inventory include acquisition-related costs (mainly freight, customs, etc.). Coal and biomass inventories are stated at actual costs being determined using the standard costing and price variances; price variances, including the related costs, are calculated on a monthly basis.

Initial cost of raw materials includes the transfer of gains and losses on qualifying cash flow hedges, recognised in other comprehensive income, if any.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs to sell.

2.3.15. Impairment of non-financial assets

Disclosures relating to impairment of non-financial assets are summarised in the following notes:

▪ Accounting policy disclosures	Note 2.3.15
▪ Disclosures for significant assumptions	Note 3
▪ Property, plant and equipment	Note 7
▪ Intangible assets	Note 8

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs of disposal and its value in use. It is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

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 assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

The Group bases its impairment calculation on detailed budgets and forecasts which are prepared separately for each of the Group's CGU to which the individual assets are allocated. These budgets and forecast calculations are generally covering a period of five years. A long-term growth rate is calculated and applied to project future cash flows after the fifth year.

Impairment losses of continuing operations are recognised in the statement of profit or loss in those expense categories consistent with the function of the impaired asset, except for a property previously revalued where the revaluation was taken to OCI. In this case, the impairment is also recognised in OCI up to the amount of any previous revaluation.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the statement of profit or loss unless the asset is carried at a revalued amount, in which case the reversal is treated as a revaluation increase.

The following criteria are also applied in assessing impairment of specific assets:

Goodwill

Goodwill is tested for impairment annually as at 31 December and when circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than their carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

Intangible assets

Intangible assets with indefinite useful lives are tested for impairment annually as at 31 December either individually or at the CGU level, as appropriate and when circumstances indicate that the carrying value may be impaired.

2.3.16. Cash and short-term deposits

Cash and short-term deposits in the statement of financial position comprise cash at banks and on hand and short-term deposits with a maturity of three months or less, which are subject to an insignificant risk of changes in value.

For the purpose of the consolidated statement cash flows, cash and cash equivalents consist of cash and short-term deposits as defined above, net of outstanding bank overdrafts as they are considered an integral part of the Group's cash management.

2.3.17. Cash dividend and non-cash distribution to owners of equity

The Group recognises a liability to make cash or non-cash distributions to owners of equity when the distribution is authorised and the distribution is no longer at the discretion of the Group. As per the corporate laws of the Czech Republic, a distribution is authorised when it is approved by the shareholders. A corresponding amount is recognised directly in equity.

Non-cash distributions are measured at the fair value of the assets to be distributed with fair value re-measurement recognised directly in equity.

Upon settlement of the distribution of non-cash assets, any difference between the carrying amount of the liability and the carrying amount of the assets distributed is recognised in profit or loss.

2.3.18. Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the statement of profit or loss net of any reimbursement.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Greenhouse gas emissions (emission rights)

The Group receives free emission rights in the Czech Republic as a result of the European Emission Trading Schemes. The rights are received on an annual basis and in return the Group is required to remit rights equal to its actual emissions. A provision is recognized for emissions produced. The provision is measured at the carrying amount of the emission rights held or, in the case of a shortfall, at the current fair value of the emission rights needed. The expenses incurred for the recognition of the provision, if any, are reported under other operating expenses.

2.3.19. Pensions and other long-term employment benefits

The Group provides long-term employment benefits, where employees are entitled to benefits dependent on the number of years of employment, jubilee bonuses and bonuses paid upon retirement of an employee. There is no liability to the Group after the employee is retired or employment ceased.

The cost of providing the benefits is determined using the projected unit credit method and the long-term employment benefit costs are recognized in the profit and loss as a personnel expense.

2.4. First-time adoption of IFRS

For all periods up to and including the year ended 31 December 2016 the Company prepared its stand-alone financial statements in accordance with local generally accepted accounting principles (Czech GAAP). The Group has not been preparing its consolidated financial statements under Czech GAAP as it was not legally required to do so as its results were included in the parent company's consolidated financial statements, which prepares consolidated financial statements in accordance with Czech GAAP.

These financial statements for the years ended 31 December 2016 and 31 December 2015 are the first the Group has prepared in accordance with IFRS as endorsed by the EU.

Accordingly, the Group has prepared financial statements that comply with IFRS applicable as at 31 December 2016, together with the comparative period data for the year ended 31 December 2015, as described in the summary of significant accounting policies. In preparing the financial statements, the Group's opening statement of financial position was prepared as at 1 January 2015, the Group's date of transition to IFRS. This note explains the principal adjustments made by the Group in restating its Czech GAAP financial statements, including the statement of financial position as at 1 January 2015.

Exemptions applied

IFRS 1 allows first-time adopters certain exemptions from the retrospective application of certain requirements under IFRS.

The Group has applied the following exemptions:

- IFRS 3 Business Combinations has not been applied to either acquisitions of subsidiaries that are considered businesses under IFRS, or acquisitions of interests in associates and joint ventures that occurred before 1 January 2015. Use of this exemption means that the Czech GAAP carrying amounts of assets and liabilities, that are required to be recognised under IFRS, is their deemed cost at the date of the acquisition. After the date of the acquisition, measurement is in accordance with IFRS. Assets and liabilities that do not qualify for recognition under IFRS are excluded from the opening IFRS statement of financial position. The Group did not recognise or exclude any previously recognised amounts as a result of IFRS recognition requirements. IFRS 1 also requires that the Czech GAAP carrying amount of goodwill must be used in the opening IFRS statement of financial position (apart from adjustments for goodwill impairment and recognition or derecognition of intangible assets). No goodwill impairment was deemed necessary at 1 January 2015.
- The Group utilized the option to use fair values as deemed costs and utilized the valuation exercise performed by the Company as part of a merger with its subsidiary as at 1 January 2013 and used the resulting fair values of freehold land, buildings, machinery, other movable assets and intangible assets less accumulated depreciation as their deemed costs as at 1 January 2015.
- The Group has applied the transitional provision in IFRIC 4 Determining whether an Arrangement Contains a Lease and has assessed all arrangements based upon the conditions in place as at the date of transition.
- The Group has applied the transitional provisions in IAS 23 Borrowing Costs and capitalises borrowing costs relating to all qualifying assets after the date of transition. Similarly, the Group has not restated for borrowing costs capitalised under Czech GAAP on qualifying assets prior to the date of transition to IFRS.
- The Group has designated unquoted equity instruments held at 1 January 2015 as AFS financial assets.

Estimates

The estimates at 1 January 2015 and at 31 December 2015 are consistent with those made for the same dates in accordance with Czech GAAP (after adjustments to reflect any differences in accounting policies) apart from the following items where application of Czech GAAP did not require estimation:

- Long-term employment benefits

The estimates used by the Group to present these amounts in accordance with IFRS reflect conditions at 1 January 2015, the date of transition to IFRS and as at 31 December 2015.

Group reconciliation of equity as at 1 January 2015 (date of transition to IFRS)

The reconciliation of equity as of the date of transition to IFRS between Czech GAAP pro-forma financial statements and IFRS is as follows:

As at 1 January 2015

	Note	*CZK 000*
Group's equity under Czech GAAP	A	**511,533**
Revaluation of fixed assets (deemed costs)	B	6,214
Employment benefits	C	(3,030)
Other		(34)
Group's equity under IFRS		**514,683**

Note A:

The Group has not been preparing its consolidated financial statements as it is a member of LAMA ENERGY GROUP a.s., which prepares consolidated financial statements for the whole LAMA ENERGY GROUP, and as such it is exempt from preparation of the Czech GAAP consolidated financial statements. In order to disclose the impact that the transition to IFRS had on the Group's equity the Group prepared pro-forma Czech GAAP consolidated financial statements, which were then used for assessment of the impact. The pro-forma Czech GAAP financial statements use the same accounting policies as the Group companies. The pro-forma consolidated Czech GAAP financial statements have not been audited. As the Group has not prepared consolidated Czech GAAP financial statements in the past, it does not present the reconciliations for periods subsequent to 1 January 2015.

Note B:

The Group measured non-current assets as at the date of transition to IFRS at deemed costs that correspond to their fair values established in 2013 less accumulated depreciation. As at 1 January 2015, the usage of deemed costs resulted in increase of reported non-current assets of CZK 277,288 thousand, increase of deferred tax liability of CZK 271,074 thousand and increase of equity of CZK 6,214 thousand.

Note C:

The Group companies have not been reporting long-term employment benefits under the Czech GAAP. The Group measured the liability from long-term employment benefits in accordance with IAS 19 and reported a provision of CZK 3,741 thousand, related deferred tax asset of CZK 711 thousand, and corresponding decrease of equity of CZK 3,030 thousand as at 1 January 2015.

3. Significant accounting judgements, estimates and assumptions

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of asset or liability affected in future periods.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognised in the consolidated financial statements:

Segment information

The management monitors the company's performance in two principal products:

- Thermal energy
- Electricity

Due to the nature of the production the costs (comprising namely fixed assets depreciation and raw materials consumption) used to produce the energies are shared and largely indistinguishable and any allocation of the costs related to the two main products would be arbitrary and unreliable. Due to this fact the management concluded that there are no separate reportable segments.

Deemed costs

The Group applied certain exemptions from IFRS. The exemption that has the most significant impact on the consolidated financial statements is the usage of deemed costs for property, plant and equipment based on fair values established in 2013. For more details please refer to Note 2.4.

Embedded derivatives in purchase contracts

The Group entered into long-term contracts to purchase of coal it uses in production. The Group analysed the contracts and concluded they are not in scope of IAS 39 and has not separated the embedded derivatives as the embedded derivative is clearly and closely related to the host commodity contract.

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

Impairment of non-financial assets

An impairment exists when the carrying value of an asset or CGU exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length for similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a DCF model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset's performance of the CGU being tested. The recoverable amount is most sensitive to the discount rate used for the DCF model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes. The Group performs impairment tests at least annually if indicators of impairment exists.

Long-term employment benefits

The cost of long-term employment benefits and the present value of the related obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions which may differ from actual developments in the future. These include the determination of the discount rate and attrition rates. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, an obligation from the long-term employment benefits is sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date. The parameter most subject to change is the discount rate. In determining the appropriate discount rate, management considers the interest rates of corporate bonds in currencies consistent with the currencies of the benefit obligation with at least an 'AA' rating or above, as set by an internationally acknowledged rating agency, and extrapolated as needed along the yield curve to correspond with the expected term of the long-term employment benefits. The underlying bonds are further reviewed for quality. Those having excessive credit spreads are removed from the analysis of bonds on which the discount rate is based, on the basis that they do not represent high quality bonds. The attrition rate is based on historical figures. Further details about long-term employment benefit obligations are provided in Note 15.

4. Revenue and segment information

As discussed in Note 3, due to the nature of the production the Group has no separate reportable segments i.e. the whole Group is one segment.

Revenue from external customers by product and services

	2016	2015
	CZK 000	*CZK 000*
Sales of thermal energy	565,835	554,803
Sales of electricity and related services	570,820	624,817
Other	13,903	15,284
Total Revenue	**1,150,558**	**1,194,904**

Geographical information about non-current assets and revenues

All Group's non-current assets are located in the Czech Republic. All revenues are from customers based in the Czech Republic.

Information about major customers

The revenue from each of the two largest customers amount to more than 10% individually. The revenue in the respective years from these customers were as follows:

	2016 Revenue	2015 Revenue	2016 Share on total Group's revenue	2015
	CZK 000	*CZK 000*	*%*	*%*
Customer 1	656,750	734,255	57%	61%
Customer 2	145,427	153,436	13%	13%

5. Other income and expenses

5.1. Other operating income

	2016 *CZK 000*	2015 *CZK 000*
Granted emission rights	20,792	38,054
Other income	611	1,541
Total Other operating income	**21,403**	**39,595**

For more details on the Groups accounting policy on accounting for emission rights please refer to 2.3.11.

5.2. Other operating expenses

	2016 *CZK 000*	2015 *CZK 000*
Consumption of emission allowances	59,058	68,572
Other expenses	12,459	9,590
Total Other operating expenses	**71,517**	**78,162**

5.3. Interest expense

	2016 *CZK 000*	2015 *CZK 000*
Interest income	-	-
Interest expense	65,127	67,152
Interest expense, net	**65,127**	**67,152**

5.4. Other financial items

	2016 *CZK 000*	2015 *CZK 000*
Foreign exchange gains (losses), net	(31)	(346)
Fair value gain (loss) on financial instruments at fair value through profit or loss, net	(4,717)	3,668
Bank and similar fees	(381)	(383)
Total Other financial items, net	**(5,129)**	**2,939**

5.5. Personnel expenses

	2016 *CZK 000*	2015 *CZK 000*
Wages and salaries including management remuneration	83,884	77,514
Social security costs	26,770	24,485
Other personnel expenses	2,569	2,583
Employment benefits	248	213
Total Personnel expenses	**113,471**	**104,795**

6. Income tax

The major components of income tax expense for the years ended 31 December 2016 and 31 December 2015 are:

Consolidated statement of profit or loss

	2016	2015
Current income tax:	*CZK 000*	*CZK 000*
Current income tax charge	26,595	23,096
Adjustments in respect of current income tax of previous year	30	12
Deferred tax:		
Relating to origination and reversal of temporary differences	(20,675)	(20,228)
Income tax expense reported in the statement of profit or loss	**5,950**	**2,880**

Consolidated statement of other comprehensive income

	2016	2015
	CZK 000	*CZK 000*
Deferred tax related to items recognised in other comprehensive income during the year:	-	-
Income tax recognised in other comprehensive income	-	-

A reconciliation between tax expense and the product of accounting profit multiplied by Czech domestic tax rate for the years ended 31 December 2016 and 31 December 2015 is as follows:

	2016	2015
	CZK 000	*CZK 000*
Accounting profit before income tax	30,405	14,513
At Czech statutory income tax rate of 19%	5,777	2,757
Adjustments in respect to current income tax of previous years	30	12
Non-deductible expense, non-taxable income for tax purposes	143	111
Income tax expense reported in the consolidated statement of profit or loss	5,950	2,880
Effective tax rate	*19.6%*	*19.8%*

Deferred tax

Deferred tax relates to the following:

	2016	2015	1 January 2015	2016	2015
	CZK 000	*CZK 000*	*CZK 000*	*CZK 000*	*CZK 000*
Difference in net book value of non-current assets for tax purposes	(289,179)	(311,058)	(336,871)	21,879	25,813
Provisions and valuation allowances	13,722	14,664	19,430	(942)	(4,766)
Unrealized profit on intercompany transactions	512	977	885	(465)	92
Financials leases	4	7	8	(3)	(1)
Amortization of loans using effective interest rate	(680)	(903)	-	223	(903)
Employment benefits	687	704	711	(17)	(7)
Deferred tax (expense)/income				**20,675**	**20,228**
Net deferred tax assets/(liabilities)	**(274,934)**	**(295,609)**	**(315,837)**		
Reflected in the statement of financial position as follows:					
Deferred tax assets	-	-	-		
Deferred tax liabilities	(274,934)	(295,609)	(315,837)		
Deferred tax liabilities net	**(274,934)**	**(295,609)**	**(315,837)**		

Reconciliation of deferred tax liabilities, net

	2016	2015
	CZK 000	*CZK 000*
Opening balance as of 1 January	**(295,609)**	**(315,837)**
Tax income/(expense) during the period recognised in profit or loss	20,675	20,228
Tax income/(expense) during the period recognised in other comprehensive income	-	-
Closing balance as at 31 December	**(274,934)**	**(295,609)**

The Group offsets tax assets and liabilities if and only if it has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same tax authority.

7. Property, plant and equipment

	Land	Structures	Movable assets and sets of movable assets	Leased movable assets	Tangible fixed assets in progress	Advances granted for tangible fixed assets	Total
Cost	*CZK 000*	*CZK 000*	*CZK 000*	*CZK 000*	*CZK 000*	*CZK 000*	*CZK 000*
At 1 January 2015	**158,823**	**1,089,453**	**1,001,482**	**1,638**	**21,408**	**3,612**	**2,276,416**
Additions	-	-	-	-	50,353	1,049	51,402
Transfers	-	9,868	6,310	-	(16,178)	-	-
Disposals	-	-	(2,817)	-	-	-	(2,817)
At 31 December 2015	**158,823**	**1,099,321**	**1,004,975**	**1,638**	**55,583**	**4,661**	**2,325,001**
Additions	-	-	-	-	80,607	-	80,607
Transfers	1,000	45,004	36,059	-	(78,537)	(3,526)	-
Disposals	-	-	(5,810)	-	-	-	(5,810)
At 31 December 2016	**159,823**	**1,144,325**	**1,035,224**	**1,638**	**57,653**	**1,135**	**2,399,798**
Accumulated Depreciation							
At 1 January 2015	-	**93,407**	**182,284**	**841**	-	-	**276,532**
Depreciation charge for the year	-	55,239	104,347	273	-	-	159,859
Disposals	-	-	(1,250)		-	-	(1,250)
At 31 December 2015	-	**148,646**	**285,381**	**1,114**	-	-	**435,141**
Depreciation charge for the year	-	51,331	101,535	273	-	-	153,139
Disposals	-	-	(2,079)	-	-	-	(2,079)
At 31 December 2016	-	**199,977**	**384,837**	**1,387**	-	-	**586,201**
Net book value							
At 1 January 2015	158,823	996,046	819,198	797	21,408	3,612	1,999,884
At 31 December 2015	158,823	950,675	719,594	524	55,583	4,661	1,889,860
At 31 December 2016	159,823	944,348	650,387	251	57,653	1,135	1,813,597

Capitalised borrowing costs

The amount of borrowing costs capitalised during the year ended 31 December 2016 was CZK Nil (2015: CZK Nil, 1 January 2015: CZK Nil).

Finance leases

The carrying value of plant and equipment held under finance leases at 31 December 2016 was CZK 251 thousand (2015: CZK 524 thousand, 1 January 2015: CZK 797 thousand). Additions during the year include CZK Nil (2015: CZK Nil) of plant and equipment under finance leases and hire purchase contracts. Leased assets are pledged as security for the related finance lease and hire purchase liabilities.

Land and buildings

Land and buildings are subject to a first charge to secure the Group's bank loans (Note 9.2).

Assets under construction

The balance as at 31 December 2016, 31 December 2015 and 1 January 2015 include predominantly expenditures on enhancing efficiency and environmental compliance of existing boilers and on building infrastructure to connect customers.

8. Intangible assets

	Software	Other intangible assets	Intangible assets in progress	Total
	CZK 000	*CZK 000*	*CZK 000*	*CZK 000*
Cost				
At 1 January 2015	**7,639**	**104,041**	**-**	**111,680**
Additions	-	-	60,019	**60,019**
Transfers	1,938	58,002	(59,940)	**-**
Disposals	(1,838)	(90,501)	-	**(92,339)**
At 31 December 2015	**7,739**	**71,542**	**79**	**79,360**
Additions	-	-	85,552	**85,552**
Transfers	939	84,692	(85,631)	**-**
Disposals	(210)	(68,570)	-	**(68,780)**
At 31 December 2016	**8,468**	**87,664**	**-**	**96,132**
Accumulated Depreciation				
At 1 January 2015	**3,552**	**249**	**-**	**3,801**
Amortization charge for the year	1,929	-	-	**1,929**
Disposals	(261)	(236)	-	**(497)**
At 31 December 2015	**5,220**	**13**	**-**	**5,233**
Amortization charge for the year	1,402	-	-	**1,402**
Disposals	(210)	-	-	**(210)**
At 31 December 2016	**6,412**	**13**	**-**	**6,425**
Net book value				
At 1 January 2015	4,087	103,792	-	**107,879**
At 31 December 2015	2,519	71,529	79	**74,127**
At 31 December 2016	2,056	87,651	-	**89,707**

Other intangible assets

Included in the other intangible assets are emission rights. The balances measured at cost were as follows:

	Purchased emission rights
	CZK 000
At 1 January 2015	103,790
At 31 December 2015	71,529
At 31 December 2016	87,651

For details on the accounting policy adopted by the Group for measuring the emission rights please refer to Note 2.3.11.

9. Financial assets and financial liabilities

9.1. Financial assets

	2016	2015	1 January 2015
Derivatives not designated as hedging instruments:	*CZK 000*	*CZK 000*	*CZK 000*
Interest rate swaps	-	969	-
Total financial instruments at fair value	**-**	**969**	**-**
Financial assets at amortised cost:			
Trade and other receivables	132,930	128,258	122,901
Total financial assets	**132,930**	**129,227**	**122,901**
Of which:			
Total current	**132,312**	**128,666**	**122,695**
Total non-current	**618**	**561**	**206**

Derivatives not designated as hedging instruments reflect the positive change in fair value of interest rate swap contracts that are not designated in hedge relationships, but are nevertheless intended to reduce the level of interest rate risk of floating interest-bearing loans.

9.2. Financial liabilities

	2016	2015	1 January 2015
Derivatives not designated as hedging instruments:	*CZK 000*	*CZK 000*	*CZK 000*
Interest rate swaps	10,810	7,063	9,762
Total financial liabilities at fair value	**10,810**	**7,063**	**9,762**
Other financial liabilities at amortised cost, other than interest-bearing loans and borrowings:			
Trade and other payables	152,067	167,761	181,066
Total other financial liabilities	**162,877**	**174,824**	**190,828**
Of which:			
Total current	**162,534**	**174,537**	**190,656**
Total non-current	**343**	**287**	**172**

Derivatives not designated as hedging instruments reflect the positive change in fair value of interest rate swap contracts that are not designated in hedge relationships, but are nevertheless intended to reduce the level of interest rate risk of floating interest-bearing loans.

Interest-bearing loans and borrowings

	Interest rate	Maturity	2016 CZK 000	2015 CZK 000	1 January 2015 CZK 000
Current interest-bearing loans and borrowings					
Obligations under finance leases	3.5%	2018	232	288	278
Bank loan	PRIBOR + 2.7%	2020	-	-	114,284
Other loans for financing non-current assets	3.1%-3.6%	2024	5,345	5,164	4,979
Loan from shareholders	PRIBOR + 9%	2020	-	-	-
Total current interest-bearing loans and borrowings			**5,577**	**5,452**	**119,541**
Non-current interest-bearing loans and borrowings					
Obligations under finance leases	3.5%	2018	41	273	561
Bank loan	PRIBOR + 2.7%	2020	710,707	709,531	685,716
Other loans for financing non-current assets	3.1%-3.6%	2024	22,561	27,906	33,070
Loan from shareholders	PRIBOR + 9%	2020	401,000	401,000	401,000
Total non-current interest-bearing loans and borrowings			**1,134,309**	**1,138,710**	**1,120,347**
Total interest-bearing loans and borrowings			**1,139,886**	**1,144,162**	**1,239,888**

The liabilities to credit institutions are secured by a right of pledge established on the real estate (constructions, land), which was in possession of the Group as at 31 December 2016, 31 December 2015 and 1 January 2015 and is recorded in the Land Register for the Zlín region. In addition, the loan is secured by a pledge agreement for certain movable items and groups of movable items possessed by the Group and also by receivables. As at 31 December 2016, 31 December 2015 and 1 January 2015, the total value of pledged assets (buildings, constructions, movable items and land) was CZK 1,569,840 thousand, CZK 1,569,840 thousand and CZK 1,561,950 thousand at cost and CZK 1,151,651 thousand, CZK 1,255,788 thousand and CZK 1,363,387 thousand at net book value, respectively.

As at 31 December 2016, 31 December 2015 and 1 January 2015, the pledged receivables amounted to CZK 127,400 thousand, CZK 115,734 thousand and CZK 112,536 thousand, respectively.

The loan agreement with COMMERZBANK AG Praha includes, inter alia, the following terms and conditions to be fulfilled by the Company:

- To meet the net debt/EBITDA ratio
- To meet the debt service coverage ratio

The Company was in compliance with the above loan covenants as at 31 December 2016, 31 December 2015 and 1 January 2015.

The loan from shareholders is subordinated to the bank loans.

9.3. Hedging activities and derivatives

Derivatives not designated as hedging instruments

The Group uses interest rate swaps to manage interest rate risk. These contracts are not designated as cash flow, fair value or net investment hedges and are entered into for periods consistent with the maturity of the underlying interest-bearing borrowings.

The Group has not designated any other derivative as a hedging instrument.

9.4. Fair values

Set out below is a comparison by class of the carrying amounts and fair values of the Group's financial instruments, other than those with carrying amounts that are reasonable approximations of fair values:

	Carrying amount			Fair value		
	2016	2015	1 January 2015	2016	2015	1 January 2015
Financial assets	*CZK 000*	*CZK 000*	*CZK 000*	*CZK 000*	*CZK 000*	*CZK 000*
Interest rate swaps	-	969	-	-	969	-
Loans and receivables	343	287	172	311	260	156
Total financial assets	**343**	**1,256**	**172**	**311**	**1,229**	**156**
Financial liabilities						
Obligations under finance leases	273	561	839	283	577	857
Bank loan	710,707	709,531	800,000	710,707	709,531	800,000
Other loans for financing non-current assets	27,906	33,070	38,049	28,363	32,764	38,049
Loan from shareholders	401,000	401,000	401,000	401,000	401,000	401,000
Interest rate swaps	10,810	7,063	9,762	10,810	7,063	9,762
Total financial liabilities	**1,150,696**	**1,151,225**	**1,249,650**	**1,151,163**	**1,150,935**	**1,249,668**

The management assessed that cash and short-term deposits, trade receivables, trade payables and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

- Long-term fixed-rate and variable-rate receivables/borrowings are evaluated by the Group based on parameters such as interest rates, specific country risk factors, individual creditworthiness of the customer and the risk characteristics of the financed item. Based on this evaluation, allowances are taken to account for the expected losses of these receivables.
- The fair values of the quoted notes and bonds are based on price quotations at the reporting date. The fair value of unquoted instruments, loans from banks and other financial liabilities, obligations under finance leases, as well as other non-current financial liabilities is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities. In addition to being sensitive to a reasonably possible change in the forecast cash flows or the discount rate, the fair value of the equity instruments is also sensitive to a reasonably possible change in the growth rates. The valuation requires management to use unobservable inputs in the model, of which the significant unobservable inputs are disclosed in the tables below. Management regularly assesses a range of reasonably possible alternatives for those significant unobservable inputs and determines their impact on the total fair value.
- The Group enters into derivative financial instruments principally with financial institutions with investment grade credit ratings. Interest rate swaps are valued using valuation techniques, which employ the use of market observable inputs. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. The models incorporate various inputs including the credit quality of counterparties, yield curves of the respective currencies and interest rate curves. As at 31 December 2016, 31 December 2015, and 1 January 2015 the marked-to market values of derivative asset positions are net of a credit valuation adjustment attributable to derivative counterparty default risk. The changes in counterparty credit risk had no material effect on the financial instruments recognised at fair value.
- The fair values of the Group's interest-bearing borrowings and loans are determined by using DCF method using discount rate that reflects the issuer's borrowing rate as at the end of the reporting period. The own non-performance risk as at 31 December 2016 and 31 December 2015 was assessed to be insignificant.

Fair value measurement

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

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

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data

The following table provides the fair value measurement hierarchy and quantitative disclosures of the Group's financial assets and liabilities 31 December 2016:

	Date of valuation	Total	Level 1	Level 2	Level 3
		CZK 000	*CZK 000*	*CZK 000*	*CZK 000*
Financial assets measured at fair value:					
Interest rate swaps	31 December 2016	-	-	-	-
Financial assets for which fair values are disclosed:					
Loans and receivables	31 December 2016	311	-	-	311
Financial liabilities measured at fair value:					
Interest rate swaps	31 December 2016	10,810	-	10,810	-
Financial liabilities for which fair values are disclosed:					
Obligations under finance leases	31 December 2016	283	-	283	-
Bank loan	31 December 2016	710,707	-	710,707	-
Other loans for financing non-current assets	31 December 2016	28,363	-	28,363	-
Loan from shareholders	31 December 2016	401,000	-	401,000	-

The following table provides the fair value measurement hierarchy and quantitative disclosures of the Group's financial assets and liabilities as at 31 December 2015:

	Date of valuation	Total	Level 1	Level 2	Level 3
		CZK 000	*CZK 000*	*CZK 000*	*CZK 000*
Financial assets measured at fair value:					
Interest rate swaps	31 December 2015	969	-	969	-
Financial assets for which fair values are disclosed:					
Loans and receivables	31 December 2015	260	-	-	260
Financial liabilities measured at fair value:					
Interest rate swaps	31 December 2015	7,063	-	7,063	-
Financial liabilities for which fair values are disclosed:					
Obligations under finance leases	31 December 2015	577	-	577	-
Bank loan	31 December 2015	709,531	-	709,531	-
Other loans for financing non-current assets	31 December 2015	32,764	-	32,764	-
Loan from shareholders	31 December 2015	401,000	-	401,000	-

The following table provides the fair value measurement hierarchy and quantitative disclosures of the Group's financial assets and liabilities as at 1 January 2015:

	Date of valuation	Total *CZK 000*	Level 1 *CZK 000*	Level 2 *CZK 000*	Level 3 *CZK 000*
Financial assets measured at fair value:					
Interest rate swaps	1 January 2015	-	-	-	-
Financial assets for which fair values are disclosed:					
Loans and receivables	1 January 2015	156	-	-	156
Financial liabilities measured at fair value:					
Interest rate swaps	1 January 2015	9,762	-	9,762	-
Financial liabilities for which fair values are disclosed:					
Obligations under finance leases	1 January 2015	857	-	857	-
Bank loan	1 January 2015	800,000	-	800,000	-
Other loans for financing non-current assets	1 January 2015	38,049	-	38,049	-
Loan from shareholders	1 January 2015	401,000	-	401,000	-

There were no transfers between Level 1 and Level 2 during 2016 nor 2015.

9.5. Financial instruments risk management objectives and policies

The Group's principal financial liabilities, other than derivatives, comprise loans and borrowings, trade and other payables, and financial guarantee contracts. The main purpose of these financial liabilities is to finance the Group's operations and to provide guarantees to support its operations. The Group's principal financial assets include loan and other receivables, trade and other receivables, and cash and short-term deposits that arrive directly from its operations. The Group also enters into derivative transactions.

The Group is exposed to market risk, credit risk and liquidity risk. The Group's senior management oversees the management of these risks. The Group's senior management is supported by senior management team of the ultimate parent that advises on financial risks and the appropriate financial risk governance framework for the Group. The involvement of the ultimate parent's senior management provides additional assurance to the Group's senior management that the Group's financial risk activities are governed by appropriate policies and procedures and that financial risks are identified, measured and managed in accordance with group policies and group risk appetite. All derivative activities for risk management purposes are carried out by specialist teams that have the appropriate skills, experience and supervision. It is the Group's policy that no trading in derivatives for speculative purposes may be undertaken. The Board of Directors reviews and agrees policies for managing each of these risks, which are summarised below.

Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market prices comprise three types of risk: interest rate risk, currency risk and other price risk such as equity price risk and commodity price risk. Financial instruments affected by market risk include: loans and borrowings, deposits and derivative financial instruments.

The sensitivity analyses in the following sections relate to the position as at 31 December in 2016 and 31 December 2015.

The sensitivity analyses have been prepared on the basis that the amount of net debt, the ratio of fixed-to floating interest rates of the debt and derivatives and the proportion of financial instruments in foreign currencies are all constant and on the basis of the hedge designations in place at 31 December 2016 and 31 December 2015.

The analyses exclude the impact of movements in market variables on the carrying value of employment long-term benefit obligations and provisions.

The following assumptions have been made in calculating the sensitivity analyses:

- The sensitivity of the relevant statement of profit or loss item is the effect of the assumed changes in respective market risks. This is based on the financial assets and financial liabilities held at 31 December 2016 and 31 December 2015 including the effect of hedge accounting.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term debt obligations with floating interest rates.

The Group manages its interest rate risk by having a portfolio of fixed and variable rate loans. The Group enters into interest rate swaps, in which it agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed-upon notional principal amount. At 31 December 2016, after taking into account the effect of interest rate swaps, approximately 64% of the Group's borrowings are at a fixed rate of interest (2015: 66%, 1 January 2015: 43%).

Interest rate sensitivity

The following table demonstrates the sensitivity to a reasonably possible change in interest rates on loans and borrowings, after the impact of interest rate swaps. With all other variables held constant, the Group's profit before tax is affected through the impact on floating rate borrowings, as follows:

	Increase/ decrease in basis points	Effect on profit before tax *CZK 000*
2016	50	(2,041)
	-25	1,021
2015	50	(1,945)
	-25	972

All loans are denominated in CZK.

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group's exposure to the risk of changes in foreign exchange rates is nominal as vast majority of activities are denominated in Group's functional currency CZK. The Group's management uses economic hedging – concluding purchase contracts in the same currency as the sales contracts – i.e. CZK. The Group is exposed indirectly to fluctuations in foreign currencies as the CZK price of purchased fuel and emission allowances is broadly responsive to development on prices on international markets, denominated in USD and EUR.

Foreign currency sensitivity

With all other variables held constant, the Group's profit before tax is not sensitive to reasonably possible changes in foreign exchange rates as the Group's exposure to foreign currency changes is not material as at 31 December 2016, 31 December 2015 and as at 1 January 2015.

Commodity price risk

The Group is affected by the volatility of certain commodities. Its operating activities involve predominantly the ongoing purchase of coal used in production and purchase and sale of electricity. The Group manages the commodity price risk by deploying economic hedging, where the purchase prices of commodities are set for a period of time that is responsive to the duration of sales contracts and also the changes of commodity prices are to certain extent passed to the customers, which reduces the Group's profit sensitivity to changes in commodity prices.

Commodity price sensitivity

As the group has no financial assets and liabilities linked to commodity prices, with all other variables held constant, the Group's profit before tax is not sensitive to reasonably possible changes in their prices.

Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its operating activities (primarily for trade receivables) and from its financing activities, including deposits with banks and financial institutions, loans and other financial instruments.

Trade receivables

Customer credit risk is managed by the Group's established policy, procedures and control relating to customer credit risk management. Credit quality of the customer requesting product or services above a defined threshold is assessed based on a credit rating analysis and individual credit limits are defined in accordance with this assessment. Outstanding customer receivables and exposure to credit risk are regularly monitored and the Group limits credit risk by credibility analysis and monitoring of repayment morale of existing customers. At 31 December 2016, the Group had 10 customers (2015: 7 customers, 1 January 2015: 10 customers) that owed it more than CZK 1 million each and accounted for approximately 90% (2015: 90%, 1 January 2015: 98%) of all receivables owing. There were two customers (2015: two customers, 1 January 2015: two customers) with balances greater than CZK 15 million accounting for 72% (2015: 78%,1 January 2015: 76%) of the total amounts receivable.

The requirement for an impairment is analysed at each reporting date on an individual basis for major clients. Additionally, a large number of minor receivables are grouped into homogenous groups and assessed for impairment collectively. The calculation is based on actual incurred historical data.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets disclosed in Note 9.1. The Group does not hold collateral as security. The Group evaluates the concentration of risk with respect to trade receivables as adequate given the nature of business it operates as its principal customers are located in one geographical area.

Financial instruments and cash deposits

Credit risk from balances with banks and financial institutions is managed by the Group's in accordance with the Group's policy. Investments of surplus funds are made only with approved counterparties and within credit limits assigned to each counterparty. The limits are set to minimise the concentration of risks and therefore mitigate financial loss through potential counterparty's failure to make payments. The Group's maximum exposure to credit risk for the components of the statement of financial position is the carrying amounts as illustrated in 9.1. except for derivative financial instruments. The Group's maximum exposure for financial derivative instruments are noted in the liquidity table below, respectively.

Liquidity risk

The Group monitors its risk to a shortage of funds using a liquidity planning tools.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of long-term bank loans, finance leases and hire purchase contracts. The Group assessed the concentration of risk with respect to refinancing its debt and concluded it to be low. Access to sources of funding is sufficiently available and debt maturing within 12 months can be rolled over with existing lenders.

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted payments:

Year ended 31 December 2016	**<1 year**	**2-5 years**	**Over 5 years**	**Total**
	CZK 000	*CZK 000*	*CZK 000*	*CZK 000*
Obligations under finance leases	238	43	-	281
Bank loans	21,429	757,143	-	778,572
Other loans for financing non-current assets	6,266	15,137	8,499	29,902
Loan from shareholders	37,293	475,586	-	512,879
Trade payables and other liabilities	184,653	-	-	184,653
Derivatives (interest rate swaps)	3,243	4,723	-	7,966
Total	**253,122**	**1,252,632**	**8,499**	**1,514,253**

Year ended 31 December 2015	<1 year	2-5 years	Over 5 years	Total
	CZK 000	CZK 000	CZK 000	CZK 000
Obligations under finance leases	303	280	-	583
Bank loans	21,358	778,357	-	799,715
Other loans for financing non-current assets	6,255	17,687	13,661	37,603
Loan from shareholders	37,253	512,759	-	550,012
Trade payables and other liabilities	191,457	-	-	191,457
Derivatives (interest rate swaps)	3,594	7,965	-	11,559
Total	**260,220**	**1,317,048**	**13,661**	**1,590,929**

As at 1 January 2015	<1 year	2-5 years	Over 5 years	Total
	CZK 000	CZK 000	CZK 000	CZK 000
Obligations under finance leases	303	583	-	886
Bank loan	136,867	512,725	235,529	885,121
Other loans for financing non-current assets	6,070	20,146	17,709	43,925
Loan from shareholders	37,453	149,814	404,121	591,388
Trade payables and other liabilities	207,454	-	-	207,454
Derivatives (interest rate swaps)	3,838	11,218	342	15,398
Total	**391,985**	**694,486**	**657,701**	**1,744,172**

The disclosed financial derivative instruments in the above table are the gross undiscounted cash flows. However, those amounts may be settled gross or net. The following table shows the corresponding reconciliation of those amounts to their carrying amounts:

Year ended 31 December 2016	<1 year	2-5 years	Over 5 years	Total
	CZK 000	CZK 000	CZK 000	CZK 000
Inflows	691	644	-	1,335
Outflows	(3,243)	(4,723)	-	(7,966)
Net	(2,552)	(4,079)	-	(6,631)
Discounted at the applicable interbank rates	(2,545)	(8,265)	-	(10,810)

Year ended 31 December 2015	<1 year	2-5 years	Over 5 years	Total
	CZK 000	CZK 000	CZK 000	CZK 000
Inflows	1,114	3,283	-	4,397
Outflows	(3,594)	(7,965)	-	(11,559)
Net	(2,480)	(4,682)	-	(7,162)
Discounted at the applicable interbank rates	(2,473)	(4,590)	-	(7,063)

As at 1 January 2015	<1 year	2-5 years	Over 5 years	Total
	CZK 000	CZK 000	CZK 000	CZK 000
Inflows	1,349	4,016	140	5,505
Outflows	(3,838)	(11,218)	(342)	(15,398)
Net	(2,489)	(7,202)	(202)	(9,893)
Discounted at the applicable interbank rates	(2,481)	(7,082)	(199)	(9,762)

Capital management

Capital includes equity attributable to the equity holders of the parent.

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholder value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the requirements of the financial covenants. The Group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt.

The Group's policy is to keep the gearing ratio around 70%. The Group includes within net debt, interest bearing loans and borrowings, trade and other payables, less cash and cash deposits, excluding discontinued operations, if any.

	2016	2015	1 January 2015
	CZK 000	*CZK 000*	*CZK 000*
Interest-bearing loans and borrowings	1,139,886	1,144,162	1,239,888
Trade payables and other liabilities	184,653	191,457	207,454
Less: cash and short-term deposits	(106,178)	(73,702)	(67,263)
Net debt	**1,218,361**	**1,261,917**	**1,380,079**
Equity	**550,771**	**526,316**	**514,683**
Capital and net debt	**1,769,132**	**1,788,233**	**1,894,762**
Gearing ratio	**69%**	**71%**	**73%**

In order to achieve this overall objective, the Group's capital management, amongst other things, aims to ensure that it meets financial covenants attached to the interest-bearing loans and borrowings that define capital structure requirements. Breaches in meeting the financial covenants would permit the bank to immediately call loans and borrowings. There have been no breaches of the financial covenants of any interest-bearing loans and borrowing in the current period.

No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2016 and 31 December 2015.

Excessive risk concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographical region, or have economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry. In order to avoid unnecessary concentrations of risk, the Group's policies and procedures include guidelines to focus on the maintenance of a diversified portfolio, despite the inherent limitations given the business the company is involved in. Identified concentrations of credit risks are controlled and managed accordingly.

10. Inventories

	2016	2015	1 January 2015
	CZK 000	*CZK 000*	*CZK 000*
Fossil fuel and other materials	86,515	74,476	64,045
Advances provided for inventories	1,718	-	-
Total inventories at the lower of cost and net realisable value	**88,233**	**74,476**	**64,045**

During 2016, CZK 320,092 thousand (2015: CZK 324,275 thousand) was recognised as an expense for inventories carried at net realisable value and recorded as Consumption of material and energy. Inventories are measured at costs reduced by valuation allowances to their net realisable value, if lower. The valuation allowance as at 31 December 2016 amounted to CZK 4,440 thousand (2015: CZK 3,768 thousand, 1 January 2015: 4,266 thousand).

11. Trade receivables and other assets

	2016	2015	1 January 2015
	CZK 000	*CZK 000*	*CZK 000*
Trade receivables	127,409	115,375	112,426
Short-term advances granted	754	724	817
Unbilled revenue	368	2,333	3,648
VAT receivable	3,147	10,299	8,882
Other receivables	1,002	2,268	570
Total Trade receivables and other assets	**132,680**	**130,999**	**126,343**

Trade receivables are non-interest bearing and are generally on terms of 14-30 days.

As at 31 December 2016, trade receivables with an initial carrying value of CZK 276 thousand (2015: CZK 276 thousand, 1 January 2015: CZK 7,334 thousand) were impaired and fully provided for. See below for the movements in the allowance for impairment of receivables:

	Individually impaired	Total
	CZK 000	*CZK 000*
At 1 January 2015	**7,334**	**7,334**
Utilised	(7,058)	(7,058)
At 31 December 2015	**276**	**276**
At 31 December 2016	**276**	**276**

As at 31 December, the ageing analysis of trade receivables is, as follow:

	Total	Neither past due nor impaired	Past due but not impaired: <30 days	30-60 days	60-120 days	> 120 days
	CZK 000	*CZK 000*	*CZK 000*	*CZK 000*	*CZK 000*	*CZK 000*
2016	127,409	89,145	38,242	12	0	10
2015	115,375	113,812	1,522	22	0	19
1 January 2015	112,426	111,187	1,102	8	73	56

12. Cash and deposits

	2016	2015	1 January 2015
	CZK 000	*CZK 000*	*CZK 000*
Cash in hand	24	42	2,085
Cash at bank	106,154	73,660	65,178
Total Cash	**106,178**	**73,702**	**67,263**

Cash at banks earns interest at floating rates based on daily bank deposit rates.

13. Issued capital and reserves

The basic capital of the Company consists of 100 registered shares in a certificate form fully subscribed and paid, with a nominal value of CZK 100 thousand

	units	CZK 000
At 1 January 2015	100	10,000
At 31 December 2015	100	10,000
At 31 December 2016	100	10,000

The company created separate reserve from profit that may be used to cover the future losses. The balance of the reserve as at 31 December 2016 amounted to CZK 2,000 thousand (2015: CZK 2,000 thousand; 1 January 2015: 2,000 thousand).

14. Distributions made and proposed

The company did not pay nor propose any dividends in 2016 and 2015.

15. Provisions

	Employment benefits *CZK 000*	Emission rights *CZK 000*	Total provisions *CZK 000*
At 1 January 2015	**3,740**	**92,202**	**95,942**
Arising during the year	299	68,570	68,869
Utilised	(332)	(92,202)	(92,534)
At 31 December 2015	**3,707**	**68,570**	**72,277**
Arising during the year	193	59,058	59,251
Utilised	(285)	(68,570)	(68,855)
At 31 December 2016	**3,615**	**59,058**	**62,673**

Long-term employment benefits

The Group provides long-term employment benefits, where employees are entitled to benefits dependent on the number of years of employment, jubilee bonuses and bonuses paid upon retirement of an employee. The provision represents the obligation from the benefits calculated using the projected unit credit method. The costs of providing the long-term employment benefits are recorded in the profit or loss.

Emission rights

A provision is recognized for emissions produced. For details on the accounting policy adopted by the Group for measuring the emission rights provision please refer to Note 2.3.11.

16. Accruals and deferred income

	2016 *CZK 000*	**2015** *CZK 000*	**1 January 2015** *CZK 000*
Accruals	10,045	15,383	12,149
Deferred income	258	276	238
Accruals and deferred income	**10,303**	**15,659**	**12,387**

17. Trade payables and other liabilities

	2016 CZK 000	2015 CZK 000	1 January 2015 CZK 000
Trade payables	107,105	124,473	138,442
Liabilities to employees	15,429	11,594	11,384
Other liabilities			
Liabilities arising from social security and health insurance	6,344	5,038	5,241
Short-term advances received	146	1,786	2,045
VAT payable	4,074	-	-
Liabilities from derivative instruments	10,810	7,063	9,762
Interest payable to shareholder (Note 9.2)	37,935	38,135	38,496
Other	2,810	3,368	2,084
Subtotal Other liabilities	62,119	55,390	57,628
Total trade payables and other liabilities	**184,653**	**191,457**	**207,454**

Trade payables and other liabilities are non-interest bearing and are normally settled on 30-60 days basis.

18. Commitments and contingencies

Operating lease commitments — Group as lessee

The Group has entered into commercial leases on certain motor vehicles. Future minimum rentals payable under non-cancellable operating leases are, as follows:

	2016 CZK 000	2015 CZK 000	1 January 2015 CZK 000
Within one year	8,254	8,255	2,537
After one year but not more than five years	14,034	21,775	14,653
More than five years	433	581	408
	22,721	**30,611**	**17,598**

Finance lease – Group as lessee

The Group has finance leases for cars. The Group's obligations under finance leases are secured by the lessor's title to the leased assets. Future minimum lease payments under finance leases together with the present value of the net minimum lease payments are, as follows:

	2016		2015		1 January 2015	
	Minimum payments CZK 000	Present value of payments CZK 000	Minimum payments CZK 000	Present value of payments CZK 000	Minimum payments CZK 000	Present value of payments CZK 000
Within one year	241	233	307	288	307	278
After one year but not more than five years	43	40	281	273	588	561
More than five years	-	-	-	-	-	-
Total minimum lease payments	284	273	588	561	895	839
Less amounts representing finance charges	(11)	-	(27)	-	(56)	-
Present value of minimum lease payments	**273**	**273**	**561**	**561**	**839**	**839**

19. Government grants

Grants received during the year:	2016	2015
	CZK 000	*CZK 000*
Emission rights	20,792	38,054
Grants for purchase of property, plant and equipment	341	4,061
Grants received during the year related to income	3,256	5,528

Grants are initially measured at fair value. Grants related to income and emission rights are reported under Other income in the Income statement. Grants related to purchase of property, plant and equipment decrease its cost.

There are no unfulfilled conditions or contingencies attached to these grants at 31 December 2016 and 31 December 2015.

20. Related party disclosures

The financial statements include the financial statements of the Group and the subsidiaries listed in the following table:

			% equity interest		
Name	**Principal activities**	**Country of incorporation**	**2016**	**2015**	**As at 1 January 2015**
TO Servisní s.r.o.	Service organization to the Group	Czech Republic	100%	100%	100%

The holding company

The next senior and the ultimate holding company of Teplárna Otrokovice a.s. is LAMA ENERGY GROUP a.s., a privately owned joint-stock company based the Czech Republic, holding 100% interest in the Company.

The following table provides the total amount of transactions that have been entered into with related parties for the relevant financial year:

		Sales to related parties	Purchases from related parties	Amounts owed by related parties	Amounts owed to related parties
		CZK 000	*CZK 000*	*CZK 000*	*CZK 000*
Other entities controlled by the parent company (members of LAMA ENERGY GROUP a.s.):					
LAMA energy a.s.	**2016**	145,452	309,696	17,382	41,628
	2015	153,461	280,358	16,089	45,731
	As at 1 January 2015	-	-	16,396	55,093
MANLOMKA s.r.o.	**2016**	-	1,276	-	132
	2015	-	319	240	130
	As at 1 January 2015	-	-	-	-
Teplárna Kyjov, a.s.	**2016**	47	20,709	-	2,125
	2015	5	-	-	-
	As at 1 January 2015				
Energo Český Krumlov s.r.o.	**2016**	-	25	-	-
	2015	-	-	-	-
	As at 1 January 2015	-	-	-	-
DIGI CZ s.r.o.	**2016**	-	191	-	34
	2015	-	84	-	5
	As at 1 January 2015	-	-	-	7

Other entities controlled by the parent company - continued		**Sales to related parties** *CZK 000*	**Purchases from related parties** *CZK 000*	**Amounts owed by related parties** *CZK 000*	**Amounts owed to related parties** *CZK 000*
SYNERGY SOLUTION s.r.o.	**2016**	-	1,653	-	-
	2015	-	-	-	-
	As at 1 January 2015	-	-	-	-
Entities controlled by the company's directors:					
Recoplan s.r.o.	**As at 1 January 2015**	-	-	-	4,569
Key management personnel of the Group:					
Board members	**2016**	-	2,450	-	653
	2015	-	2,451	-	650
	As at 1 January 2015	-	-	-	1,794

Loans from related parties

		Interest paid *CZK 000*	**Principal owed to related parties** *CZK 000*	**Accrued interest owed to related parties** *CZK 000*
LAMA ENERGY GROUP a.s.	**2016**	37,935	401,000	37,935
(Note 9.2)	**2015**	38,135	401,000	38,135
	As at 1 January 2015	-	401,000	38,496

Terms and conditions of transactions with related parties

The Group sells electricity and renders services to related parties in the ordinary course of business. The company receives services, purchases electricity, and emission allowances from related parties in the ordinary course of business.

The sales to and purchases from related parties are made at terms equivalent to those that prevail in arm's length transactions. Outstanding balances at the year-end are unsecured, interest free (except loans) and settled in cash. There have been no guarantees provided or received for any related party receivables or payables. For the year ended 31 December 2016, the Group has not recorded any impairment of receivables relating to amounts owed by related parties (2015: CZK Nil, 1 January 2015: CZK Nil). This assessment is undertaken each financial year by examining the financial position of the related party and the market in which the related party operates.

Compensation of key management personnel of the Group

	2016 *CZK 000*	**2015** *CZK 000*
Short-term employment benefits, including payroll	22,382	22,282
Long-term employment benefits	-	-
Total compensation paid to key management personnel	**22,382**	**22,282**

The amounts disclosed in the table are the amounts recognised as an expense during the reporting period related to key management personnel and excludes mandatory social and health insurance paid by the company.

The members of statutory and supervisory bodies, directors and executive officers were granted no loans, guarantees, advances or other similar benefits in 2016 and 2015 and they do not hold any shares of the Group.

21. Standards issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments that replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

The Group plans to adopt the new standard on the required effective date. During 2016, the Group has performed a high-level impact assessment of all three aspects of IFRS 9. This preliminary assessment is based on currently available information and may be subject to changes arising from further detailed analyses or additional reasonable and supportable information being made available to the Group in the future. Overall, the Group expects no significant impact on its balance sheet and equity.

(a) Classification and measurement

The Group does not expect a significant impact on its balance sheet or equity on applying the classification and measurement requirements of IFRS 9. It expects to continue measuring at fair value all financial assets currently held at fair value.

Loans as well as trade receivables are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest. Thus, the Group expects that these will continue to be measured at amortised cost under IFRS 9. However, the Group will analyse the contractual cash flow characteristics of those instruments in more detail before concluding whether all those instruments meet the criteria for amortised cost measurement under IFRS 9.

(b) Impairment

IFRS 9 requires the Group to record expected credit losses on all of its debt securities, loans and trade receivables, either on a 12-month or lifetime basis. The Group expects to apply the simplified approach and record lifetime expected losses on all trade receivables. The Group does not expect a significant impact on its equity due to the nature of its loans and receivables, but it will need to perform a more detailed analysis which considers all reasonable and supportable information, including forward-looking elements to determine the extent of the impact.

(c) Hedge accounting

The Group does not expect a significant impact as a result of applying IFRS 9. The Group will assess possible changes related to the accounting for the time value of options, forward points or the currency basis spread in more detail in the future.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018. Early adoption is permitted. The Group plans to adopt the new standard on the required effective date using the full retrospective method. During 2016, the Group performed a preliminary assessment of IFRS 15, which is subject to changes arising from a more detailed ongoing analysis. Furthermore, the Group is considering the clarifications issued by the IASB in April 2016 and will monitor any further developments.

(a) Sale of energy

The Group is in the business of production and sale of thermal energy and electricity. The energies are sold on its own in separate identified contracts with customers. The Group recognises revenue with reference to actual deliveries of energies, i.e. over time and although the Group is still analysing contracts with customers it expects the new revenue standard would have no significant impact on reported revenue or profit.

(b) Presentation and disclosure requirements

IFRS 15 provides presentation and disclosure requirements, which are more detailed than under current IFRS. The presentation requirements represent a significant change from current practice and significantly increases the volume of disclosures required in Group's financial statements. Many of the disclosure requirements in IFRS 15 are completely new. In 2016 the Group developed and started testing of appropriate systems, internal controls, policies and procedures necessary to collect and disclose the required information.

Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognised in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture. The IASB has deferred the effective date of these amendments indefinitely, but an entity that early adopts the amendments must apply them prospectively.

IAS 7 Disclosure Initiative – Amendments to IAS 7

The amendments to IAS 7 Statement of Cash Flows are part of the IASB's Disclosure Initiative and require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. On initial application of the amendment, entities are not required to provide comparative information for preceding periods. These amendments are effective for annual periods beginning on or after 1 January 2017, with early application permitted. Application of amendments will result in additional disclosure provided by the Group.

IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses – Amendments to IAS 12

The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

Entities are required to apply the amendments retrospectively. However, on initial application of the amendments, the change in the opening equity of the earliest comparative period may be recognised in opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity. Entities applying this relief must disclose that fact.

These amendments are effective for annual periods beginning on or after 1 January 2017 with early application permitted. If an entity applies the amendments for an earlier period, it must disclose that fact. These amendments are not expected to have any impact on the Group.

IFRS 2 Classification and Measurement of Share-based Payment Transactions — Amendments to IFRS 2

The IASB issued amendments to IFRS 2 Share-based Payment that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled.

On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. The amendments are effective for annual periods beginning on or after 1 January 2018, with early application permitted. The Group is assessing the potential effect of the amendments on its consolidated financial statements.

IFRS 16 Leases

IFRS 16 was issued in January 2016 and it replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies IFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

In 2017, the Group plans to assess the potential effect of IFRS 16 on its consolidated financial statements.

22. Events after the reporting period

No events have occurred after the end of the end of the reporting period that might have a significant impact on the financial statements for the year ended 31 December 2016.

23. Auditor´s report

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INDEPENDENT AUDITOR'S REPORT

To the Shareholder of Teplárna Otrokovice a.s.:

Opinion

We have audited the accompanying consolidated financial statements of Teplárna Otrokovice a.s. Group (hereinafter also the "Group") prepared in accordance with International Financial Reporting Standards as adopted by the European Union, which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies and other explanatory information. For details of the Company, see 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 Teplárna Otrokovice a.s. Group as at 31 December 2016, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Basis for Opinion

We conducted our audit in accordance with the Act on Auditors and Auditing Standards of the Chamber of Auditors of the Czech Republic, which are International Standards on Auditing (ISAs), as amended by the related application clauses. Our responsibilities under this law and regulation are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Group 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.

Responsibilities of the Group's Board of Directors and Supervisory Board for the consolidated Financial Statements

The Board of Directors 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 Board of Directors 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 Board of Directors is responsible for assessing the Group'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 Board of either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The Supervisory Board is responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the 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 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.

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As part of an audit in accordance with the above law or regulation, 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 Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.

- Conclude on the appropriateness of the Board of Directors' 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 Group'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 Group 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 the Board of Directors and the Supervisory Board 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.

Ernst & Young Audit, s.r.o.
License No. 401

Josef Pivoňka, Auditor
License No. 1963

6 November 2017
Prague, Czech Republic

A member firm of Ernst & Young Global Limited
Ernst & Young Audit, s.r.o. with its registered office at Na Florenci 2116/15, 110 00 Prague 1 - Nove Mesto, has been incorporated in the Commercial Register administered by the Municipal Court in Prague, Section C, entry no. 88504, under Identification No. 26704153.