Report on year ended December 31, 2012 for EP Energy, a.s.

EP ENERGY

KEY FIGURES AT A GLANCE

Summary consolidated income statement data

	For the years ended December 31,		Pro forma for the year ended December 31,	
	2011	2012	2012	
	(CZK in millions)		(CZK in millions)	(€ in millions)
Sales: Energy	32,701	39,295	43,605	1,734.49
of which: Electricity	*19,809*	*22,431*	*24,026*	*955.69*
Heat	*5,749*	*6,859*	*7,786*	*309.71*
Gas	*4,956*	*3,711*	*3,711*	*147.61*
Coal	*2,091*	*6,294*	*8,082*	*321.48*
Other energy products	*96*	—	—	—
Sales: Other	725	1,770	2,196	87.35
Total sales	33,426	41,065	45,801	1,821.84
Cost of sales: Energy	(23,188)	(25,276)	(28,037)	(1,115.23)
Cost of sales: Other	(680)	(422)	(461)	(18.34)
Total cost of sales	(23,868)	(25,698)	(28,498)	(1,133.57)
	9,558	15,367	17,303	688.27
Depreciation and amortization	(3,447)	(5,211)	(6,732)	(267.78)
Repairs and maintenance	(392)	(457)	(523)	(20.80)
Emission rights, net	157	135	6	0.24
Negative goodwill	208	3,012	—	—
Taxes and charges	(481)	(382)	(426)	(16.95)
Other operating income	669	2,247	2,317	92.16
Other operating expenses	(1,292)	(2,252)	(2,761)	(109.83)
Profit/(loss) from operations	2,921	8,675	4,533	180.31

Summary consolidated statement of financial position data

	As of December 31,	
	2011	2012
	(CZK in millions)	
Total non-current assets	33,548	52,542
Total current assets	26,482	29,851
Cash and cash equivalents	*2,263*	*8,173*
Total assets	60,030	82,393
Total equity	18,456	36,207
Total non-current liabilities	15,639	27,527
Total current liabilities	25,935	18,659
Total liabilities	41,574	46,186
Total equity and liabilities	60,030	82,393

Summary consolidated cash flow data

	For the year ended December 31,	
	2011	2012
	(CZK in millions)	
Cash flows generated from (used in) operating activities	13,061	(19,394)
Cash flows from (used in) investing activities	(1,732)	12,439
Cash flows from (used in) financing activities	(10,032)	12,885
Cash and cash equivalents at end of the year[1]	2,263	8,173

(1) CZK 4,390 million of this cash as of December 31, 2012 reflects proceeds of the sale of Energotrans, a.s., and is reserved for PT's minority shareholders. For more information, see "Management's discussion and analysis of financial condition and results of operations—The EPE Group—Sale of Energotrans."

Summary historical consolidated financial data

	For the year ended December 31,	
	2011	2012[1][3]
	(CZK in millions)	
Profit/(loss) from operations	2,921	8,675
Depreciation and amortization	3,447	5,211
Negative goodwill	208	3,012
EBITDA[1][4]	6,160	10,874
EBITDA margin (in %)[2]	18.4	26.5
Capital expenditures (excluding emissions rights)	1,663	1,897

(1) EBITDA represents Profit/(loss) from operations, *plus* Depreciation and amortization, *less* Negative goodwill. Although EBITDA should not be considered a substitute measure for profit and net cash flow from operating activities, we believe that it provides useful information regarding our ability to meet future debt service requirements. EBITDA may not be comparable to the similarly titled measure used by other companies.

(2) EBITDA margin represents EBITDA *divided by* Total sales (year ended December 31, 2011: CZK 33,426 million, December 31, 2012: CZK 41,065 million). We include EBITDA margin, as it is a commonly used financial measure in our industries. However, EBITDA margin has certain limitations and may not serve as accurate performance indicator because (i) the scope of consolidation of the EPE Group has changed significantly year to year, not allowing such measure to be comparable over time and (ii) as part of our power trading activities, we engage in sales of power generated by EPE Group companies, as well as resales of power purchased on the wholesale market in connection with our power optimization process, which leads to an overall increase in the volume of sales of power. With an increasing number of resales, total costs as a percentage of total sales increase as the margins realized on each subsequent optimization transaction tend to decline as the frequency of optimization transactions increases. The optimization process therefore has a negative impact on EBITDA margin, while having a positive or neutral affect on EBITDA.

(3) EBITDA for the year ended December 31, 2012 for the EPE Group reflects (a) the following non-recurring, non-cash effects related to reclamation provisions: (i) a change in the discount rate (which lead to a CZK 2,718 million (€108.11 million) increase to EBITDA) and (ii) an increase in the assumed inflation rate (which lead to a CZK 582 million (€23.15 million) decrease to EBITDA) and (b) the items related to Saale Energie (which lead to a CZK 180 million (€7.16 million) decrease to EBITDA), which, due to the accounting treatment of the specific contractual arrangement with Schkopau, are charged to operating costs of Saale Energie but relate to entries that would otherwise not be included in EBITDA.

(4) Euro equivalent: €250.51 million and €432.54 million, for the years ended December 31, 2011 and 2012, respectively.

Summary unaudited pro forma consolidated financial data

	Pro forma for the year ended December 31, 2012
	(CZK in millions)
Pro forma Profit/(loss) from operations	4,533
Pro forma Depreciation and amortization	6,732
Pro forma Negative goodwill	—
Pro forma EBITDA[(1)(2)(3)]	11,265
Pro forma Capital expenditures (excluding emissions rights)	2,044

(1) Pro forma EBITDA represents Pro forma Profit/(loss) from operations, *plus* Pro forma Depreciation of property, plant and equipment and amortization of intangible assets, *less* Pro forma Negative goodwill. Although Pro forma EBITDA should not be considered a substitute measure for profit and net cash flow from operating activities, we believe that it provides useful information regarding our ability to meet future debt service requirements. Pro forma EBITDA may not be comparable to the similarly titled measure used by other companies.

(2) Pro forma EBITDA reflects (a) the following non-recurring, non-cash effects related to reclamation provisions: (i) a change in the discount rate (which lead to a CZK 2,718 million (€108.11 million) increase to EBITDA) and (ii) an increase in the assumed inflation rate (which lead to a CZK 528 million (€23.15 million) decrease to EBITDA), which relate to the mining segment and (b) the items related to Saale Energie (which lead to a CZK 355 million (€14.14 million) decrease to EBITDA), which, due to the accounting treatment of the specific contractual arrangement with Schkopau, are charged to operating costs of Saale Energie but relate to entries that would otherwise not be included in EBITDA, which relates to the Heat and Power segment.

(3) Euro equivalent: €448.09 million.

Summary operating data[(1)]

		As of and for the year ended December 31,	
		2011	2012
Coal production	Mt	19.0	18.7
Installed cogeneration capacity	MW_e	494.0	500.0
Installed condensation capacity	MW_e	351.0	360.0
Installed heat capacity	MW_{th}	4,105.0	4,105.0
Certified grid balancing capacity[(2)]	MW_e	153.0	184.0
Cogeneration production	GWh	791.9	779.0
Condensation production	GWh	2,607.7	2,309.1
Grid balancing services	GWh	592.9	957.3
Heat supplied	TJ	18,092.2	18,481.6
Power traded	GWh	10,638.0	12,072.0
Power supplied	GWh	1,709.4	1,779.4
Natural gas supplied	GWh	1,866.1	1,784.5
Saale Energie[(3)]	MW_e	400.0	400.0

(1) The operating data are based on the results of the whole entity regardless of the date when each entity joined the EPE Group or the ownership share of the EPE Group in each entity, but excludes for all periods operating data for Energotrans, which PT sold in June 2012.

(2) Grid balancing capacity is included in Installed cogeneration capacity and Installed condensation capacity.

(3) Saale Energie owns a 41.9% interest in the Schkopau CHP plant in Germany (representing a beneficial use right over 400 MW_e of the plant's total capacity).

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The audited consolidated financial statements for the EPE Group as of and for the year ended December 31, 2012 and pro forma consolidated financial statements for the EPE Group as of and for the year ended December 31, 2012 are presented in separate files as attachments to this Report.

Letter from the CEO

Dear investors, customers and partners,

While the past year was characterised by continued uncertainty in the European economy, for EP ENERGY it was a year of expansion and growth.

EP ENERGY Group EBITDA based on IFRS grew by €182 million to €433 million for the year ended December 31, 2012 from €251 million for the year ended December 31, 2011, and this can be primarily attributed to the extension of the scope of the EP ENERGY Group, including the acquisition of the remaining 50% ownership interest in MIBRAG and our acquisition of Saale Energie. We also present in this report pro forma consolidated adjusted EBITDA, which reached €377 million for the year ended December 31, 2012. We believe that pro forma consolidated adjusted EBITDA more accurately reflects EBITDA levels and thus the performance of the EP ENERGY Group, as it includes adjustments to (i) reflect the full year impact of all of the EP ENERGY Group companies which we acquired or in which our interest changed over the course of 2012 and (ii) exclude certain non-recurring and/or non-cash effects.

The year 2012 has been important for our company in terms of strategy and overall business profile as we finalized several transactions including: (i) the acquisition of the remaining 50% stake in MIBRAG; (ii) the acquisition of 400MWe capacity share of Schkopau power plant (through our acquisition of Saale Energie); (iii) the sale of Energotrans a.s. (previously owned by Pražská teplárenská a.s.) and (iv) the renegotiation of the shareholder agreement with the minority shareholder in Pražská teplárenská a.s., which secures management control for EP ENERGY.

On behalf of the Board of Directors and everyone at EP ENERGY, I would like to thank you for your ongoing support as we strive to implement our business strategies in the future.

Sincerely yours,

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Tomáš David
Member of the Board and CEO

EP Energy, a.s. (the "Company") Annual Report for the year ended December 31, 2012

Reporting

This report (the "Report") is the report required under Section 4.03 of the indenture governing the senior secured notes (the "Notes"), dated as of October 31, 2012 (the "Indenture") for the year ended December 31, 2012. Please see the attached Glossary for other defined terms used herein.

Presentation of financial information

This Report summarizes consolidated financial and operating data derived from the audited financial statements of EP Energy, a.s. as of and for the year ended December 31, 2012 prepared in accordance with IFRS. The consolidated financial statements of EP Energy, a.s. as of and for the year ended December 31, 2012 were audited by KPMG Česká republika Audit, s.r.o. in accordance with International Standards of Auditing ("ISAs"). For a description of the accounting principles followed in preparing EP Energy, a.s.'s consolidated financial statements, please see Note 2 "Basis of Preparation" to the consolidated financial statements of EP Energy, a.s. as of and for the year ended December 31, 2012 included herein.

In addition, we have included certain non-IFRS financial measures in this Report, including EBITDA, Pro Forma EBITDA, Pro Forma Adjusted EBITDA, EBITDA margin and certain other financial measures and ratios. Non-IFRS financial measures are derived on the basis of methodologies other than IFRS.

EBITDA is defined herein as Profit/(loss) from operations (i.e., Total sales less Total operating costs) plus Depreciation and amortization less Negative goodwill. EBITDA for the year ended December 31, 2012 for the EPE Group and for the Mining segment reflects the following non-recurring, non-cash effects related to reclamation provisions: (i) a change in the discount rate (which lead to a CZK 2,718 million (€108.11 million) increase to EBITDA) and (ii) an increase in the assumed inflation rate (which lead to a CZK 582 million (€23.15 million) decrease to EBITDA). EBITDA for the year ended December 31, 2012 for the EPE Group and the Heat and Power segment also reflects items related to Saale Energie (which lead to a CZK 180 million (€7.16 million) decrease to EBITDA), which, due to the accounting treatment of the specific contractual arrangement with Schkopau, are charged to operating costs of Saale Energie but relate to entries that would otherwise not be included in EBITDA. See "Presentation of financial information" for a reconciliation from Profit/(loss) from operations to EBITDA.

After the listing of the Notes on the Irish Stock Exchange, the EPE Group began to report segment information in accordance with IFRS 8. EPE uses segment reporting in accordance with IFRS, and all figures for the segments reflect segment reporting in accordance with IFRS. Because we did not previously report segment information through IFRS segment reporting, it may be difficult to compare our segment data with our "line of business" data previously reported elsewhere.

Pro Forma EBITDA (or pro forma consolidated EBITDA or pro forma EBITDA) is defined herein as Profit/(loss) from operations (i.e., Total sales less Total operating costs) plus Depreciation and amortization less Negative goodwill, adjusted to reflect the acquisition of 100% of the MIBRAG Group, the full consolidation of PT, the disposition of Energotrans, a.s. and the acquisition of Saale Energie as though they had each occurred on January 1, 2012. See "Presentation of financial information" for a reconciliation from pro forma Profit/(loss) from operations to Pro forma EBITDA.

Pro Forma Adjusted EBITDA (or pro forma adjusted EBITDA or pro forma adjusted consolidated EBITDA) is defined herein as Pro Forma EBITDA further adjusted to exclude (a) the following non-recurring, non-cash effects related to reclamation provisions: (i) a change in the discount rate (which lead to a CZK 2,718 million (€108.11 million) increase to EBITDA) and (ii) an increase in the assumed inflation rate (which lead to a CZK 582 million (€23.15 million) decrease to EBITDA) and (b) the items related to Saale Energie (which lead to a CZK 355 million (€14.14 million) decrease to EBITDA), which, due to the accounting treatment of the specific contractual arrangement with Schkopau, are charged to operating costs of Saale Energie but relate to entries that would otherwise not be included in EBITDA.

EBITDA margin is defined herein as EBITDA divided by Total Sales and Pro Forma Adjusted EBITDA margin is defined herein as Pro Forma Adjusted EBITDA divided by Pro forma Total Sales.

We present EBITDA, Pro Forma EBITDA, Pro Forma Adjusted EBITDA, EBITDA margin and Pro Forma Adjusted EBITDA margin, because we believe these financial measures may enhance an investor's understanding of the profitability and cash flow generation of our business that could be used to service or pay down debt, pay income taxes and for other uses, and because they are frequently used by securities analysts, investors and other interested parties in the evaluation of companies generally. We use EBITDA to assess our performance. EBITDA is not a measure calculated in accordance with IFRS and our use of the term EBITDA may vary from others in our industry. EBITDA differs from Consolidated EBITDA as defined in the Indenture. EBITDA should not be considered as an alternative to "Sales: energy," "Sales: other," "Gross profit," "Profit/(loss) from operations," "Cash generated from (used in) operating activities" or any other performance measure derived in accordance with IFRS.

Although we believe EBITDA, Pro Forma EBITDA, Pro Forma Adjusted EBITDA, EBITDA margin and Pro Forma Adjusted EBITDA margin, to be useful performance indicators for our group as a whole and certain of our segments, we believe that such measurements may not accurately reflect our results of operations, and may not serve as accurate performance indicators, of our Energy Supply and Trading segment due to the implementation of our power optimization strategy in this segment, see "Management's discussion and analysis of financial condition and results of operation—Energy Supply and Trading."

EBITDA and all the other non-IFRS measures presented herein have important limitations as analytical tools and you should not consider them in isolation or as substitutes for analysis of our results as reported under IFRS.

We have presented in this Report unaudited pro forma financial information as required by the Indenture. The adjustments made in order to present the unaudited pro forma consolidated financial information have been made based on available information and assumptions that our management believes are reasonable. The unaudited pro forma consolidated financial information is for informational purposes only and does not necessarily present what our results would actually have been had the transactions described therein actually occurred on January 1, 2012, nor should it be used as the basis of projections of our results of operations or financial condition for any future period. The unaudited pro forma consolidated information has not been prepared in accordance with the rules or regulations of the United States Securities and Exchange Commission, and is not in compliance therewith or any other comprehensive basis of preparation. Any reliance you place on this information should fully take this into consideration.

The financial information presented in this Report is presented in Czech crowns. For your convenience, we have translated certain Czech crown amounts in this Report into euro. We include a number of convenience euro translations throughout the Report. The exchange rates are the following average exchange rates of the Czech National Bank in Czech crown per euro for the relevant period:

-year ended December 31, 2011: CZK 24.59 per €1.00

-year ended December 31, 2012: CZK 25.14 per €1.00

You should not view such translations as a representation that such Czech crown amounts actually represent such euro amounts, or could be or could have been converted into euro at the rate indicated or at any other rate. The exchange rates for balance sheet items are the rates as of period end.

Forward-looking statements

This Report contains “forward-looking statements” within the meaning of the securities laws of certain jurisdictions. In some cases, these forward-looking statements can be identified by the use of forward-looking terminology, including the words “assume,” “believe,” “could,” “estimate,” “anticipate,” “expect,” “intend,” “may,” “will,” “plan,” “continue,” “ongoing,” “potential,” “predict,” “project,” “risk,” “target,” “seek,” “should” or “would” and similar expressions or, in each case, their negative or other variations or comparable terminology or by discussions of strategies, plans, objectives, targets, goals, future events or intentions. These forward-looking statements include all matters that are not historical facts. They appear in a number of places throughout this Report and include statements regarding our intentions, beliefs or current expectations concerning, among other things, our results of operations, financial condition, liquidity, prospects, growth and strategies, our reserves and the industry in which we operate.

By their nature, forward-looking statements involve known and unknown risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future. Forward-looking statements are not guarantees of future performance. You should not place undue reliance on these forward-looking statements.

Many factors may cause our results of operations, financial condition, liquidity, reserves and the development of the industry in which we compete to differ materially from those expressed or implied by the forward-looking statements contained in this Report.

These factors include, among others:

- negative or uncertain global and regional economic conditions;
- failure to implement our key strategies;
- failures, breakdowns or other outages, as well as natural disasters, sabotage, or terrorism in our mines or in our generation and distribution facilities;
- the effects of waning political or public support for the brown coal used in our operations;
- the sensitivity of certain of our businesses to variations in weather;
- the effects of volatility in prices for electricity, natural gas, hard coal and CO_2 emission allowances;
- disruptions in the supply of, or the unexpected increase in the price of, fuel and other raw materials, as well as transportation costs;
- reliance on a small number of suppliers in our power and heat business;
- customer concentration in our mining business;
- failure to successfully integrate and manage acquired companies; and
- changes in laws or regulatory schemes; and
- other factors discussed on “Risk factors.”

These risks and others described under “Risk factors” are not exhaustive. Other sections of this Report describe additional factors that could adversely affect our business, financial condition, results of operation, cash flows, reserves and the development of the industry in which we operate. New risks can emerge from time to time, and it is not possible for us to predict all such risks, nor can we assess the impact of all such risks on our business or the extent to which any risks, or combination of risks and other factors, may cause actual results to differ materially from those contained in any forward-looking statements. Although we believe that the expectations reflected in such forward-looking statements are reasonable, we can give no assurance that such expectations will prove to be correct. Given these risks and uncertainties, you should not rely on forward-looking statements as a prediction of actual results.

Any forward-looking statements are only made as of the date of this Report and we do not intend, and do not assume any obligation, to update forward-looking statements set forth in this Report. You should interpret all subsequent written or oral forward-looking statements attributable to us or to persons acting on our behalf as being qualified by the cautionary statements in this Report. As a result, you should not place undue reliance on these forward-looking statements.

Industry and market data

We operate in an industry for which it is difficult to obtain precise industry and market information. The market and competitive position data in this Report are either derived from or are estimates by management based on industry publications, and from surveys or studies conducted by third-party industry consultants and governmental and trade associations that are generally believed to be reliable. The information has been accurately reproduced and, as far as we are aware and have been able to ascertain from information published by those sources, no facts have been omitted which would render the reproduced information inaccurate or misleading. Where third-party information has been used in this Report, the source of such information has been identified. However, the accuracy and completeness of such information is not guaranteed and has not been independently verified. Additionally, industry publications and such studies generally state that the information contained therein has been obtained from sources believed to be reliable, but the accuracy or completeness of such information is not guaranteed and in some instances the sources do not assume liability for such information. Some of the information herein has been extrapolated from such market data or reports using our experience and internal estimates. Elsewhere in this Report, statements regarding the industry in which we operate and our position in this industry are based solely on our experience, internal studies and estimates, and our own investigation of market conditions. We believe that the sources of such information in this Report are reliable, but there can be no assurance that any of these assumptions is accurate or correctly reflects our position in our industry, and none of our internal surveys or information has been verified by any independent sources. While we are not aware of any misstatements regarding the industry or similar data presented herein, such data involves risks and uncertainties and are subject to change based on various factors, including those discussed under the heading “Risk factors” in this Report. As a result, we do not make any representation as to the accuracy or completeness of any such information in this Report.

Coal reserve information

Information contained in this Report relating to estimates of the brown coal assets of Mitteldeutsche Braunkohlengesellschaft mbH (“MIBRAG”) (including brown coal assets MIBRAG has the right to acquire under the permit from the Mining Authority to extract brown coal from a new mining field in the area of Pödelwitz adjacent to the current mining field Peres of an estimated additional 12 million tons, as described in more detail under “Recent developments—Recent acquisitions”) as of December 31, 2012, was prepared by IMC-Montan Consulting GmbH (“IMC”) according to the Australasian Code for Reporting of Identified Mineral Resources and Ore Reserves (the “JORC Code”).

You should be aware that the reserves are estimates of the material that IMC believes existed in our mines as of December 31, 2012 and have not been updated for any extraction since that date. Moreover, this resource classification is primarily based on geological factors. However, taking into account geological, economical, as well as legal factors, we believe that the measure that provides a more realistic and reliable estimate of our reserves is the amount we are permitted to mine under our framework mine plans approved by the competent mining authorities in Germany.

Accordingly, you should not assume that we will be able to profitably extract all of the mineral resources estimated in this Report as derived from the IMC Competent Persons Report that we commissioned in 2011 (the “IMC Report”). When reserves and resources are reported under the JORC Code, the mineral reserve figures (tonnage and coal quality) are included within the mineral resource figures (tonnage and coal quality). The SEC’s Industry Guide 7 Description of Property by Issuers Engaged or to be Engaged in Significant Mining Operations (“Industry Guide 7”) differs from the JORC Code in that it requires reserves to be calculated on the basis of current legal and economic conditions at the time of the reserve determination, whereas the JORC Code permits reporting companies to make “realistic” assumptions about such matters.

Estimates of coal reserves and resources depend significantly on the interpretation of geological data obtained from drill holes and other sampling techniques, which is extrapolated to produce estimates of the size, shape, depth and quality of coal deposits. In addition, to calculate the level of reserves in the IMC Report, IMC made estimates and assumptions regarding a number of economic and technical factors, such as production rates, coal quality, production and transport costs and prices. These economic and technical estimates and assumptions may change in the future in ways that affect the quantity of our reserves. We generate additional geological data as we mine, which may not be consistent with the data on which our reserve and resources estimates were based, resulting in changes to those estimates. No assurance can be given that the reserves and resources presented in this Report will be recovered at the quality or yield presented.

See “Risk factors—Risks related to our businesses and industries—Risks related to mining operations—Proven and probable brown coal reserves are estimates based on knowledge, experience and industry practice, and the volume and quality of our actual brown coal reserves could be substantially lower than such estimates” and “Risk factors—Risks related to our businesses and industries—Risks related to mining operations—Our reserves and resources may differ from those disclosed in filings with the U.S. Security and Exchange Commission in accordance with SEC Industry Guide 7.”

Coal consumption and sales

We present in this Report information about quantities of brown coal consumed and sold. With respect to consumption, we measure our use of brown coal in our power plants in energy volume (gigajoules or GJ). With respect to sales, we measure the sale of brown coal in mass volume (millions of tons or Mt).

Installed electricity capacity

We present in this Report information about the installed electricity capacities of our facilities. These capacities are based on our licensed capacities. However, our actual capacities may differ.

"Installed cogeneration capacity" represents the electricity capacity of generators that can deliver heat in cogeneration mode. "Installed condensation capacity" represents electricity capacity of generators that can produce power in condensation mode only. Some of our generators that generate power in cogeneration mode can also generate power in condensation mode. This is reflected in the volume of our power production.

Recent developments

Potential acquisitions

We are in ongoing negotiations to acquire a German brown coal-fired plant and its adjacent brown coal mine and recently submitted an updated offer, which is, subject to the finalization of transaction documents, expected to be completed during 2013. If the negotiations are successful, the plant would become part of the consolidated EPE Group. The power plant under consideration is currently self-sufficient in its supply of fuel, however, its mine is expected to be fully extracted in 2017, at which time, if we successfully purchase the plant, we would begin supplying it exclusively with MIBRAG brown coal. If we successfully purchase the plant, we would be liable for reclamation payments in relation to the plant's exhausted mine which we would pay with cash generated from the plant's operations. As the purchaser, we could assume the power plant's obligations under a long-term power supply agreement, and would assume certain personnel-related obligations and the reclamation obligation, which would be reflected in the purchase price. By using our brown coal to generate power at this plant, we believe we would enhance the synergies between our business lines and strengthen the vertical integration of the EPE Group through this acquisition.

After taking into account the brown coal we expect to deliver to our facilities in the future, we believe that our MIBRAG mines will have sufficient excess production capacity to supply the German brown coal-fired plant if we are successful in acquiring it.

We have also submitted a bid in an open tender process to acquire certain operations in the Czech Republic, including two coal-fired cogeneration plants which supply heat to public heating networks. The plants are relatively new. The plants have long-term coal supply contracts, and we do not expect to supply them with MIBRAG brown coal.

Our parent company, EPH, is negotiating to purchase a substantial minority interest with management control in a power distribution and supply company operating in one of the countries in which we have existing operations (the "Power Supply Company"). The Power Supply Company delivers and distributes electricity to both businesses and households and serves several hundred thousands of customers. Subject to concluding negotiations satisfactorily, EPH could soon enter into a purchase agreement for the minority interest. Any purchase agreement in relation to the minority interest in the Power Supply Company would be subject to obtaining consent from the majority shareholder, satisfactory completion of due diligence, regulatory approval and obtaining anti-trust clearance. There can be no assurance that EPH will acquire the minority interest in the Power Supply Company.

If EPH is successful in acquiring the above-mentioned minority interest (with management control) in the Power Supply Company, we expect that EPH will fund the acquisition using a combination of cash on hand and indebtedness. Following such acquisition, we expect that EPH would contribute the holding company for the minority interest to EPE in exchange for subordinated shareholder funding and/or equity. As a result of such contribution, EPE would indirectly assume the indebtedness of the holding company and its subsidiaries, including the Power Supply Company, which could be significant. Such debt would not be secured by any assets of the EPE Group. Following such contribution, we expect that we would refinance the indebtedness of the holding company with additional senior secured indebtedness of EPE that would rank pari passu with the Notes in compliance with the Indenture.

We do not expect that the minority interest would represent more than 15% of the EPE Group's total assets or income from continuing operations before income taxes, extraordinary items and cumulative effect of a change in accounting principle of the Power Supply Company exclusive of amounts attributable to any noncontrolling interests or the consideration for the minority interest to exceed 15% of the EPE Group's total assets.

If we succeed in these bids, we expect the combined purchase price for the three acquisitions to be approximately €450-510 million (including assumed indebtedness but excluding shareholder funding), which we expect to fund with a combination of cash generated from our operations, shareholder funding and other external indebtedness.

None of the potential acquisitions described above is reflected in the pro forma financial information included elsewhere in this Report.

Recent acquisitions

In December 2012, we increased our ownership share in PRVNÍ MOSTECKÁ a.s., gaining majority control of the company, effective January 2013. PRVNÍ MOSTECKÁ a.s. supplies and distributes heat to the Czech city of Most. The purpose of this acquisition is to further develop our strategy of vertical integration of the EPE Group. As the impact of this acquisition is negligible, it is not reflected in the pro forma financial information included elsewhere in this Report.

In October 2012, we received approval and a permit from the Mining Authority to extract brown coal from a new mining field, Pödelwitz, adjacent to MIBRAG's land with an estimated 12 million tons of new brown coal reserves. We include the 12 million tons of reserves represented by this new field as probable reserves in accordance with a reserve report that we commissioned to update information on our reserves (the "New Reserve Report"). In addition to the 12 million tons, we are conducting surveys on the field to verify up to an additional 13 million tons. According to the New Reserve Report, subject to the outcome of these on-going surveys, up to a total of 13 million tons could be added to probable reserves. If these reserves are included in our Main Operating Plan (*Hauptbetriebsplan*), our reported reserves could increase by up to 25 million tons.

Neither the PRVNÍ MOSTECKÁ transaction nor the new mining field transaction is reflected in the pro forma financial information included elsewhere in this Report.

Other

Effective March 5, 2013, the Board of Directors elected Jan Špringl as Vice-Chairman of the Board of Directors and the sole shareholder of EPE appointed Tomáš David as a member of the Board of Directors. At the same time, Marek Spurný stepped down as Vice-chairman, but remains a member of the Board of directors. The Board of Directors voted and approved the resignation of Jan Špringl as Chief Executive Officer of the Company and voted and approved the appointment of Tomáš David as Chief Executive Officer of the Company.

On August 31, 2012 and again in 2013, our parent company, Energetický a průmyslový holding a.s. ("EPH"), filed binding bids to purchase a brown coal-fired plant, Chvaletice, located in the Czech Republic from ČEZ, a.s. Had those bids been successful, EPH would have assigned the acquisition rights to us. We have subsequently been informed that EPH's bids were not successful, and a third party's bid was accepted by ČEZ, a.s., subject to regulatory clearance.

Effective January 1, 2013, PEAS merged with and into EP ENERGY TRADING, a.s. and the surviving entity is EP ENERGY TRADING, a.s.

We are currently in the process of arranging for a new incurrence of indebtedness to optimize our current capital structure.

Risk factors

This Report contains "forward-looking" statements that involve risks and uncertainties. Our actual results may differ significantly from the results discussed in such forward-looking statements. Factors that might cause such differences include those discussed below. See "Forward-looking statements."

Risks related to our businesses and industries

Risks related to each of our segments

Negative or uncertain global macroeconomic conditions may lead to declines in the volume and prices of products we sell, or in the failure of our customers to finance their operations, which may adversely impact our business, financial condition, results of operations and cash flows.

The recent global economic downturn, coupled with the global financial and credit market disruptions, have had a negative impact on the coal, electricity, to a lesser degree, and heat industries generally and may continue to do so until economic conditions improve. Consumers of power and heat may take personal savings measures to reduce their energy consumption by, for example, modernizing their homes through the purchase of improved insulation and new windows and doors. There may, therefore, be reduced demand for power and heat as a result of the global financial crisis, which could result in both a decrease in the heat and electricity produced and sold by our power plants, as well as a decrease in demand for the brown coal we provide to our heat and power producing customers. In addition, certain market prices may be reduced, such as for wholesale electricity, when market demand falls. Moreover, our large fixed asset base may make it difficult to rapidly adjust our fixed costs downward when demand for our products declines unexpectedly, or where we are forced to reduce our prices. Therefore, any actions we may take in response to such a decline in demand, or price decrease, may be too slow or otherwise insufficient to counter an immediate decline in our sales or earnings, resulting in an adverse effect on our business, financial condition, results of operations and cash flows.

In addition, the tightening of credit in the financial markets could adversely affect our commercial customers' creditworthiness and their ability to obtain financing for their operations. This could result in a decrease in the demand for our brown coal, power and heat, the cancellation of trading orders for electricity and natural gas, the restructuring of agreements with our customers (including price reductions) or the inability to collect payments from our customers. If any of the foregoing occurs, our business, financial condition, results of operations and cash flows could be adversely affected.

Failures, breakdowns, planned or unplanned outages, maintenance repairs and modernization, as well as natural disasters, sabotage, or terrorism in our mines or in our generation and distribution infrastructure, or public opposition (e.g. demonstrations) at our heat and power plants or mines, may cause delays or interruptions in our operations, increase our capital expenditures, harm our business and reputation or cause significant harm to the environment.

Our heat and power plants, energy trading platforms, wind and solar farms and biogas facilities, distribution infrastructure (including transmission systems not operated or controlled by us), mining facilities, coal dust factories and briquette plants, and our information systems controlling these facilities, could be subject to failure, breakdowns, unplanned outages, capacity limitations, system loss, breaches of security or physical damage due to natural disasters (such as adverse weather conditions, storms, floods, fires, explosions, landslides, slope ruptures or earthquakes), human error, computer viruses, fuel interruptions, criminal acts and other catastrophic events. Certain of these events have happened in the past (for example, in 2012, we had a landslide in one of our mines) and we cannot give any assurance that such events will not occur in the future or that the preventative measures taken by us will be effective. Any physical damage to our facilities may be costly to repair and any outages may cause us to lose revenues due to the inability to supply our customers.

The hazards described above can also cause significant personal injury or loss of life, severe damage to, and destruction of, property, plant and equipment, contamination of, or damage to, the environment and suspension of operations. The occurrence of any one of these events may result in our being named as a defendant in lawsuits asserting claims for breach of contract or substantial damages, environmental cleanup costs, personal injury and fines and/or penalties. A successful claim against us could adversely affect our financial results and materially harm our financial condition.

Key infrastructure assets also face the risk that they will be targets for terrorism or sabotage or legally permitted protests (such as demonstrations). Such events could lead to unanticipated costs and delays in the generation of revenues as well as negatively impact our business, employees, properties or assets, which could have a material adverse effect on our business, financial condition, results of operations and cash flows.

Furthermore, unscheduled technological breakdowns at our customers' facilities may adversely affect demand for our production, and due to the technologies used at certain of our customers' facilities, the occurrence of such unscheduled shut-downs is not infrequent. In addition, scheduled shut-downs can lead to the detection of previously unknown problems which can lead to prolonged shut downs of operations as these problems are resolved.

Planned or unplanned shutdowns of our facilities may adversely impact our business, financial condition, results of operations and cash flows

We periodically shut down certain plants in our fleet (or parts of individual plants) and incur expenses in connection with inspections, maintenance or repair activities. In addition to these planned periodic shut-downs, we may have to unexpectedly shut down all or part of our plants as a result of the occurrence of the events described above. In addition, our regularly planned shut-downs may increase in the future due to, for example, increased government regulations. We cannot predict the timing or impact of these outages with certainty.

In particular, certain of our plants operate heat and power generating equipment that may require significant capital expenditures for maintenance or replacement over time, and our heat and power supply and distribution operations depend upon the operation of power and district heating networks, which are composed of complex infrastructure divided into multiple sections, which require continuous maintenance and ongoing partial replacement. These facilities and networks will require periodic upgrades and improvements to ensure they operate safely, efficiently and effectively and in compliance with existing and future regulatory requirements, which could require significant capital expenditures in the near future and on an on-going basis.

Furthermore, we cannot rule out the risk of delay to, or the inability to complete, certain projects resulting from, inter alia, uncertainty in securing sufficient funds, environmental protests, staff strikes, higher costs of investments, delays on the part of contractors in processing our orders, difficulties in obtaining necessary permits (including the imposition of additional conditions by public authorities), revocation or limitation of existing permits or other unforeseeable difficulties.

Particularly in our Renewables segment, we use equipment which is often newly developed and less seasoned than that in other areas of our business. New and less seasoned equipment can lead to unforeseen malfunctions and breakdowns which we and other suppliers in general do not have as much experience in resolving or have not experienced before. This can lead to further unpredicted disruption to this segment.

Any service disruption in our businesses may cause disruption to our generation of electricity and heat, brown coal production or customer dissatisfaction and may also lead to liability for damages, the imposition of penalties, including termination of sales agreements with customers, and other unforeseen costs and expenses. We maintain a significant stock of brown coal to sell to our customers as well as maintain surplus mining equipment in the event of an equipment breakdown. However, in the event that any disruptions at our MIBRAG mining facilities last for a significant amount of time or significantly affect our mining equipment, this would mean we would run out of our reserve stock of brown coal and would not be able to complete supply orders, which could, along with any of the other disruption events and their consequences mentioned above, have a material adverse effect on our business, financial condition, results of operations and cash flows.

Our mining and heat and power generation operations are heavily dependent upon the extraction and use of brown coal as a primary fuel source, which produces significantly more emissions than other fuel sources, and exposes us to the risk that our operations will become politically unpopular or the subject of restrictive regulations or private legal action.

We operate a vertically integrated mining, heat and power generation and distribution and supply business that depends upon the extraction and use of brown coal as a primary fuel source. We mine brown coal, sell it to third parties and use it in our own heat and power plants as a primary fuel. Brown coal produces significantly more emissions, most notably CO_2, than other primary fuel sources, such as natural gas or nuclear fuel. If brown coal-fired heat and power generating activities become subject to increasing public and political opposition, as they have on occasions in the past, we could face increased costs in mining, selling and burning brown coal as a primary fuel source, as well as in selling the power we produce from brown coal, as a result of potentially adverse environmental regulations, increased taxes, fees or fines, or private lawsuits against us and our brown coal-purchasing customers. We may be adversely affected not only by measures that directly impede mining activities or the sale or use of brown coal in heat or power production, but also by measures that promote other fuel sources or alternative technologies for heat and power production (such as renewable energies). We could also experience a reduction in demand for the brown coal we sell. Any of the foregoing could materially increase our costs of doing business, decrease our revenues and/or have a material adverse effect on our business, financial condition, results of operations and cash flows. For example, recently certain political parties which are currently not part of the coalition government in Germany tried unsuccessfully to initiate a reform of the German Federal Mining Act (*Bundesberggesetz*, "BBergG"), which would have led to the discontinuation of some of the privileged interests of the mining industry by, *inter alia*, introducing additional charges for the holders of certain old mining rights (*alte Gewinnungsrechte*). These parties also unsuccessfully proposed the implementation of strict efficiency requirements for coal fired power plants in the German Federal Emission Control Act. In addition, there has recently been some support for the introduction of new taxes on sales of lignite in Germany. Although these initiatives have not gained a political majority, political and public resistance against mining brown coal and/or coal-fired power plants, particularly against open-cast mining privileges, may grow in future and lead to policy changes or the imposition of new taxes. See "—Risks related to mining operations – We may be subject to mining royalty fee payments to certain governmental authorities, and any such imposition of fees could materially and adversely affect our business, financial condition, results of operations and cash flows", "—The EPE Group's operations are subject to strict environmental, heritage and health and safety regulation and enforcement", "—Our operations are subject to significant government regulation and laws and our business, financial condition, results of operations and cash flows could be adversely affected by changes in the law or regulatory schemes" and "Regulation."

Certain of our businesses are sensitive to variations in weather.

Certain of our businesses are affected by variations in general weather conditions and unusual weather patterns. Our businesses forecast heat and power sales on the basis of normal weather, which represents a long-term historical average. While we also consider possible variations in normal weather patterns and potential impacts on our facilities and businesses, there can be no assurance that such planning can prevent negative impacts on our businesses. Generally, demand for electricity peaks in the winter and summer, and demand for heat peaks in the winter. Typically, when winters are warmer than expected or summers are cooler than expected, demand for energy, and in the case of winter, heat, is lower, resulting in less demand for heat and electricity than forecasted for our heat and power generation businesses, and our mining business, since we provide brown coal for heat and power plants. When Central Europe experiences longer periods of sunny weather, our solar energy parks are able to produce more electricity, whereas unexpectedly long periods of rain and cloud-cover could significantly reduce our solar energy production. In addition, our brown coal mines are located in a region of Germany which may be subject to high winds, and, as a result, it has attracted recent wind farm developments. Periods of unusually high winds in Germany, combined with an increase in the number of wind farms and in the efficiency and output of wind farms, as a consequence of "repowering" (the replacement of existing turbines with newer, more efficient turbines) measures, have recently increased and may continue to increase the amount of wind energy fed into the power grid region supplied by MIBRAG's customers. As renewable energy sources are given preferential treatment in Germany, including through priority feed-in rights to the power grid, in general, an increase of renewable energy production has in the past led, and may in the future lead, to a decrease in the amount of energy fed into the power grid by brown coal-fired power plants in Germany and our brown coal-fired power plant customers and hence a corresponding reduction in their brown coal offtake from MIBRAG. Because our production and sale of brown coal is dependent upon the volumes purchased by our local power plant customers, significant variations from normal weather where any of our heat, power or brown coal customers are located could have an adverse impact on our business, financial condition, results of operations and cash flows.

Congestion of the electricity transmission grid in Germany may lead to a reduction in power off-take from brown coal-fired power plants, as well as a reduction in demand for brown coal.

Guaranteed feed-in tariffs for electricity from renewable energy sources, coupled with a priority feed-in right for those renewable energy sources into the electricity grid in Germany, can adversely affect power generation from other fuel sources such as brown coal, and can lead to grid congestion in Germany at certain times of the day (i.e. during periods with high-wind and low electricity consumption levels and therefore low off-take from the grid). As a result of this congestion, the available grid capacity for conventional power plants, including brown coal-fired plants, has in some cases been reduced, which has led to a reduction in the power off-take from such plants and a corresponding reduction in demand for brown coal.

Grid congestion has particularly affected MIBRAG's main off-takers, Lippendorf and Schkopau, which are located in a region in Germany that has a high level of installed wind power capacity. Such expansion has increased, and may increase in the future, together with an expansion in the number of solar energy facilities, the volume of power from renewable energy sources fed into the electricity grid, reducing the grid capacity available for feed-in from conventional power plants such as Lippendorf and Schkopau.

As renewable power generation expands in Germany and the Czech Republic, there is an increased risk of grid congestion, which may lower the profitability and volume of power generation in our brown coal-fired power plants as well as the demand for MIBRAG's brown coal. Any such reduction could have a material adverse effect on our business, financial condition, results of operations and cash flows.

Our revenues and margins of operations may be negatively impacted by volatile prices for power, natural gas, hard coal and emission allowances for CO_2 and volatility in the revenues we receive from heat sales.

Our profitability is influenced by the prices we receive for the power we generate and the brown coal that we produce, as well as the revenues we receive from heat sales. Volatility in the prices at which we sell our power and brown coal and in our revenues from heat sales may cause us to achieve a lower than anticipated price and adversely affect our business, financial condition, results of operations and cash flows.

Power and heat

Volatility in (i) prices for power and (ii) revenues generated by heat sales may result from, among others, the following factors:

- weather conditions;
- seasonality;
- changes in electricity and fuel usage;
- changes in the prices of alternative fuels (in particular natural gas and hard coal);
- illiquidity in the wholesale electricity market or other markets;
- transmission or transportation constraints, inoperability or inefficiencies;
- availability of competitively-priced alternative energy sources;
- changes in generation efficiencies;
- development of renewable energy sources;
- outages at our generation facilities or those of our competitors;
- changes in production levels and storage costs of natural gas, coal, crude oil and refined products;
- natural disasters, wars, sabotage, terrorist acts, embargoes and other catastrophic events; and
- EU, national and state energy, environmental and other regulation and legislation.

In our power generation business, we attempt to minimize our exposure to price volatility and to achieve margin stability by selling forward the electricity generated by us typically up to two years in advance under one calendar year contracts. However, it may not be possible to enter into forward sales on commercially acceptable terms, or at all, for any or all of the electricity generated at our plants. Moreover, we sell some of our electricity on the spot markets and, therefore, despite our attempts to minimize our exposure to electricity price volatility, such volatility could have a material adverse impact on our business, financial condition, results of operations and cash flows. The amount and proportion of our power generation sold this way may increase to the extent our business becomes more focused on generating power in condensation mode.

On the supply side for our power and heat businesses, we also seek to limit our exposure to fluctuations in fuel prices by entering into long-term forward contracts for brown coal, natural gas and hard coal with a limited number of suppliers. For example, through our supply and trading subsidiary, United Energy Coal Trading ("UECT"), we have a major brown coal supply contract which lasts until 2035 (with a price formula partially fixed and partially linked to both the consumer price index in the Czech Republic and electricity price fluctuations) to supply our UE plant. This contract accounts for over 90% of the brown coal projected to be required by UE, which supplies may be redirected as needed to our PE and EOP plants. We also have a contract expiring in 2017 to provide a substantial amount of our brown coal supply for our PE facility. However, a significant portion of our fuel purchases, in particular the hard coal and natural gas we use at our PT facilities, are made on a yearly basis, exposing us to changes in the market price for natural gas and hard coal, which are volatile. Even under certain of our long-term contracts, the prices fluctuate in accordance with a combination of inflation indices, fuel price indices and prices in the spot market. In addition, our long-term contracts contain provisions which may allow our counterparties to terminate the contracts under certain circumstances, which, if exercised, would force us to purchase our fuel at market prices.

In addition, the heat generation and distribution market in which we operate is subject to competition from alternative heating arrangements. For example, if customers perceive our heat supply to be too expensive or prefer alternatives to heat sourced from coal and gas-fired plants, individual customers may choose to receive their heat in an alternative manner, e.g. install gas-powered boilers, rather than obtain their heat through the district heating network. This could lead to a loss of our customers.

In our Heat and Power segment, we are also sensitive to pricing pressures from alternative sources of power. Although electricity prices have increased in the past, as time goes on, increasing competition could cause reductions in the market price for power. If feed in from power generation sources with lower variable costs (i.e., nuclear and renewables) increases faster than consumption, our profit margins will likely decrease because our variable costs will remain unchanged. For example, the principal nuclear power plant in the Czech Republic—Temelín—is being evaluated for a potential expansion project that could result in a significant increase in the availability of nuclear-power generation in the Czech Republic, which could increase the competitive pressures in the Czech power generation market, and could therefore have a material adverse effect on our business, financial condition, results of operations and cash flows as demand shifts from our power plants to nuclear power plants. In addition, in both the Czech Republic and especially in Germany, higher demand from end-customers for renewable energy or the promotion of renewable energy could also lead to an increase in renewable energy projects that have preferential access to the distribution grid and thus reduce the access of our power plants to the grid for off-take of our power generation, lowering our volumes. The evolution of competitive electricity markets may cause price and access pressure in certain power markets where we sell or intend to sell power. The foresaid also applies to the power generation market in Germany, where we benefit from 400 MW of power generation capacity at the Schkopau power plant through our ownership of Saale Energie and operate three smaller power plants within our Mining segment. Any such price and access pressure could have a material adverse effect on our business, financial condition, results of operations and cash flows.

As our operations emit CO_2, we are subject to the European Union Emissions Trading System ("EU ETS") which works on a "cap and trade" principle and limits the annual amount of CO_2 we can emit. In the Czech Republic, the Czech New on Emissions Allowances Act has enabled the trading of emissions allowances and the distribution of a certain amount of free emissions allowances with effect as of January 1, 2013. Although we seek to limit our exposure to the volatility of the market for emissions allowances by purchasing CO_2 emissions allowances in advance, we may need to purchase additional emissions allowances at times when the market price is higher than our budgeted expenses for such rights. Moreover, the market price for emissions allowances may be affected by external interventions. For example, in February 2013, the Environmental Committee of the European Parliament adopted a proposal by the European Commission for draft legislation that would allow the auction of some emissions allowances to be postponed. On the basis of the draft legislation, the number of CO_2 emissions allowances in the carbon trading market could be reduced temporarily. The draft legislation provides that emissions allowances representing in total 900 million metric tons of carbon credits would not be auctioned at the beginning of the current trading period (i.e. during the years 2013 to 2015) but would be held back and only auctioned at a later stage during the trading period (i.e. during the years 2018 to 2020). The draft legislation is under discussion in the European Parliament and the Council of the European Union. Therefore, despite our efforts, volatility in the market price for commodities, including our fuel and emissions allowances, could have a material adverse impact on our business, financial condition, results of operations and cash flows. See "—Risks related to governmental regulations and laws—We are exposed to changes in the way emissions allowances are allocated, including the conditions attaching to free allocations and the allocation of emissions allowances from 2013, as well as volatility in the market prices of emissions allowances that we need to acquire."

Mining

Although some of our supply contracts provide for a fixed pricing mechanism composed of a an output price (*Arbeitspreis*) and a capacity charge (*Leistungspreis*), most of the brown coal we supply is sold under contracts subject to pre-determined pricing mechanisms which are indexed. Under these contracts, price adjustment may include parameters such as the monthly remuneration of our employees according to tariff contracts and certain indices such as the index for producers of capital goods (*Index für Erzeugnisse der Investitionsgüterproduzenten*) published by the German Federal Statistical Office. Since our prices are indexed to these factors and consequently subject to changes in the economic environment, there is a risk that our brown coal prices may change significantly over time. Moreover, under some of our supply contracts, the pricing mechanisms may be reviewed periodically and adjusted if necessary. Additionally, the majority of our coal supply contracts contain hardship clauses which carry the risk of a price adjustment, other amendments or termination in the future if the economic, technical or legal circumstances change. Several of our contracts with our main customers are currently based on fixed prices, therefore if our costs increase the profitability of our contracts will be adversely affected. In addition, depending on market conditions and regulatory regimes, it may be difficult for us to secure long-term contracts, either upon the expiration of our current contracts or in the context of new mined resources which we acquire or begin to develop on our current sites in future.

Our Mining segment's results of operations and margin are substantially dependent on both the price at which we can sell our brown coal and the volume of brown coal we can sell. While we have renegotiated the pricing terms of certain of our coal agreements, there can be no assurance that we will be able to negotiate terms in any future negotiations with our customers that are as favorable to MIBRAG as those that are currently in place.

As our mining segment is dependent on long-term contracts with customers to manage pricing volatility, the loss of significant fuel supply or sales contracts, reductions in volumes purchased by our counterparties (which are, in the vast majority of cases, not fixed under our contracts), the failure by any of the parties to fulfill their obligations under such contracts, or the challenge against certain provisions (particularly in long-term supply contracts) by competition authorities or courts, could have an adverse impact on our business, financial condition, results of operations and cash flows.

In addition, there are certain other factors which are beyond our control which can affect the price of the brown coal we sell, including, but not limited to:

- Central European and global economic trends and conditions;
- the supply of and demand for coal in Central Europe;
- the demand for electricity in Central Europe;

- the price and availability of alternative fuels and nuclear energy, including the effects of technological developments and cost of transportation;
- costs of raw materials, labor and services related to operations such as diesel fuel and electricity;
- development of renewable energy sources in Central Europe;
- the proximity to, capacity of and cost of transportation facilities;
- Central European and EU governmental regulations and taxes;
- currency exchange rate fluctuations and rate of inflation; and
- global or Central European political events and other market forces.

Historically, the Central European markets for brown coal have experienced alternating periods of increased demand, causing insufficient production capacity and higher prices and margins, as well as periods of excess supply, resulting in excess production and lower prices and margins. Central European demand for brown coal may not grow and may decline, in which case the Central European brown coal markets would likely experience excess supply. A significant decline in the demand or price for brown coal may have a material adverse effect on our business, financial condition, results of operations and cash flows. Our brown coal sales may be affected by an increased demand for, or production of, power generated from renewable energy sources. As renewable energy sources are given preferential treatment in Germany and in the Czech Republic through priority feed-in rights to the power grid, an increase of renewable energy production has in the past led, and may in the future lead, to a decrease in the amount of energy fed into the power grid by our brown coal-fueled power plant customers. The priority feed-in of renewables has also led to more frequent reductions of power output and unscheduled shut-downs due to grid congestion that have in turn led to increased wear on some power plants including certain of our customers. Affected customers have had to initiate prolonged maintenance shut-downs that have further reduced the demand for our brown coal.

Shale gas and liquefied natural gas

In addition to the above, an increase in natural gas imports into Europe through existing and new pipelines, increased liquefied natural gas imports, an increase in conventional natural gas production from existing and new fields and further development of shale gas production or hydraulic fracturing, in particular in Europe, might lead to substantially lower power prices as well as render production of electricity and heat from brown coal uneconomical. Despite the current lack of extensive shale gas exploitation in Europe, certain countries, including Germany and the Czech Republic, are considering legislation to permit or, where it is already generally permitted, facilitate such exploitation in the future or introduce more precise regulations for the permissibility of certain methods of shale gas exploitation. Any increase in the availability of natural gas could cause the prices for our brown coal, as well as those of the power we sell, to decrease, either of which could have an adverse effect on our business, financial condition, results of operations and cash flows.

Energy supply and trading

Prices in the European energy markets in which we operate through our trading activities are not subject to general price regulation. Thus, price fluctuations occur in the wholesale energy market, as well as in the CO_2 emissions allowances market and impact our Energy supply and trading segment. These fluctuations are particularly significant when there are major tensions and volatility in the energy markets. Any shortage of products or lack of liquidity could limit our ability to reduce our exposure to risk quickly in the energy market. In addition, these markets remain in part partitioned by country, largely as a result of a lack of transmission interconnections, and may experience significant increases or decreases in price movements and liquidity crises that are difficult to predict. Any such fluctuations in the wholesale energy markets could have a material adverse effect on our business, financial condition, results of operations and cash flows.

Our licenses may be suspended, amended or terminated prior to the end of their terms or may not be renewed.

Our licenses and permits required to conduct our business operations, including for the exploration, development and production of mineral resources and operating our power plants and heat distribution network, could be revoked, withdrawn or amended by the relevant authorities under certain circumstances. For example, a license or permit could be revoked, withdrawn or amended if there is a breach of a collateral clause, a subsequent change of facts or a relevant regulation, if a permit is found to be contrary to the public interest, or if it is deemed necessary to prevent severe harm to the common good.

Moreover, private individuals and the public have the right to comment upon the process, raise objections to proposed permits and initiate court proceedings to intervene and prevent the granting of requested permits. In addition, environmental organizations, residents or other third parties may raise objections to our current or proposed activities or file suits challenging our operations and the granting or existence of permits and licenses to conduct our operations. If any of our licenses or permits is revoked, withdrawn or amended, or if we have difficulty renewing a license or permit, we may experience delays in our operations which could adversely impact our business, financial condition, results of operations and cash flows.

The permitting rules are complex and may change over time, making our ability to comply with the applicable requirements more difficult or even impossible, thereby precluding continuing or future operations. Regulatory authorities exercise considerable discretion in the timing and scope of permit issuance. Requirements imposed by these authorities may be costly and time consuming and may result in delays in the commencement or continuation of exploration or production operations.

With respect to our mining operations, the threat of challenges to our permits has increased in recent years as open pit mining has recently become the subject of growing public criticism by environmental activists due to the large carbon footprint of coal-fired energy generation. Moreover, in May 2011, the European Court of Justice declared illegal existing German regulations which had limited the right of environmental associations to file environmental impact lawsuits. Affected statutory provisions of German law have since been amended in order to ensure compliance with the European Court of Justice's ruling. The removal of this obstacle could result in an increase in lawsuits in Germany challenging open-pit mining, thus jeopardizing our ability to obtain the permits and licenses necessary to operate our mines. Additional public concerns relating to the mining industry, such as recent landslides at former mines not operated by us, could also impact the ability to obtain or renew mining permits in the future. Accordingly, the permits we need may not be issued, maintained or renewed, or may not be issued or renewed in a timely fashion, or may involve requirements that restrict our ability to conduct our mining operations. An inability to conduct our operations pursuant to applicable permits would reduce our production, cash flows, and profitability.

Furthermore, we are required to obtain licenses for mining of specific coal deposits. See "Business—Mining—Permits and licenses" for further details. While we hold a license for mining activities and concessions to mining areas covering all brown coal deposits which we list as reserves and resources, we need to obtain a specific operational permit every two years. Although we have a good historical record of obtaining such specific permits in Germany, we may not be able to obtain such specific permits in the future, which could have an adverse effect on our business, financial condition, results of operations and cash flows.

Disruptions in the supply of coal, gas, power or other raw materials or transportation services, or an unexpected increase in their cost, could materially and adversely affect our business, financial condition, results of operations and cash flows.

In the ordinary course of our business, we are exposed to the risk of disruptions in the supply of coal, gas, power or other raw materials or transportation. Our generation operations depend upon obtaining deliveries of adequate supplies of raw materials on a timely basis and are therefore vulnerable to changes in the supply of these raw materials, in particular brown coal. In our Mining segment, we are also dependent on the availability of trucking and rail services to transport our brown coal to certain of our customers. Any significant shortages or interruption in the supply of raw materials or transportation services or amendments to laws and regulations affecting such supply or services could disrupt our operations and increase our costs, which could have a material adverse effect on our business, financial condition, results of operations and cash flows. For example, we may be forced to meet our fuel requirements by purchasing fuel at market prices, exposing us to market price volatility and the risk that fuel and transportation may not be available during certain periods at any price. Furthermore, as certain of our power plants are calibrated to run on certain ranges of grades of brown coal and other fuel, in many cases it may be difficult to find a replacement supplier that is immediately able to meet our raw material specifications, especially if any such replacement supplier were to have to seek licenses to access additional fuel reserves.

Our transportation providers may in the future face difficulties that could impair our ability to supply brown coal to our customers or may increase the costs of transportation. Disruption of trucking and railroad services or the conveyor system in Vereinigtes Schleenhain due to weather-related problems, mechanical difficulties, strikes, lockouts and other events could temporarily impair our ability to transport brown coal to our customers, which along with any increases in costs relating to transportation, could adversely affect our business, financial condition, results of operations and cash flows and may result in breaches of supply agreements with customers and consequently a loss of such business.

In addition, we are generally dependent on the provision of certain services (such as project management, engineering, construction, operations and maintenance, process design and planning and transportation) by third-party contractors and consultants in order to carry out our operations and implement our business plan. Our operations and developments may be interrupted or otherwise adversely affected by the failure of third-party providers to supply contracted-for services, any adverse change to the terms on which these contracted-for services are made available, or the failure of such third-party providers to provide services that meet our quality requirements. If we found it necessary to change a service provider, this could result in our experiencing additional costs, interruptions to continuity of supply, or other adverse effects on our business. Additionally, we may not be able to find adequate replacement services in a timely manner or at all. Any disruption or deterioration or increase in cost with respect to our third-party arrangements could have an adverse effect on our business, financial condition, results of operations and cash flows.

We frequently engage a very small number of suppliers, particularly in our power and heat businesses, which significantly magnifies the risk of disruptions in the supply of coal, natural gas and other necessary raw materials and services we receive from third parties.

As we frequently engage a single supplier to supply the vast majority of the raw materials we use at each of our heat and power plants and depend on single third party contractors to carry out certain operations, such as a single rail line to transport our brown coal, our risk of disruptions in supply or services is significantly magnified.

For example, we are currently in a dispute with Czech Coal a.s. ("Czech Coal"), a Czech mining company which supplies brown coal to our EOP facility, regarding mutual claims concerning coal and heat deliveries, excessive coal pricing and compensation payments. We also have other large brown coal supply contracts under which we could face similar disputes. As a result of the Czech Coal dispute, in June 2012, Czech Coal halted its supply of brown coal to EOP. However, we were granted a preliminary injunction and a subsequent extension thereof until December 31, 2013 ordering Czech Coal to continue supplying us with brown coal according to the terms of our agreement until December 31, 2013. However, we are still uncertain as to how this case will ultimately be resolved. Should this dispute be determined adversely against us or any similar dispute arise and if we were unable to obtain injunctive relief that allows us to seek viable alternative supplies, it would result in a shortfall in the supply of brown coal required to operate our heat and power plants. We will attempt to cover any such shortfall through supplies from other suppliers or increased production at MIBRAG. This plan will require both time and an increase in our operating expenses. It may also require changes in our shift patterns depending on the success of our bids for other power plants. See "Recent developments." In certain cases, this may require agreement of the workers' council. This may take some time to complete and we cannot be certain we will be able to obtain workers' council consent in a timely fashion or at all. Additional capital expenditures may be required in order to increase production at MIBRAG and to refit our power plants, and likely any additional power plants we may acquire in the future, to accept the MIBRAG grade of brown coal, which may differ from that supplied by our other suppliers. Furthermore, the location of the MIBRAG mines could make transporting brown coal from the MIBRAG mines to other power plants more expensive than our current transportation costs. Switching to a different grade of brown coal may result in a reduction of installed capacity and higher SOx emissions at our power plants, which could have an adverse effect on our business, financial condition, results of operations and cash flows. As we may increasingly use MIBRAG coal to supply our power plants in the future, this may increase the risks above as we will become reliant on even fewer suppliers.

The limited number of participants in the power and heat generation markets and certain clauses in some of our power, heat and coal supply and purchase contracts may be subject to review by antitrust and other regulatory authorities and lead to increased regulatory scrutiny.

The Czech wholesale power generation market is characterized by a limited number of participants. From time to time, this market, and other markets in which we operate, are scrutinized by regulatory authorities, including the European Commission, to ensure competitive behavior. The European Commission and other regulatory authorities are empowered to undertake investigations and invoke financial penalties and other sanctions on companies with respect to alleged anti-competitive activities. For example, in July 2011, the European Commission publicly announced the initiation of proceedings against the state incumbent, ČEZ, in relation to concerns that ČEZ was allegedly preventing the entry of competitors into the wholesale power generation market. Additionally, in May 2010, the European Commission initiated formal proceedings against Energetický a průmyslový holding, a.s. ("EPH"), EPE's parent company, and EP Investment Advisors, s.r.o. ("EPIA"), an affiliated company, for potential breach of their procedural obligations during the on-site inspection in November 2009 undertaken as part of an antitrust investigation. As a result of the proceeding, on March 28, 2012, the European Commission imposed a fine of €2.5 million on EPH and EPIA. EPH and EPIA are jointly and severally liable for the fine and have recorded provisions on their respective balance sheets. In June 2012, EPH and EPIA appealed the European Commission's decision. We cannot assure you that the EU Commission or other regulatory authorities will not make similar challenges in the future, including against us.

In addition, contracts under which we supply or purchase power, heat and brown coal contain provisions such as long-term or exclusivity clauses, which may give rise to competitive concerns under EU, Czech or German competition law. Long-term commodity supply contracts, in particular exclusive supply contracts or contracts under which a customer purchases a large portion of its overall demand, have in the past been subject to investigations by competition authorities and courts in Germany. Certain clauses, particularly exclusivity clauses and certain pricing mechanisms have been declared to be incompatible with competition law. Potential legal risks include the invalidation of certain clauses in the agreements, in particular exclusivity and long-term obligations and pricing and price adjustment provisions, the voidance of the whole contractual agreement, the imposition of amendments to contracts and administrative fines. In addition, these risks could be exacerbated if the standards generally applied by competition authorities and courts are changed or tightened. Any such legal consequences could have a material adverse effect on our business, financial condition, results of operations and cash flows.

Customer concentration in our mining business may expose us to significant financial, credit and renewal risks.

We rely on a limited number of customers to purchase all or a significant portion of our brown coal. For example, for the year ended December 31, 2012, MIBRAG generated 76.5% of its revenue (determined in accordance with German GAAP) in respect of three key power plants: Lippendorf, Schkopau and Chemnitz. Although these long-term agreements may only be terminated for cause upon a breach of MIBRAG's obligations under the contracts during the initial contract term, they do not contain express exclusivity provisions, nor do they guarantee the volumes of brown coal sold. Moreover, if these agreements were terminated, we might not be able to enter into replacement agreements on the same terms as our existing agreements, or at all. If we were unable to enter into replacement agreements, we would attempt to sell our brown coal to other customers, which may result in lower sales prices and/or lower volumes of brown coal sold. In particular, due to the high costs for transporting brown coal, replacement customers may be difficult to find and may demand lower prices to compensate for the higher transportation costs. In addition, if one or more of the long-term agreements with our major customers were renegotiated to our detriment or terminated or if any of our major customers were to significantly reduce their purchases of brown coal from us or were unable to pay us, our business, financial condition, results of operations and cash flows could be materially adversely affected. Some of our long-term agreements allow for the review of the pricing terms of the applicable agreement. In addition, notwithstanding the terms of our contracts, our significant customers may attempt in the future to renegotiate their existing long-term agreements for a variety of reasons outside of our control, and depending on our options at the time, we may decide to enter into alternative contractual relationships with these customers which may require us to balance our maximum short-term benefit against our desire to ensure we retain our long-term contractual relationships with our significant customers, which could lead to our business, financial condition, results of operations and cash flows being materially adversely affected.

Furthermore, under our long-term supply contracts, we are subject to minimum brown coal supply obligations. There is a risk that we may not be able to meet the agreed levels of demand and may be subject to claims for damages or early termination of existing supply contracts. Most of our brown coal supply contracts contain hardship clauses (*Wirtschaftsklauseln*) which carry the risk of adjustments or termination in the future if economic, technical or legal circumstances change.

In addition, our brown coal supply agreements generally require us to supply brown coal of a specified quality (e.g. the agreements stipulate that the brown coal we supply will have a certain calorific value and/or sulphur content) to our customers. In the past, we have, from time to time, encountered problems with the quality of our brown coal mined in the open-cast mine in Profen, and were, in such circumstances, unable to meet the quality standards required under the relevant supply agreements and were subject to significant damages. If we fail to provide brown coal in accordance with our supply obligations, our customers may claim damages through litigation or arbitration (for example, costs for the retrofitting of their power plants or costs for extra fuel), require amendments to their coal supply agreements (for example, reduction of brown coal prices or modification of the brown coal specifications) or may choose to terminate or to not renew their long-term brown coal supply agreements with us. These remedies have been invoked against us in the past. In particular, the coal supply agreements for the Schkopau power plant provide for the right of the buyer to terminate the contract if the buyer is supplied with brown coal of inferior quality.

We have recently added new businesses to the EPE Group and have made and may make acquisitions in the future. Newly added or acquired businesses may not be integrated or managed successfully, and we may fail to realize the anticipated synergies, growth opportunities and other benefits expected from these additions or acquisitions as a result.

Our operations have been consolidated under the EPE Group only recently. In addition, strategic acquisitions have been an important part of our growth strategy. Although most of the companies we have acquired are well-established operationally, as a group we were formed in December 2010, and most of our subsidiaries were acquired by our parent company, Energetický a průmyslový holding a.s. ("EPH"), or one of its shareholders, within the last eight years.

In June 2012, we acquired the remaining 50% equity interest in JTSD, the parent company of our mining subsidiary, MIBRAG, the first 50% of which was indirectly contributed to us in June 2011, having been acquired by one of the shareholders of EPH in June 2009. In addition, in June 2012, we gained control over our 73.3% owned subsidiary, PT, under an agreement with the City of Prague as the minority (24.3%) shareholder. The remaining approximately 2.5% is owned by several small shareholders. We also acquired a 41.9% interest in the Schkopau power plant in July 2012, together with an independent right to sell 400 MW of power production capacity of Schkopau, through the acquisition of our wholly owned subsidiary, Saale Energie. Although both MIBRAG and PT have been a part of the EPE Group in some form since 2011 and have been in operation for many years prior to these acquisitions, and although Schkopau has been in commercial operation since April 1996 (Block A) and October 1996 (Block B), we may nevertheless face certain administrative difficulties integrating them more fully into the EPE Group.

As we continue to expand our business, we must take steps to ensure that our managerial, technical and operational knowledge is sufficient and that we continue to effectively allocate resources and implement effective management information systems. We will be required to manage relationships with a greater number of customers, suppliers, contractors, service providers, lenders and other third parties. Further, we will need to continue to strengthen our internal control and compliance functions to ensure that we will be able to comply with our legal and contractual obligations and minimize our operational and compliance risks. We cannot be certain that steps we take to improve and manage our growth will be effective. Further, there can be no assurance that our expansion plans will not adversely affect our existing operations. In addition, any future acquisitions of businesses or facilities could entail a number of additional risks, including problems with effective integration of operations, inability to maintain key pre-acquisition business relationships, increased operating costs, exposure to unanticipated liabilities, and difficulties in realizing projected efficiencies, synergies and cost savings, any of which could have a material adverse effect on our business, financial condition, results of operations and cash flows.

In addition, acquired businesses may not achieve the levels of revenue, profit or productivity we anticipate or otherwise perform as we expect. We cannot be sure that our past or future acquisitions will be accretive to earnings or otherwise meet our operational or strategic expectations. If we are not able to successfully integrate and/or manage any acquired company and its respective personnel, the transaction may fail to achieve the desired benefits. Certain of our new acquisitions may present exposure to new risks, or greater risks than we currently face, such as increased exposure to wholesale electricity prices following any significant purchase of a power plant operating primarily in condensation mode. We may be unable to manage these risks and management's attention may be diverted away from ongoing business concerns. Any occurrence of the aforesaid risks could adversely affect our business, financial condition, results of operations and cash flows.

We may also discover areas of financial concern after making an acquisition that we did not foresee prior to the acquisition. In certain instances, we may have limited time or restricted access to the target and its records and may not always be able to conduct sufficient due diligence prior to completing our acquisition, which may prevent us from realizing the value or achieving the strategic objective we anticipated to result from such investment. Further, the historical books, records and contracts of acquired or newly consolidated businesses may be incomplete, and we cannot be certain that corporate and other actions have all been recorded or completed as required by applicable law. This could lead to adverse consequences, including potential disputes under contracts, the need to make provisions or to write down acquired assets and may place additional demands upon our senior management in order to integrate the business. This could have an adverse effect on our business, financial condition, results of operations and cash flows.

Furthermore, if any of the aforementioned risks resulting from acquisitions of new entities materializes and our acquisitions do not perform as expected, this could lead to an impairment in the carrying value of our goodwill, which would negatively impact our consolidated results of operations and net worth.

We may participate in joint venture projects where we have granted protective rights to minority holders or otherwise hold interests in entities in which we own less than a majority of the equity or which we do not manage or otherwise control, which entails certain risks.

We may enter into joint venture arrangements where we grant protective rights to minority holders or otherwise hold interests in entities in which we own less than a majority of the equity or which we do not manage or otherwise control. In these cases we may be dependent on our joint venture partners to operate such projects or entities, and they may not have the level of experience, technical expertise, human resources, management or other attributes necessary to operate these projects or entities optimally. The approval of such partners may also be required for us to receive distributions of funds from the projects or entities or to transfer our interest in projects or entities. Any current or future joint ventures and/or minority investments may also involve our making significant cash investments, issuing guarantees or incurring substantial debt. In addition, we may enter into joint venture arrangements or otherwise hold interest in entities alongside public entities, such as national and municipal governments, or other entities with divergent interests from us. For example, we share ownership of PT with the City of Prague, which holds a 24.3% interest, alongside EPE Group's 73.3% interest as well as several smaller shareholders. Such public entities or other joint venture partners may have divergent and at times competing interests that are not always dependent on purely commercial considerations. We therefore face the risk that the operations and management of any joint ventures or entities in which we hold interests alongside such entities may be adversely affected by political and/or social considerations. Any occurrence of these risks could have an adverse affect on the success of the joint venture arrangement or on our interest therein and, in turn, on our business, financial condition, results of operations and cash flows.

In addition, the business, operations and financing of the Schkopau power plant largely depend on E.ON. E.ON holds the majority of the partnership interests in the Schkopau power plant and the majority of shares in Kraftwerk Schkopau Betriebsgesellschaft mbH ("KSB") which is the operating company for the Schkopau power plant. KSB has engaged E.ON as the operating and maintenance contractor to be responsible for the day-to-day operations of the plant, and Saale Energie has no input in and does not participate in decisions regarding day-to-day operations.

The entirety of the financing for the Schkopau power plant is provided through E.ON. As security for the claims of E.ON in connection with such financing, as well as our other arrangements with E.ON, Saale Energie has granted security interests over certain of its assets to a trustee, who holds such collateral for the benefit of E.ON. Assets that are subject to such security interest include, among others, Saale Energie's shares in KSB, claims and rights under Saale Energie's electricity supply agreement with Vattenfall Europe Generation for Saale Energie's entire share of Schkopau power production as well as monetary claims arising under Saale Energie's partnership interest in the entity owning the Schkopau power plant, Kraftwerk Schkopau GbR.

Therefore, our investment in the Schkopau power plant through our subsidiary Saale Energy GmbH largely depends on our cooperation with E.ON and Saale Energy has granted substantial collateral to secure creditors of the Schkopau power plant (including E.ON).

The success of our operations depends to a large extent on our skilled personnel. Therefore, our business, financial condition, results of operations and cash flows could be adversely affected if we fail to attract or retain key managers or senior executives or are not able to attract or retain a sufficiently skilled labor force.

Our ability to maintain our competitive position and to implement our business strategy is largely dependent on our ability to retain key managers and senior executives and to attract and retain additional qualified personnel who have experience in our industries and in operating a company of our size and complexity, especially as our business continues to develop and expand. There may be a limited number of persons with the requisite experience and skills to serve in our senior management positions, and we may not be able to locate or employ or retain qualified executives on acceptable terms, or at all. Losses of our key personnel or an inability to attract and retain additional senior management or technical personnel could have a material adverse effect on our business, financial condition, results of operations and cash flows. In addition, certain of our senior personnel are not employed by us but are rather employed by an affiliate and provide services on a consultancy basis to the EPE Group. There is no assurance that these senior personnel will continue in this role in future or they may have other responsibilities which divert their attentions away from the EPE Group.

In addition, our industries require highly-skilled employees, including employees trained and certified to work at power plants and coal mines and employees with sophisticated derivatives trading experience in our energy trading business. As an example, coal mining that utilizes modern techniques and equipment requires skilled laborers, preferably with at least one year of experience and proficiency in multiple mining tasks. In times of increased demand, many producers attempt to increase coal production, which historically has resulted in a competitive market for the limited supply of such trained coal miners. We may experience a shortage of adequately skilled candidates. In such cases, we may be unable to hire or retain employees with the requisite skills and thus may be unable to maintain our current operating levels, or we may be forced to increase wages to attract suitably skilled candidates, which could increase our costs substantially. Any future shortage of skilled employees, or increases in our labor costs, could have an adverse impact on our labor productivity and costs and on our ability to expand our operations. Losses of or an inability to attract and retain technical personnel could have a material adverse effect on our business, financial condition, results of operations and cash flows.

We depend on good relations with our workforce, and any significant disruption could adversely affect our operations.

As of December 31, 2012, we employed approximately 4,393 full-time equivalent employees in our operations, not including employees of our joint ventures. Many of our employees are unionized or represented by works councils and may possess certain bargaining or other rights. These employment rights may require us to expend substantial time and expense in altering or amending employees' terms of employment or making staff reductions. For example, our employees' works councils generally must approve changes in conditions of employment, including salaries and benefits. This requires us to enter into tariff negotiations with our employees to conclude collective agreements that normally last between 12 and 18 months. While our tariff negotiations have been successful in the past, this may not be the case in the future.

In addition, MIBRAG is subject to mandatory German co-determination regulations which grant employees participation rights on the supervisory board, with rights equal to those of the shareholders. A significant proportion of the members of such board represent the employees and are proposed by the unions. Therefore, our operations and corporate decision making may be influenced by employees and unions.

If our relations with our work force deteriorate for any reason, including as a result of changes in compensation or any other changes in our policies or procedures that are perceived negatively by our employees or the unions, or we are unable to successfully conclude any future collective bargaining agreements, we may experience a labor disturbance or work stoppage at the relevant facility or facilities, which could have a material adverse effect on any such facility's operations and on our business, financial condition, results of operations and cash flows.

We are exposed to currency fluctuation risks that could adversely affect our profitability.

Although we report our results in Czech crowns, we conduct a significant portion of our business in euro and we are subject to risks associated with currency fluctuations. Our German operations are all euro denominated and our Czech operations are denominated in Czech crowns, except for power sales and CO_2 purchases, which are euro denominated. Therefore, our results of operations may be affected by both the transaction effects and the translation effects of foreign currency exchange rate fluctuations. We are exposed to transaction effects when one of our subsidiaries incurs costs or earns revenue in a currency different from its functional currency. We are exposed to the translation effects of foreign currency exchange rate fluctuations when we convert currencies that we receive for our products into currencies required to pay our debt, or into currencies in which we purchase raw materials, meet our fixed costs or pay for services, any of which could result in a gain or loss depending on such fluctuations. In particular, a large proportion of our cost of sales and our selling, general and administrative expenses are incurred in euro, reflecting the nature of our industries and the location of our mining operations in Germany. At the same time, although many of our sales are invoiced in euro, our consolidated revenues are reported in Czech crowns. Therefore, our financial results in any given period may be materially and adversely affected by fluctuations in the value of the Czech crown relative to the euro.

We are exposed to financial risks and market volatility that could have a material adverse effect on our business, financial condition, results of operations and cash flows.

In the normal course of our business, we are exposed to interest rate, commodity price and currency risks. While we partially hedge these risks using a variety of derivative instruments, including interest rate swaps, currency forward exchange contracts and purchases and sales of foreign currency at spot rates and commodity swaps, we may incur losses if any of the variety of instruments and strategies we use to hedge exposures are not effective. Our actual hedging decisions will be determined in light of the facts and circumstances existing at the time of the hedge and may differ from time to time. In some cases, we may not elect or have the ability to implement such hedges or, if we do implement them, they may not achieve the desired effect and may result in significant losses. Furthermore, although hedging transactions may limit to some degree our risk from fluctuations in currency exchange and interest rates, we potentially forego benefits that might result from such fluctuations.

The risk management procedures we have in place may not always be followed or may not work as planned. In particular, if prices of commodities or interest rates significantly deviate from historical prices or if the price volatility deviates from historical norms, our risk management system may not protect us from significant losses. As a result, fluctuating commodity prices may negatively impact our financial results to the extent we have unhedged or inadequately hedged positions. In addition, certain types of economic hedging activities may not qualify for hedge accounting under the accounting standards on which our financial statements are based, resulting in increased volatility in our net income. In addition, there is a risk that the current parties to these arrangements may fail or are unable to perform their obligations under these arrangements. The occurrence of any of the aforesaid risks could adversely affect our business, financial condition, results of operations and cash flows.

We also face risks from our energy trading operations. In general, we seek to limit our open trading positions and in many cases trade on a back-to-back basis with our energy supply business. See "Risks related to energy supply and trading—Our traders may fail to adhere to our risk management policies, exposing us to open positions on the energy trading market" and "Management's discussion and analysis of financial condition and results of operations—Quantitative and qualitative disclosures about market risk for the EPE Group." To the extent we are unable to limit our open positions or match our trades on a back-to-back basis, we may suffer significant losses which could have a material adverse effect on our business, financial condition, results of operations and cash flows.

We face an increased risk of default or delay by financial institutions with which we enter into treasury and derivatives transactions.

From time to time we enter into framework agreements and related derivatives transactions with major European banks in the countries in which we operate. Due to the current debt crisis, the threat of continuing or deepening economic recession in Europe, the threat of a breakdown of the Eurozone and the potential impact of each of these threats on Europe's financial services industry, there is a risk that some of our treasury and derivatives' counterparties might become unable to perform their obligations or otherwise default under such agreements and transactions. The occurrence of any of these events may materially and adversely affect our business, financial condition, results of operations and cash flows.

Our pro forma and consolidated financial statements included in this Report may not be representative of our historical or future results of operations and may not be comparable across periods, which may make it difficult to evaluate our results of operations and future prospects.

The financial information included in this Report comprises the audited consolidated financial statements for the Company as of and for the years ended December 31, 2012 and 2011. In addition, we include in this Report the Company's unaudited pro forma income statement for the year ended December 31, 2012.

While the Company believes that the financial statements and financial information included in this Report provide a meaningful accounting presentation of the businesses currently owned and operated by the EPE Group, they are not comparable across the periods presented because of, among other things, the acquisition of various subsidiaries or additional interests in such subsidiaries and the disposition of certain subsidiaries. The lack of comparable data may make it difficult to evaluate the EPE Group's results of operations and future prospects. Before the Company's formation, many of the current subsidiaries of the Company were subsidiaries of the Company's parent, EPH, but because the EPE Group has grown steadily through acquisitions, these entities have been under common control for only a short period of time. A significant part of the Company's current subsidiaries were acquired in 2011 and 2012 (including agreements with respect to MIBRAG and PT that permit full consolidation of these entities from July 1, 2012).

In addition, our pro forma financial statements are necessarily based on certain assumptions and may not reflect the financial condition, results of operations or cash flows that the EPE Group would have achieved had the EPE Group as it is currently structured been formed as of January 1, 2012 or those that may be achieved in the future. The adjustments made in order to present the unaudited pro forma consolidated financial information have been made based on available information and assumptions that our management believes are reasonable. However, with respect to the acquisition of Saale Energie, although the purchase price allocation adjustments are reflected in the pro forma financial information as if the whole purchase price allocation process was performed on January 1, 2012, the related simulated amortization charges related to the intangible assets revalued during the purchase price allocation process were reflected from August 1, 2012 only, as amortization charges relating to these intangible assets are not linear over the useful life of the contracts and approximation of any impact on pro forma financial information is, therefore, impracticable and not reliable. The unaudited pro forma consolidated financial information is for informational purposes only and does not necessarily present what our results would actually have been had the transactions described therein occurred on January 1, 2012, nor should it be used as the basis of projections of our results of operations, cash flows or financial condition for any future period.

Our insurance coverage with respect to our operations may be inadequate and the occurrence of a significant event could adversely affect our business, financial condition, results of operations and cash flows.

We maintain an amount of insurance protection that we consider adequate in the ordinary course of operations, but we cannot provide any assurance that our insurance will be sufficient or provide effective coverage under all circumstances and against all hazards or liabilities to which we may be exposed. Damages or third party claims for which we are not fully insured could materially and adversely affect our business, financial condition, results of operations and cash flows.

Further, due to rising insurance costs and changes in insurance markets, insurance coverage may not continue to be available to us on terms similar to those presently available or at all. Any losses not covered by insurance could have an adverse effect on our financial results. From time to time, we may be subject to subrogation claims by insurance providers, and if such subrogation claims are not covered by other insurance policies, it could have an adverse effect on our business. Although we carry property insurance on our facilities and business interruption insurance, if we have a stoppage at any of our facilities, our insurance policies may not cover every contingency and may not be sufficient to cover all of our lost revenues. In addition, in the future, we may be unable to purchase sufficient business interruption insurance for our facilities at a commercially reasonable cost or at all.

If we fail to maintain an effective system of internal controls over financial reporting, we may not be able to accurately report our financial results or prevent fraud.

We have designed and continue to design our internal controls with the objective of providing reasonable assurance that (i) our transactions are properly authorized; (ii) our assets are safeguarded against unauthorized or improper use; and (iii) our transactions are properly recorded and reported, all to permit the preparation of our consolidated financial information in conformity with applicable accounting principles. Any system of controls, however well designed and operated, can provide only reasonable, and not absolute, assurance that the objectives of the system are met. In addition, the design of any control system is based in part upon certain assumptions about the likelihood of future events. Because of these and other inherent limitations of control systems, there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions, regardless of how remote. In particular, the EPE Group does not have integrated information systems and each subsidiary has its own accounting platform and accounting methodologies. The Company's subsidiaries prepare separate financial statements under Czech, German, Dutch, Polish and Slovak accounting standards for statutory purposes. Part of the IFRS financial statements consolidation process is manual. It involves the transformation of the statutory financial statements of the Company's subsidiaries into IFRS financial statements through accounting adjustments and a consolidation of all entities' financial statements. This process is complicated and time-consuming and involves significant manual intervention, all of which increases the possibility of error. In addition, this process requires significant attention from our senior accounting personnel. In addition, as we continue to integrate recently acquired businesses into our operating group, we may experience difficulties adapting our internal controls to these businesses, which could further exacerbate the risk of inaccuracies in our financial reporting. Any failure to maintain adequate internal controls or to be able to produce accurate consolidated financial information on a timely basis could increase our operating costs and materially impair our ability to operate our business, any of which could materially and adversely affect our business, financial condition, results of operations and cash flows.

We are subject to various legal proceedings, which may have a material and adverse effect on our business.

In the ordinary course of our business, we are subject to numerous civil, administrative and arbitration proceedings. Our audited consolidated financial statements show provisions relating to particular proceedings and we also record provisions relating to various other risks and charges, primarily in connection with regulatory disputes and disputes with local authorities. However, we have not recorded provisions in respect of all legal, regulatory and administrative proceedings to which we are a party or to which we may become a party. In particular, we have not recorded provisions in cases in which the outcome is unquantifiable or that we currently expect to be ruled in our favor. As a result, we cannot give any assurance that our provisions will be adequate to cover all amounts payable by us in connection with any such proceedings. Our failure to quantify sufficient provisions or to assess the likely outcome of any proceedings against us, could have a material adverse effect on our business, financial condition, results of operations and cash flows. See "Business—Legal proceedings."

In addition to the potential financial exposure we may face relating to the litigation mentioned above, litigation, whether or not successful, could materially affect our reputation in the market or a relationship with our customers or suppliers who may cease to trade with us, and the proceedings or settlement in relation to litigation may involve internal and external costs, which may, even in the case of the successful completion of a relevant proceeding, not be fully reimbursable, divert senior management's time or use other resources which would otherwise be utilized elsewhere in our business. Each of these additional consequences of litigation could have a material adverse effect on our business, financial condition, results of operations and cash flows.

A majority of our revenues is derived from sales made in the Central European market, and any significant downturn in the Central European economy, or any significant political, economic or legal uncertainties in the Czech Republic, Germany or the Slovak Republic could have a material and adverse effect on our business, financial condition, results of operations and cash flows.

All of the EPE Group's power and heat generation and brown coal sales are made in the Central European market, specifically in the Czech Republic and Germany and, to a lesser extent, the Slovak Republic and other European countries. The difficulty of transporting brown coal over extended distances, and the local nature of district heating distribution networks through which we distribute much of our heat production, reduces our ability to expand geographically based on our current mining and cogeneration assets. As such, the EPE Group's business, financial condition, results of operations and cash flows are highly dependent on the Central European market. Any significant downturn in the Central European economy could have a material and adverse effect on the EPE Group's business and results of operations. Furthermore, a decline in demand for brown coal or power and heat in the region may have a material and adverse effect on the EPE Group's business, financial condition, results of operations and cash flows.

The Central European economic risks mentioned above may be exacerbated by unstable global economic conditions such as the recent global financial crisis, during which banks around the world have faced severe limitations on their ability to lend, which has seen economic activity in nearly all countries either decline or experience less rapid growth than previously anticipated and which has led, and may lead in the future, to high fluctuations in currency exchange rates, particularly the euro. See "—We are exposed to currency fluctuation risks that could adversely affect our profitability."). Any continuation of adverse economic circumstances or deterioration in the global economy may exacerbate any problems specific to the Central European economy, and may have an adverse effect on our business, financial condition, results of operations and cash flow.

A significant portion of our business is conducted in the Czech Republic and Germany. Any changes in economic, tax, regulatory, administrative or other conditions or policies of the Czech or German government, as well as political or economic developments in the Czech Republic or in Germany over which we have no control, could have a significant effect on the Czech economy or the German economy, which in turn could have a material and adverse effect on our business, financial condition, results of operations, cash flows or our ability to proceed with our business plan. With regard to the Czech Republic for example, in May 2012, the EU announced concerns over the management and control systems related to the use of funds it contributes to the Czech Republic and has requested that corrective measures be taken before any such funding continues. Although funding by the EU resumed in July 2012, any similar or other reduction in funding from the EU could result in increases in the country's public finance deficits, which could potentially weaken the Czech crown against foreign currencies, increase inflation and increase the borrowing costs of the Czech Republic and for us, and could have a material and adverse effect on our business, financial condition, results of operations or cash flows.

We may not successfully implement our key strategies.

Our key strategies include continuing to focus on stable, cash flow generating assets and improve our risk profile; continuing to grow through selective acquisitions that match our strategic targets; growing our renewables business; using strict discipline to maintain low costs and prudent levels of capital expenditures and continuing our strategy of energy optimization while maintaining strict controls on open trading positions. However, we face many risks that could adversely affect our ability to implement our key strategies, such as changes in power and heat and brown coal demand in the Czech Republic, Germany and the Slovak Republic and in Central Europe generally, changes in power, heat and emission allowance prices and the regulatory framework, increases in generation and distribution costs, future developments affecting the power and heat distribution infrastructure within Central Europe, competition in the markets in which we operate, political and economic developments affecting Central Europe, EU legal and regulatory requirements and the reliability of our current and future partners for expanding our business within Central Europe. Any failure to implement our key strategies successfully could have a material adverse effect on our business, financial condition, results of operations and cash flows.

Risks related to mining operations

There are significant risks and hazards inherent in or otherwise related to open-pit mining that we cannot eliminate and which may cause significant damage to our mining infrastructure, harm to our employees or the environment and could result in loss of revenue or increased cost.

Our mining operations are subject to certain significant risks and hazards inherent in or otherwise related to the mining industry, especially in respect of open-pit mines. There are significant hazards associated with open-pit mining, including accidents related to the operation of overburden transportation equipment, possible work-related illnesses, rotating equipment and other heavy equipment, collapses of the open-pit wall, landslides and flooding of the open-pit. Measures to reduce dust may also be necessary. The occurrence of these and other hazards could result in prolonged short-term downtime or a longer-term shutdown at our mining facilities as well as disruptions to the process of transporting and storing brown coal, any of which could materially and adversely affect our business, financial condition, results of operation and cash flows. The hazards described above can also cause significant personal injury or loss of life, severe damage to and destruction of property, plant and equipment or contamination of, or damage to, the environment. The occurrence of any one of these events may result in us being named as a defendant in lawsuits asserting claims for substantial damages, environmental cleanup costs, personal injury and fines and/or penalties. A successful claim against us could materially and adversely affect our business, financial condition, results of operations and cash flows.

Our profitability depends upon our ability to successfully exploit existing reserves and acquire and develop economically attractive further coal reserves at competitive costs. Delay or failure in acquiring, developing and completing development projects could have adverse effect on our business, financial condition, results of operations and cash flows.

Our profitability depends substantially on our ability to mine coal reserves cost-effectively and to meet quality standards set by our customers. Although our coal production typically meets our customers' current demands, in the future our reserves may not be available when required or, if available, may not be capable of being mined cost-effectively or possess appropriate qualities. Additionally, we may not be able to accurately assess the geological characteristics of any reserves that we acquire, which may materially and adversely affect our profitability and financial condition.

The hydrological and geological structure of the mine can affect the ease and volume of mining as well as the speed of overburden removal. Additionally, our operations require the removal of groundwater during mining. Future efforts to remove groundwater may not be adequate and may not meet future operational demands or expectations. In addition, brown coal mining involves hazardous activities such as operating large pieces of rotating and other heavy equipment. This equipment can be subject to increased corrosion due to weather exposure, and preventing such corrosion requires additional costs. All of these factors could adversely affect our business, financial condition, results of operations and cash flows.

The reserves in our mines in Central Germany are estimated by Independent Mining Consultants, Inc. ("IMC") to last until approximately 2030, in the case of the Profen mine, and 2041, in the case of the Vereinigtes Schleenhain mine, in each case based on current production plans. If we increase production, including to potentially supply newly acquired power plants and our currently owned power plants with MIBRAG brown coal, the reserves are estimated to be depleted earlier. The success of our plans to extend the life of our mines depends, among other factors on our ability to expand existing mining fields and to make new mining fields accessible. This may require extensive and costly infrastructure measures such as the relocation of industrial facilities or residential communities and may lead to compensation obligations, for example, in November 2012, a framework agreement on the relocation of the district of Pödelwitz was signed with the city of Groitzsch. MIBRAG has begun to sign individual agreements with the affected residents on the basis of this framework agreement. We currently estimate compensation payments to be paid by MIBRAG to the city of Groitzsch and the land owners and residents of Pödelwitz and related expenditures to amount to approximately € 30-40 million. The compensation payments and related expenditures may exceed this estimation, depending on the further process to agree on the exact conditions of the relocation which is planned to be completed in 2018. If this field is included in our Main Operating Plan (*Hauptbetriebsplan*), our reported proven reserves could increase to include the 12 million tons currently classified as probable reserves in the New Reserve Report, as well as up to 13 million additional tons that are subject to confirmatory surveys, but we cannot be sure whether and, if so, when the new mining field will be included in the Main Operating Plan. In addition to general mining permit requirements, relocation measures may require administrative or judicial proceedings or other legal procedures to enforce the relocation, particularly if agreement on relocation is not reached with affected parties. With such proceedings we risk an unfavorable decision that may delay, complicate or impede projects to expand existing or develop new mining fields. If we cannot expand existing or acquire new mining fields and make them accessible to increase our reserves, this may adversely affect our business, financial condition, results of operations and cash flows. Our mines will require additional capital expenditures in the future in order to fully exploit these reserves as projected. In addition, since we attempt, where practical, to mine our lowest-cost reserves first, we may not be able to mine all of our reserves at a cost similar to our current operations.

Because our coal reserves deplete as we extract brown coal, our ability to sustain or increase our current level of production in the long term depends, in part, upon our ability to acquire and develop additional brown coal reserves that are economically recoverable and to develop new, and expand existing, mining operations. We currently plan to acquire plots of land that are adjacent to our current mining operations, in order to expand our mining operations and our available brown coal reserves. Our planned expansion projects might not result in significant additional reserves, however, and we might not have continuing success developing additional mines due to the aforementioned reasons. Furthermore, the quality of brown coal and mining conditions in new or expanded mining fields is uncertain and may be less favorable than those at which we are currently mining. In addition, these expansion projects could be limited by many factors, including our ability to raise sufficient financing, investment restrictions under our existing or future debt agreements and the inability to expand onto properties on commercially reasonable terms. Furthermore, expansion of existing open-pit mines requires significant economic, political, public and infrastructure development efforts and investments due to the need to relocate existing residents.

The occurrence of any of the aforesaid risks could have a material and adverse effect on our business, financial condition, results of operations and cash flows.

Additional factors affecting our ability to successfully exploit our coal reserves, particularly in new areas of our mines, include the ability to acquire new land, gather geological data, obtain reserve assessments, acquire approvals, consents, licenses and permits from the relevant authorities, work with environmental groups, work with unions, secure the availability, terms, conditions and timing of acceptable arrangements for mining, ensure successful transportation and construction and the performance of engineering and construction contractors and secure the services of mining contractors, suppliers and consultants. Exploitation permits that have already been granted may later be restricted or limited by the competent authorities. The authorities may make permits subject to new conditions provided these conditions still allow for an economically reasonable exploitation. A delay in obtaining required land plots and gathering information necessary for an application for, or the denial of, an allowance, approval, consent, license or permit or other delays in permitting procedures may harm our business, financial condition, results of operations and cash flows. There can be no guarantee as to when our development projects will receive the appropriate approval and whether the necessary project infrastructure will be completed, whether the resulting operations will achieve the anticipated production volumes or whether the costs in developing these projects, including additional costs necessary to comply with conditions imposed by the relevant authorities, will be in line with those anticipated.

Proven and probable brown coal reserves are estimates based on knowledge, experience and industry practice, and the volume and quality of our actual brown coal reserves could be substantially lower than such estimates.

Our brown coal reserves and resources data with respect to our mines, on which our production and capital investment program are based, are estimates that were provided by us and reviewed and substantiated by IMC. We report our brown coal reserves in accordance with the 2004 version of the Australasian Joint Ore Reserves Committee Code (JORC Code).

Our brown coal reserve and mineral resource estimates are inherently uncertain and depend on geological assumptions, cost assumptions and statistical inferences which may ultimately prove to have been unreliable. Consequently, brown coal reserve estimates are often regularly revised based on actual production experience or new information and could change. Furthermore, should we encounter mineralization or formations different from those predicted by past drilling, sampling and similar examinations, the volume or quality projections of our brown coal reserve estimates may have to be adjusted and mining plans may have to be altered in a way that might adversely affect our operations.

Moreover, increases in capital expenditures necessary for mine development, production costs, decreases in recovery rates or changes in applicable laws and regulations, including environmental, permitting, title or tax regulations that are adverse to us, could result in the volumes or qualities of brown coal that we can feasibly extract being significantly lower than the reserve and resource estimates indicated in this Report. If it is determined that the mining of certain of our brown coal reserves has become uneconomical, this may ultimately lead to a reduction in our aggregate reserves. These variations could be material, and therefore could adversely affect our results of operations.

The estimated volume and quality of reserves and resources described in this Report should not be interpreted as an assurance of the commercial viability, profitability or potential of any future operations. Our production levels at any of our mines might not reach previous historical production levels, and the volumes of brown coal that we can feasibly extract may be significantly lower than the reserve and resource estimates indicated in this Report.

In addition, a new edition of the JORC Code was published on December 20, 2012 and will come into effect on December 1, 2013. Although we do not expect the 2012 JORC Code to change our reported reserves data, any future changes in the JORC Code could materially change our reported reserves.

Our reserves and resources may differ from those disclosed in filings with the U.S. Securities and Exchange Commission in accordance with SEC Industry Guide 7.

IMC has received the reserve and resource statements compiled by us in accordance with the criteria for internationally recognized reserve and resource categories as included in the JORC Code. These reserve and resources estimates are disclosed on a different basis than those disclosed in registration statements and other documents filed by other companies with the U.S. Securities and Exchange Commission (the "SEC"). The disclosure rules and practices that are the basis for IMC's report (which are based on the JORC Code) differ in several significant respects from the SEC Industry Guide 7 ("Guide 7"), which governs disclosures of mineral reserves in registration statements and reports filed with the SEC. In particular, Guide 7 does not recognize classifications other than proven and probable reserves, and the SEC does not permit mining companies to disclose mineral resources estimates other than proven and probable reserves in SEC filings.

The reserves and resources estimates included in this Report and the report of IMC, include measured, indicated and inferred resources, which are generally not permitted in disclosure filed with the SEC. Under Guide 7, minerals may not be classified as a "reserve" unless the determination has been made that the minerals could be economically and legally produced or extracted at the time the reserve determination is made. All or any part of measured or indicated resources may never be classified as reserves. Further, there is a great amount of uncertainty as to the existence of "inferred resources" and as to whether they can be mined legally or economically. Accordingly, it should not be assumed that all or any part of an "inferred resource" will be upgraded to a higher category.

We may be subject to mining royalty fee payments to certain governmental authorities, and any such imposition of fees could materially and adversely affect our business, financial condition, results of operations and cash flows.

Although we own the land where we are actively mining, this ownership position does not automatically grant us the right to exploit and use any brown coal located there as in Germany the ownership of land does not automatically include ownership of the mineral resources located on or under the relevant piece of land. Ownership of the brown coal will be legally acquired only with its extraction. Such extraction again requires a mining right in the form of an exploitation permit (*Bewilligung*) granted by the competent Mining Authority. In return, mining companies are generally required to make royalty payments. In Germany, a two-tiered royalty system for brown coal-mining companies exists. Under the system, the federal law provides for the general principle of the payment of royalties, but the local state governments are entitled to enact ordinances further specifying the procedures for determination of the amounts of royalty fees to be paid and for the details of payment of such royalty fees. Although the guideline royalty rate under the Federal Mining Act (*Bundesberggesetz (*"BBergG")) of 1980 is 10% of the market value of brown coal production and a statutory cap for a maximum royalty rate of 40% of the market value of brown coal production applies), levies are in many cases waived by the relevant state governments. So-called old mining rights (*alte Gewinnungsrechte*), generally including mining rights granted under the laws of the former German Democratic Republic, are permanently exempt from royalty payment obligations and approximately 73.3% of our current brown coal reserves are covered by this general exemption. Approximately 1.0% of our current brown coal reserves are currently covered by a rolling exemption pursuant to an ordinance on mining royalty fees of the Federal State of Saxony (until December 31, 2015, *Verordnung des Sächsischen Staatsministeriums für Wirtschaft, Arbeit und Verkehr über Feldes- und Förderabgaben*). The remaining 25.7% of our current brown coal reserves are currently subject to a royalty fee. While most of the exemptions have been extended in the past, there always remains an uncertainty whether this will be the case in the future or whether existing exemptions will be revoked or not be extended. In addition, recently there have been proposals by certain political parties in Germany for a reform of the BBergG, which would have led to the discontinuation of the above described exemptions from royalty fees of mining rights granted under the laws of the former German Democratic Republic from royalty fees. While such legislative proposals have not been supported by a parliamentary majority and have not been implemented so far, it is possible that political majorities may change in the future and such changes may be adopted. If further rolling exemptions are not renewed or the permanent statutory exemption for so-called old mining rights is cancelled, we would be subject to additional royalty payments on a portion, or all, of our non-permanently exempted brown coal reserves. See "Risks related to each of our business segments—Our mining and heat and power generation operations are heavily dependent upon the extraction and use of brown coal as a primary fuel source, which produces significantly more emissions than other forms of fuel, and exposes us to the risk that our operations will become politically unpopular or the subject of restrictive regulations or private legal action."

We are subject to certain restrictions and reclamation obligations resulting from our German law mining permits, as well as to German environmental regulations, which could adversely affect our ability to expand our business, our financial condition, our results operations and cash flows.

As one of the prerequisites for obtaining a permit to mine a designated mining area, we are required by the German mining authorities to provide a reclamation plan (*Rekultivierungsplan*) which obligates us to restore the mining site in accordance with specific standards. As part of this reclamation plan, we are required to create, and annually adjust, non-cash reserves to cover these future reclamation costs, which are calculated by discounting estimated costs under the reclamation plan to their present value. The IMC Report estimates reclamation costs of approximately €344 million, which is based on a 2010 expert opinion. In late 2012, MIBRAG obtained an updated expert opinion regarding estimated reclamation costs of both mines, and on that basis the latest estimate of such reclamation costs is €307.8 million. As of December 31, 2012, MIBRAG had a CZK 5,611 million (€223.19 million) non-cash ecological provision for restoration and decommissioning booked as a liability included in the consolidated EPE balance sheet pursuant to IFRS and CZK 2,109 million (€83.9 million) booked as a liability on the MIBRAG balance sheet pursuant to German GAAP, respectively, and no cash reserves. Changes to the assumptions used to estimate the present value of the provisions, for example, the discount rate, the inflation rate and the estimated future cash costs related to reclamation, can have a substantial impact on such provisions, and can also have an impact on financial results for the EPE Group. Reclamations with respect to MIBRAG's Profen mine are currently planned to begin in 2030 and with respect to MIBRAG's Vereinigtes Schleenhain mine in 2041. We expect to fund the Profen mine reclamation plan with cash from the ongoing operations. We expect to begin accumulating substantial cash reserves to fund the Vereinigtes Schleenhain mine reclamation plan after 2030. We may be required to accumulate cash reserves earlier. We currently incur cash costs of approximately €2-3 million per year for ongoing reclamation and other measures.

In addition, we may be liable for damages caused by our activities or associated with our mining activities on properties owned by third parties. We may also be required under German law to create and maintain reserves to cover such potential liabilities for damages to third parties. Recently, the reclamation of certain former open-cast brown coal mines in the former German Democratic Republic has proven to be difficult, as several landslides have led to damage and prevented access to large areas. Although MIBRAG has not been held liable in these incidents and investigations of the cause of these landslides are still pending, it is possible that the mining authorities might demand reserves in the future, in response to the potentially higher reclamation costs associated with such incidents and the legislator may also tighten the requirements to obtain mining permits or the terms and conditions under which mining permits are granted. Reclamation costs could further increase if, after draining the mines, groundwater levels exceed pre-mining levels and cause flooding, including damage to buildings and infrastructure, as the mining operator is, in principle, held responsible for such damage.

If the necessary scope for restoration activities increases, or if the IMC Report underestimated the costs of reclamation, we may be required to create higher provisions. Furthermore, we may be required to establish reserves. Moreover, even these increased provisions or reserves may not be sufficient to cover the actual costs of reclamation or compensation paid to a third-party for property damage, either of which could require us to make significant payments in the future, adversely impacting our business, financial condition, results of operations and cash flows. Any requirement to increase our provisions and/or establish a reserve could adversely impact our business, financial condition, results of operations and cash flows.

We are subject to ongoing obligations under the MIBRAG privatization agreement which might affect the operations and profitability of MIBRAG.

In December 1993, the German Privatisation Agency (Treuhandanstalt) sold shares of MIBRAG to an Anglo-American consortium under a privatization agreement ("PA"). The consortium acquired MIBRAG through MIBRAG B.V., a Dutch holding company. The privatization agreement ("PA") was supplemented on November 21, 2002 by a settlement agreement entered into by the German Federal Agency for Special Tasks related to the German Reunification (Bundesanstalt für vereinigungsbedingte Sonderaufgaben—"BvS", formerly known as the Treuhandanstalt), MIBRAG B.V. and MIBRAG ("BvS Settlement Agreement"). The obligations of MIBRAG B.V. under the agreements were transferred to JTSD Braunkohlebergbau GmbH ("JTSD") by operation of law upon the merger of the two entities in January 2010.

The PA and the BvS Settlement Agreement contain a number of obligations and restrictions that are still in force and may affect MIBRAG's operations and profitability. For example, there are significant future payment obligations under both agreements from 2020 (in particular, an annual material variable purchase price liability of MIBRAG B.V. towards BvS, the amount of which mainly depends on the actual coal production quantity, which is suspended by offsetting of certain rights/liabilities until 2020), and there are ongoing obligations for MIBRAG and MIBRAG B.V. to operate the Profen and Vereinigtes Schleenhain mining fields until they are fully exploited. MIBRAG is restricted in its ability to make disposals (for example, MIBRAG is obliged to obtain BvS' consent in the case of a full or partial transfer of the mining fields Profen and Vereinigtes Schleenhain and the mining ownership sold under the PA). These obligations may be material and could adversely impact our business, financial condition, results of operations and cash flows. The PA and the BvS Settlement Agreement are subject to strict confidentiality provisions imposed by BvS, which limit our ability to disclose the details of these obligations to anyone.

Risks related to heat and power generation and distribution

Our ability to supply electricity is dependent upon transmission and distribution systems and our reliance on third parties.

The transmission and distribution of electricity from our power plants and our supply business is dependent upon the infrastructure of the power grid systems in the countries in which we operate. We have no control over the operation of these power grid systems and we must rely on independent third party power grid system operators.

For example, in the Czech Republic the power grid is operated on two levels—the transmission grid, which is operated by ČEPS a.s., the state-owned transmission system operator, and the local distribution grids, operated regionally by one of ČEZ Distribuce, a.s., E.ON Distribuce a.s. or PRE Distribuce, a.s. Different companies operate the transmission grids and the distribution grids in Germany. The transmission grid in the eastern Federal States, including Saxony and Saxony-Anhalt, is operated by 50Hertz Transmission GmbH and there are a number of different operators of distribution grids in the relevant regions, including Mitteldeutsche Netzgesellschaft Strom mbH which is a member of the envia group of companies.

Any failure of such power grid systems or reduction of available capacity, including as a result of grid congestion, natural disasters, insufficient maintenance or inadequate development, could prevent us from distributing power from our power plants to end-consumers. For example, in Germany, grid congestion has recently caused operational issues for certain power generation plants as the increase of renewable energy in Germany that has a priority feed-in right to German power distribution networks has led to a reduction of available grid capacity for conventional power plants. For example, in each of the last four years, there were unscheduled shut downs in the Schkopau and Lippendorf power plants, due to grid congestion caused by feed-in of renewables. In addition, as these power grid systems are operated by independent third parties which are not our contractual partners, we carry no insurance in this regard which would compensate us in the event of an operational failure. Additionally, under the German Energy Industry Act (Energiewirtschaftsgesetz—EnWG) and the Czech Energy Act, network operators are responsible for the security and reliability of the power supply system and obliged to balance differences between generation and consumption. Therefore, if the safety or reliability of the transmission system is endangered, particularly in the case of grid bottlenecks, network operators are obliged to take remedial grid-related or market-related action, including changes to current electricity feed-in, transit and output. In doing so, network operators may choose to disconnect power plants from the grid temporarily to reduce or prevent congestion. In any such case, conventional power plants would be the first to be disconnected, followed by cogeneration plants and renewable power plants. We would not be entitled to compensation by the network operator for the losses incurred as a consequence of such measures. As renewable power generation and cogeneration increases rapidly in Germany and the Czech Republic and the capacity of affected transmission and distribution grids is often not expanded sufficiently to accommodate this increase, there is an increasing risk of grid congestion and subsequent regulation of feed-in power capacity of conventional power plants during certain hours, including brown coal-fired power plants.

Any failure of the power grids or a disconnection of one of our plants, or the plants of our brown coal customers, from the power grid, e.g. due to congestions and respective measures by the network operator, could negatively impact our sales of power and brown coal, and could have a material adverse effect on our business, financial condition, results of operations and cash flows.

Our Sale and Purchase Agreement for the sale of Energotrans to ČEZ, a.s. is subject to reversal if our long-term heat supply contract with Energotrans is breached or invalidated.

In 2012, PT sold Energotrans, a heat generating company, to ČEZ, a.s. As part of the sale, PT continues to have an important long-term heating supply contract with Energotrans whereby PT buys heat from Energotrans to distribute through PT's heat distribution network in Prague. See "Business—Heat generation, distribution and supply and cogeneration and power generation—Our key subsidiaries—PT." In connection with the sale, the parties obtained competition clearance to supply heat through 2021. The sale and purchase agreement provides for remedies in the event that the heating supply contract is breached or challenged by either party or invalidated or otherwise terminated by the courts or authorities. For minor breaches or challenges to the contract, PT may be forced to adjust certain commercial terms of the contract. In the worst case scenario, PT could be forced to repurchase Energotrans from ČEZ, a.s. at a predefined price to be determined by an agreed-upon formula. Such purchase price could be substantial and in certain cases (in particular if the repurchase is triggered due to material breaches by PT) represent a premium to PT's original sale price. There can be no guarantee that PT will have sufficient funds or access to outside funding to fulfill those obligations. Any such challenge, and any resulting changes to our contract with Energotrans or the reversal of the sale to ČEZ, a.s. could have an adverse effect on our business, financial condition, results of operations and cash flows.

Risks related to renewables

Our renewable energy projects and other initiatives face considerable uncertainties including development, operational, technical and regulatory challenges.

Our renewable energy projects are subject to substantial risks. Projects of this nature are relatively new and have been developed through advancement in technologies that may not be proven or are unrelated to our core businesses. Although renewable energy in the Czech Republic is currently supported by various governmental subsidies, the government has expressed a desire to cancel such subsidies in the future. In addition, in 2010, with effect as of January 1, 2011, a withholding tax in the Czech Republic in the amount of (i) 26% of the income corresponding to the feed-in tariff or (ii) 28% of the income corresponding to a "green bonus" was imposed on solar power facilities commissioned in 2009 and 2010, which negatively affected three of our solar power facilities that began operating between 2009 and 2010 and are therefore subject to the withholding tax. As of the date of this Report, such withholding tax is to be in effect until December 31, 2013. However, we cannot predict any legal developments in respect thereof, for example, which may extend the application of such tax beyond 2013. See "—Risks related to governmental regulations and laws—We could incur unforeseen taxes, tax penalties and sanctions or could lose tax exemptions and benefits, which could adversely affect our business, financial condition, results of operations and cash flows."

Furthermore, in addition to the imposition of taxes discussed above, renewable energy projects in the Czech Republic not yet commissioned do not benefit from existing government subsidies and face considerable risks resulting from changes in governmental support, such as a waning legislative support for waste-to-energy facilities, which would adversely affect our business in this area. In addition, if the wind farms that we are currently developing are not commissioned before the end of 2014 they will not qualify for existing governmental support. In addition to imposing taxes or cancelling subsidies, the government could also choose to curb development by issuing fewer authorizations and permits to operate renewable energy facilities, which could make it more difficult and more expensive to expand our renewables business.

In Germany, renewable energy production is generally privileged as there is a priority feed-in right into the grid as well as a guaranteed remuneration for feed-in from renewable energy sources under the Federal Renewable Energy Act (*Erneuerbare-Energien-Gesetz* ("EEG")). There are different rates of feed-in remuneration applicable depending on the source of renewable energy and, at least for some renewable energy sources such as wind, photovoltaic and hydroelectric power, on the date of commissioning of the relevant renewable energy installation. These tariffs may be increased if certain retrofitting or repowering measures are conducted in accordance with statutory requirements. The feed-in tariffs have repeatedly been adjusted in the past, both upwards and downwards. Such adjustments have so far only been applied to new installations leaving the guaranteed feed-in tariffs for existing installations at the time unaltered. The applicable renewable energy feed-in tariffs may be subject to further changes in the future. The feed-in tariffs for renewable energy projects essentially depend on when an installation has been or will be commissioned and on the feed-in tariffs applicable under statutory law at a certain time. It is possible that feed-in tariffs applicable to existing installations may be adjusted in the future. In February 2013, the Federal Minister for Environment, Nature Protection and Nuclear Safety and the Federal Minister of Economics and Technology published a position paper proposing amendments to the EEG that would lead to such a reduction of feed-in tariffs applicable to existing renewable energy installations. After discussions with the Federal States the German Chancellor stated that it is currently not intended to reduce feed-in tariffs for existing installations. The above position paper further proposes, *inter alia*, that the feed-in remuneration under the EEG would, for renewable energy installations (except for photovoltaic power generation) commissioned on or after August 1, 2013, not be paid from the time of commissioning but only after a period of five months from the date of commissioning. Whether and when such proposed amendments will be adopted in a legislative process, if at all, is currently uncertain. Any delays in the commissioning of planned projects and any amendments to the applicable feed-in tariffs scheme under statutory law could materially and adversely affect our business, financial condition, results of operations and cash flows.

Similar risks may arise in the Czech Republic, where the applicable renewable energy feed-in tariffs may also be subject to changes in the future. In January 1, 2013, a new act on the promotion of renewable energy sources entered into force (Act No. 165/2012 Coll.—Act on Promoted Energy Sources, the "New Energy Act") which, among other changes, reduced support for certain types of renewable energy sources (for example solar installations), as well as reduced support (through lower feed-in tariffs and lower green bonuses) for new installations in order to combat what was considered to be excessive and unbalanced promotion of renewable energy sources.

We intend to further develop three wind park projects, two of which are located in the Czech Republic (VTE Moldava and VTE Pastviny) and the other in Germany (on land owned by MIBRAG). If these three projects are commissioned, their total installed capacity would amount to up to 169 MW_e (VTE Pastviny up to 52 MW_e, VTE Moldava up to 54 MW_e and MIBRAG up to 63 MW_e). We expect the MIBRAG wind farm to be commissioned in 2014. The VTE Moldava wind park project is in the advanced stage of the permit process and we believe that it is on track to be commissioned in 2014, and we believe that the VTE Pastviny wind park project is on track to obtain its required permits in 2014. However, while the VTE Moldava wind park project is in the advanced stage of the permit process and we believe that it is on track to be commissioned in 2014, and we believe that the VTE Pastviny wind park project is on track to obtain its required permits in 2014, the Senior Credit Facility Agreement imposes restrictions on the further development of these wind park projects. Under the terms of the Senior Credit Facilities Agreement, we are prevented from making further investments in our Moldava and Pastviny wind park projects, unless such investment is financed by VTE Moldava, a.s. or VTE Pastviny, s.r.o., respectively, from loans by our parent, EPH, or an affiliate of EPH, and does not exceed a certain threshold amount.

In addition, because these projects depend on technology outside of our areas of expertise in coal-fired power and heat generation, there are risks associated with our ability to develop and manage such projects profitably. At the development or acquisition stage, our ability to predict actual performance results may be hindered and the projects may not perform as predicted. Additionally, these projects can also be capital intensive and generally require us to obtain third party financing, which may be difficult to obtain. As a result, these capital constraints may reduce our ability to develop these projects in the time projected or at all, or at the costs projected. Any changes to government regulations and laws, increases in taxation, lack of legislative support or the availability of authorizations and permits or difficulty obtaining licenses/permits or the financing necessary for development of our renewable energy projects could materially and adversely affect our business, financial condition, results of operations and cash flows.

Risks related to energy supply and trading

Our traders may fail to adhere to our risk management policies, exposing us to open positions on the energy trading market.

Our trading business purchases and sells electricity and energy commodities in the wholesale market, including sales of electricity generated by us in our Heat and Power segment to our end-consumers through our supply business. Our trading business also sells and purchases CO_2 emissions allowances and purchases electricity for delivery by our power generation business at times when it is more economical for us to buy electricity for sale under our forward sale contracts rather than generate it ourselves. While the majority of our trades are conducted on a back-to-back basis, we also engage in limited opportunistic electricity and gas trading activities, mainly in relation to sales of electricity from our own production, where the result of such trading activity depends on movements of wholesale electricity prices. Additionally, in connection with the optimization of our supply and trading business, we are dependent on the liquidity of the wholesale market, and as a result, we may take limited open trading positions. These trades relate, for instance, to (a) speculation on seasonal differences in electricity and natural gas prices (such as the purchase of gas in the spring and summer with the intention of selling it at a higher price in the winter) and (b) speculation based on announcements relating to the availability of emissions allowances, as a reduction in the number of available emissions allowances will lead to an increase in emissions allowance prices and thus increasing power prices due to higher production costs. The maximum exposure we may take through proprietary trading is subject to limits setting the maximum risk of loss on trading portfolios. Under our current trading policies, potential open positions in electricity and gas over any period of time are limited by an aggregate mark-to-market value of €5 million in electricity and €1 million in natural gas. If we exceed these thresholds on our open positions, we are required by EPE Group policies to close out of our open positions to a value below these thresholds. However, despite our risk management policies and monitoring activities, we could be exposed to open positions in excess of those prescribed by our risk management policies if, for example, any of our traders makes trades in violation of our trading policies or changes thereto, or flaws in such policies emerge. Any failure to adhere to our risk management policies or weaknesses in the policies themselves could materially and adversely affect our business, financial condition, results of operations and cash flows.

Failures by our counterparties or failures of the IT or telecommunication systems we use may interfere with our ability to complete a trade.

We face the risk that our trading counterparties may fail to complete contracted trades, thus leaving us exposed to an unanticipated open position. We also depend heavily on our IT and telecommunication systems and trading platforms to execute trades on a timely basis. If we were to experience any IT or telecommunication failures or disruptions, it could negatively impact our ability to make or complete our trades. The failure of one of our counterparties to complete a trade or any disruptions or failures of our IT or telecommunication systems we use to conduct our trading operations could materially and adversely impact our business, financial condition, results of operations and cash flows.

We are subject to the risks associated with EU regulation of energy market mechanisms, including the credit and cash settlement requirements for trading of commodities and financial instruments.

We trade on the financial and energy wholesale markets of Europe. EU regulations, such as the Regulation on Energy Market Integrity and Transparency (REMIT), the Markets in Financial Instruments Directive (MiFID) and the European Market Infrastructure Regulation (EMIR), require the implementation of strict rules for wholesale commodity trading, including potential cash margining requirements for all over-the-counter deals, transparency and reporting obligations and the central clearing of transactions involving certain energy derivatives. These regulations may significantly modify current financial and commodity instrument rules based on rules of the European Federation of Energy Traders (EFET) and of the International Swaps and Derivatives Association (ISDA). Changes to credit and cash settlement requirements could require us to post cash collateral to cover mark-to-market fluctuations in the margin of all our wholesale forward sales of electricity used for hedging our generation portfolio in case of power price increases. Although we seek to limit our open positions and focus on trading supported predominantly by back-to-back production at our facilities by purchasing energy to match the timing of the sale of our production volumes with a corresponding purchase of the volumes required to meet our supply customer's requirements (which are generally lower than the total energy volumes we produce), due to our high trading volumes and the volatility of power prices, we may require significant liquidity to meet our trading obligations that may be difficult to cover. In addition, foreign exchange hedging transactions could also be affected. As a result, EU regulation of energy market mechanisms, including any changes to credit and cash settlement requirements for trading of commodities and financial instruments, could have a material adverse effect on our business, financial condition, results of operations and cash flows.

We face competition in the energy supply market.

The energy supply market is very competitive with many businesses operating on the markets in which we trade. Our primary competitors in the Czech energy supply market are RWE, E.ON and ČEZ, a.s. Our supply prices must remain competitive which makes strong profitability a challenge in this business line. Our customers may leave in order to obtain their energy from other suppliers. In order to compete with other energy suppliers, we may have to reduce our prices further. If we are unable to remain competitive, it may have a negative impact on our business, financial condition, results of operations and cash flows.

Risks related to governmental regulations and laws

Our operations are subject to significant government regulation and laws and our business, financial condition, results of operations and cash flows could be adversely affected by changes in the law or regulatory schemes.

Our businesses are subject to increasingly strict regulation under applicable law with respect to matters such as:

- price-setting for heat;
- permitting and licensing requirements and limitations on land use;
- unauthorized profits from power and heat sales;
- employee health and safety;
- restrictions on related-party transactions in the co-generation industry;
- reclamation and restoration of mining properties;
- air quality standards and limits on CO_2 released into the atmosphere;
- protection of human health, plant life and wildlife and prevention of water pollution and the discharge of materials into the environment;
- the effects of mining on groundwater and its quality and availability;
- energy efficiency targets;
- grid congestion management and grid/network access;
- promotion of renewable energy and/or combined heat and power, including costs due to burden-sharing mechanisms;
- use and implementation of CCS technology (carbon capture and storage);
- promotion of the construction of new power plants;
- supply and trading of energy and energy derivatives;
- provisions on security of supply and network stability; and
- tax laws.

The costs, liabilities and requirements associated with these and other laws and regulations may be extensive and may potentially delay commencement or continuation of production of brown coal and power and heat. Failure to comply with these regulations may result in the assessment of administrative, civil and criminal penalties, the imposition of cleanup and site restoration costs and liens, the issuance of injunctions to limit or cease operations, the suspension or revocation of permits and other enforcement measures that could have the effect of limiting production from our operations. We may also incur costs and liabilities resulting from claims for damages to property or injury to persons arising from our operations. We must compensate employees for work-related injuries. These limitations on our operations and the incurrence of such costs and liabilities may adversely affect our business, financial condition, results of operations and cash flows.

In addition, new legislation or administrative regulations (or new judicial interpretations or administrative enforcement of existing laws and regulations), including proposals related to the protection of the environment that would further regulate and tax the power, heat and brown coal industries, may also require us or our customers to change operations significantly, incur increased costs or cease certain operations altogether.

The EPE Group's operations are subject to strict environmental, heritage and health and safety regulation and enforcement and compliance with or liabilities thereunder may require significant expenditures that could adversely affect our business, financial condition, results of operations and cash flows.

Our operations are regulated by a wide range of environmental requirements in the Czech Republic, Germany, Slovakia and the European Union, including those governing the discharge and emission of pollutants; the management and disposal of hazardous materials; the cleaning of contaminated sites; mine reclamation and worker health and safety. For example, we are subject to regulations that impose strict standards for CO_2, SO_x, NO_x, CO and solid particulate matter emissions, which may restrict our ability to supply additional power and heat, reduce demand for our brown coal or require us to modify our existing operations and increase our costs of doing business. We also could incur significant costs, including civil and criminal fines or sanctions, claims for environmental damages, remediation obligations, revocation of environmental authorizations or temporary or permanent closure of facilities, as a result of violations of liabilities under environmental requirements.

We have made, and expect to continue to make, expenditures to maintain compliance with environmental laws. For example, starting in 2016, the stricter emission targets set forth by the European Industrial Emissions Directive (IED) will apply for large combustion plants, including those that we operate, which will require capital expenditures which could in the aggregate, exceed €80 million for our power plants in the Czech Republic, and an undetermined, but potentially significant amount, for our Schkopau and MIBRAG power plants in Germany. In addition, the requirements of the Water Framework Directive (2000/60/EC), which have been implemented in Germany by amendments to the Federal Water Management Act (*Wasserhaushaltsgesetz* ("WHG")), in particular its phasing-out target regarding hazardous materials such as mercury, necessitate specific technical provisions in our brown coal fired power plants, which may require significant capital expenditures.

Our mining and mineral processing operations also have inherent risks and liabilities associated with damage to and contamination of the environment, particularly landscape, water resources and the disposal of waste products occurring as a result of mineral exploration, production and processing. We may be obliged in the future to improve the quality of our waste water discharges, which could result in higher waste water management costs. In general, the pressure on mining operators to improve their waste water quality has increased since the implementation of the Water Framework Directive (in Germany: by way of amendments to the WHG; in the Czech Republic: Act No. 254/2001 Coll., the Water Act, as amended), which regulates, among other things, old mine waste dumps that continue to produce Acid Mine Drainage (AMD) that causes elevated concentrations of iron, sulfates and other particles in groundwater. We are also subject to further significant regulation under German law relating to our mining operations, including groundwater use and discharge of waste water. In the past, we have exceeded permitted water emission values and iron levels in water. In addition, the Regulation (EC) No. 1907/2006 on Registration, Evaluation, Authorisation and Restriction of Chemicals ("REACH") introduced strict standards with regard to chemical substances which may only be put into the market if they are permitted as a consequence of being registered in accordance with REACH. This particularly limits our ability to market or use by-products from our power and heat generation such as ashes and slags. Any failure to comply with applicable environmental, heritage or health and safety laws or regulations could result in a material interruption or restriction of the EPE Group's development or mining operations, and/or in the imposition of fines, penalties or other liabilities, which could have a material adverse effect on our business, financial condition, results of operations and cash flows.

Environmental requirements are also a factor in the development of new projects and continuation of current projects. Czech, German and EU environmental regulations have become increasingly stringent in recent years, especially in connection with the approval of new projects, and this trend may continue. The environmental impact of new projects also attracts public interest and, therefore, may be subject to political considerations and litigation that are beyond our control. The legal and regulatory regimes applicable to the mining industry in Germany have undergone fundamental changes in recent years and, in certain key respects applicable standards remain in flux and subject to change, even for existing projects. Approval is required for all aspects of mining or prospecting operations, including digging and land clearing. Delays in obtaining such approvals can result in delays to anticipated mining activities.

In addition, we may be liable for damages caused by our activities on properties owned by third parties and may be required by law to create and maintain reserves to cover potential liabilities arising from such damages. Subsidence damage can be caused by mining activities or mining activities in combination with various factors such as groundwater, underground cavities and seismic events. We are at particular risk of being held liable for subsidence and similar damages (*Bergschäden*) as the BBergG provides that any such damage occurring within an area potentially affected by mining activities is generally deemed to be caused by these mining activities, generally leading to joint and several liability of the relevant mining operator and the holder of the relevant exploitation permit (which may be the same entity). The mining operator and the holder of the relevant exploitation permit bear the burden of proof to demonstrate that their mining activities did not actually cause the damage. Our operations also increase the level of noise and may negatively impact air quality, through emissions and by creating dust, which could directly and negatively impact populated areas in the immediate vicinity of such operations and cause complaints, legal actions or administrative measures.

Furthermore, many of the properties that we own or operate were used for coal mining and/or involved hazardous material usage before we took ownership or operating control. Some of the land on which we conduct our mining operations is contaminated, in particular, from historical operations, and we are addressing such contaminations at a number of locations in the course of our normal business operations, such as by the removal of the contaminated soil. Estimates on the ultimate cost of remediation efforts are difficult to accurately predict and depend on the relevant on-site investigations. If additional contamination is discovered or additional cleanup obligations are imposed at these or other locations, this could lead to interruptions in our operations and production losses or the total costs of remediation could be substantial, and if they are, could adversely affect our results of operations and cash flow.

Our liability for any claims related to environmental impact or contamination with hazardous materials may be joint and several, so that we may be held responsible for more than our share of the remediation costs or other damages, or even for the entire share. We have from time to time been subject to claims arising out of contamination at our own and other facilities, mainly relating to the removal of soil as part of our overburden stripping activities, and may incur such liabilities in the future.

Future changes in environmental laws, or in the interpretation of those laws, including new or more stringent requirements related to air and wastewater emissions, new or stricter regulations and agreements related to climate change or changes in the application, interpretation or enforcement of existing requirements could result in substantially increased operating and compliance costs, and could impose conditions that restrict or limit our operations.

Changes in regulated tariffs could have a material adverse effect on our business, financial condition, results of operations and cash flows.

In the Czech Republic, our heat business, which accounts for a significant portion of our sales, depends on regulated tariffs. Our renewables business in the Czech Republic also depends on regulated tariffs. Tariffs for heat and renewable energy are also set by the regulatory authorities or legislators of other countries in which we operate, including Germany and in respect to renewable energy, the Slovak Republic.

The Czech Energy Regulatory Office ("ERO") issues pricing decisions that set forth mandatory guidelines that apply to the calculation of heat prices. These rates are comprised of (i) the economically justified costs necessary for production and distribution of heat, (ii) appropriate profit and (iii) VAT. In respect of power tariffs in the Czech Republic, producers of renewable energy have two different options to sell their energy: (i) by way of feed-in tariffs that provide for the mandatory purchase of renewable energy by power distribution companies at a tariff fixed by the ERO or (ii) by way of green bonuses that are determined by the ERO and that are added to the market price.

The legislative or regulatory authorities in the countries in which we operate may decide to limit or even block tariff increases, with no change to the quality of service, or may change the conditions of access to such regulated tariffs, including changes to the price setting mechanisms as a result of political interference. We cannot give any assurance that new tariffs would be set at a level which would allow us to preserve our short-, medium- or long-term profitability or our property interests, while ensuring a fair return on the capital invested in our power generation, distribution and supply assets. As a result, any changes in regulated tariffs, particularly those that may affect our revenues from power and heat distribution, could have a material adverse effect on our business, financial condition, results of operations and cash flows.

We are exposed to changes in the way emissions allowances are allocated, including the conditions attaching to free allocations and the allocation of emissions allowances from 2013, as well as volatility in the market prices of emissions allowances that we need to acquire.

In 2005, the European Union introduced the EU ETS. Within the EU ETS, each greenhouse gas emitter is allocated a certain cap by the relevant national government, which is in turn allocated a national cap by the European Commission, within which it is allowed to emit greenhouse gases (such as CO_2). Any emissions in excess of this cap must be counterbalanced by emissions allowances acquired in the open market at a market price, otherwise the emitter is penalized. Allocations are fixed for a specific trading period. In 2011 and 2012, the allocation of emissions allowances without cost in the Czech Republic to CO_2 emission producers selling electricity to third parties was subject to a gift tax. We expensed tax of CZK 375 million in such tax for the year ended December 31, 2011 and CZK 204 million in such tax for the year ended December 31, 2012. Although this tax is currently only applicable for the years ended 2011 and 2012, any extension or amendment to such tax legislation or introduction of any similar tax in the future, could have a material adverse effect on our business, financial condition, results of operations and cash flows.

In the trading periods after 2012, the majority of, or potentially all emissions allowances for the power generation sector are sold in auctions rather than allocated for free. However, the Czech Republic has received a partial exemption from this change. The scope of this emissions allowance derogation is limited to installations that began power generation before December 31, 2008 or for which the investment process was "physically initiated" by that date. All our Czech power plants are covered by the derogation. The extension period will last from 2013 to 2019, and the free allowance extension is limited to no more than 70% of emissions for domestic electricity supply in 2013, declining annually thereafter to zero from 2020 onwards. The EU ETS Directive requires that installations benefitting from free allocations under the derogation invest in projects designed to modernize power generation in the Czech Republic. The value of these investments must mirror the value of the free allocation of emissions allowances, which we continue to achieve through our investments in our existing power plants, facilities and infrastructure to comply with this requirement. Different principles apply under the EU ETS Directive to heat; according to these principles, district heating CHP plants shall receive free allowances for heat supply from 2013 to 2027. The derogation is available to all Member States, but is limited in terms of eligibility and quantity. All district heating and highly efficient cogeneration plants are eligible, regardless of the commissioning date. However, the EU ETS Directive sets a limit of a maximum of 80% of free allowances in 2013 with a gradual decline in subsequent years to reach 30% in 2020. Further gradual decline will reach zero free emissions allowances in 2027. As this decline of free emissions allowances will lead to an increase in market demand, since market participants will likely need to increase the volume of the allowances purchased to meet their volume targets, prices will likely increase as well. Contrary to the free emission allocation extension granted for power generation in the Czech Republic, the EU ETS Directive does not require heating plants benefitting from the free allocation under the derogation to invest in any projects. Since January 1, 2013, we have had to buy emissions allowances on the market (especially for our German business operation), and over time the proportion of emissions allowance we are required to purchase will increase as available free allowances are gradually eliminated. Moreover, as the number of allowances gradually declines during the respective derogation periods, we expect the price of allowances on the market to gradually increase. As a result, our emission allowance allocation remains uncertain and our costs may increase significantly, which could have a material adverse effect on our business, financial condition, results of operations and cash flows. In addition, we will be more vulnerable to risks relating to volatility in the price of emissions allowances.

The European Commission has issued draft legislation in the form of an amendment to the currently existing principles of assigning emissions allowances pursuant to which the number of CO_2 emissions allowances in the carbon trading market could be temporarily reduced by postponing the auctioning of some emissions allowances. This is expected to lead to a significant increase in the prices for emissions allowances. The draft legislation provides that emissions allowances representing in total 900 million metric tons of carbon credits would be held back and only released at a later stage. The Environmental Committee of the European Parliament adopted the EU Commission's proposal in February 2013. The draft legislation is still under discussion in the European Parliament and the Council of the European Union. See "—Risks related to each of our segments—Our revenues and margins of operations may be negatively impacted by volatile prices for power, heat, natural gas, hard coal and emission allowances for CO_2".

A continual decrease in the allocation of emissions allowances across the European Union and, potentially, a greater decrease in the allocation of emissions allowances than is provided for under the current scheme in the next allocation period as well as any increase in the price of emissions allowances, may result in a substantial increase in our variable generation costs making the price of electricity and heat offered by us uncompetitive, which could have a material adverse effect on our business, financial condition, results of operations and cash flows.

We have no control over the security and operational processes of the national registries for emissions allowances within Europe.

We own a significant number of emissions allowances and emission credits, which are registered as intangible assets by national registries in individual EU countries. National emissions allowances and emission credits registries are operated by independent governmental bodies and are governed by EU law. We have no control over or influence on the security and operational processes of these national registries. The financial value of our assets registered in such registries is significant and a change in the quantity of permitted emissions represented by our allowances and credits or an unauthorized transfer on the relevant registries of such allowances and credits to another party could have a material adverse effect on our business, financial condition, results of operations and cash flows.

Changes in the European Union's and Member States' renewable energy policies and an accelerated market shift towards renewable energy sources and a focus on increased energy efficiency could have a material adverse effect on our business, financial condition, results of operations and cash flows.

The power generation industry in Europe is strongly influenced by the European Union's policy, implemented in 2008 by the EU Climate and Energy Package, to increase the share of electricity generated by renewable energy sources. Furthermore, individual Member States have renewable energy policies, some of which are more progressive than the EU's policy. We are effectively obliged, due to economic incentives, to reflect these policies within our own strategy. Furthermore, support for renewable sources may decrease energy prices, limit production time, the stability of transmission and distribution grid, cause grid congestion, limit the profitability of distribution services provided by us and production quantity of conventional power plants that we operate, and may decrease our market share. Continued or increased support for renewable energy sources in the European Union, particularly in the Czech Republic and Germany, may adversely affect our profit from coal-fired and gas power plants, which could have a material adverse effect on our business, financial condition, results of operations and cash flows.

Recently, the European Parliament and the European Council adopted Directive 2012/27/EU (Energy Efficiency Directive ("EED")), which targets a 20% increase in energy efficiency by 2020. The EED entered into force on December 4, 2012 and obliges Member States to set national energy efficiency targets, report any progress achieved towards these targets to the European Commission by April 30 of each year from 2013 and impose mandatory energy-savings schemes on utilities and energy audits on large companies, which may require substantial capital expenditure. The EED states that high-efficiency cogeneration and district heating have significant potential for saving primary energy and Member States should carry out a comprehensive assessment of the potential for high-efficiency cogeneration and district heating. New power generation installations and existing installations, which are substantially refurbished or whose permits or licenses have been renewed, should, subject to a cost-benefit analysis showing a cost-benefit surplus, be equipped with high-efficiency cogeneration units to recover waste heat stemming from the production of electricity. The EED further states that Member States should encourage the use of financing incentives to further the objectives of the EED. Such financing incentives could include financial contributions and fines resulting from non-fulfillment of certain provisions of the EED.

Pursuant to the EED, as an alternative to setting up an energy efficiency obligation scheme, Member States may opt to take other policy measures to achieve energy savings among final customers. The annual amount of new energy savings achieved through this approach would be equivalent to the amount of new energy savings required by the energy efficiency obligation scheme option. Provided that equivalence is maintained, Member States may combine obligation schemes with alternative policy measures, including national energy efficiency programs. The policy measures may include, but are not limited to:

- the implementation of energy or CO_2 taxes that have the effect of reducing end-use energy consumption,
- financing schemes and instruments or fiscal incentives that lead to the application of energy-efficient technology or techniques and have the effect of reducing end-use energy consumption,
- regulations or voluntary agreements that lead to the application of energy-efficient technology or techniques and have the effect of reducing end-use energy consumption,
- standards and norms that aim at improving the energy efficiency of products and services, including buildings and vehicles, except where these are mandatory and applicable in Member States under EU law,
- energy labeling schemes, with the exception of those that are mandatory and applicable in the Member States under EU law,
- training and education, including energy advisory programs that lead to the application of energy-efficient technology or techniques and have the effect of reducing end-use energy consumption.

To meet these targets once they are implemented into national law we may require substantial capital expenditure. This could have a material adverse effect on our business, financial condition, results of operations and cash flows.

State support for certain power generation sources could have a material adverse effect on our business, financial condition, results of operations and cash flows.

The Czech Renewable Energy Act requires distribution companies to purchase certain amounts of electricity from environmentally friendly "co-generation," "small hydro," "decentralized" or "renewable" facilities. This results in significantly higher state support for small generation sources. This support may be in the form of regulated subsidized prices or preferential access for these generation sources to the distribution grid. While we believe that these purchases of electricity by the distribution companies and the preferential treatment of renewable sources will not substantially adversely affect the generation volumes of our conventional generation facilities, we cannot provide any assurance that this will in fact be the case or that the price at which we can sell our power to supply companies will not decrease, which could in turn have a material adverse effect on our business, financial condition, results of operations and cash flows.

In Germany, renewable energy sources are given preferential treatment through priority feed-in rights to the power grid. Such priority rights can cause grid congestion that adversely affects conventional generation facilities in Germany. See "Risks related to heat and power generation and distribution—Our ability to supply electricity is dependent upon transmission and distribution systems and our reliance on third parties."

Our exposure to several tax jurisdictions may have an adverse effect on us.

Although a substantial part of our operations are located in the Czech Republic and Germany, we are subject to the tax laws of several other jurisdictions, including the Slovak Republic, the Netherlands and Cyprus. The Company and/or any of its subsidiaries may be treated as being resident for tax purposes and/or otherwise subject to tax in jurisdictions other than its place of incorporation. The effect of the application of the tax laws of multiple jurisdictions, including the application or disapplication of tax treaties concluded by the relevant countries, and/or variation in interpretation by the relevant tax authorities could, under certain circumstances, produce contradictory results and related tax liabilities for us, and may materially and adversely affect our business, financial condition, results of operations and cash flows.

We are subject to risks in connection with the tax positions taken in the course of our business.

We take tax positions in the course of our business with respect to various tax matters, including but not limited to the taxation of foreign exchange results, compliance with the arm's length principles in respect of transactions with related parties, the tax deductibility of interest and other costs and the amount of depreciation or write-down on assets we can recognize for tax purposes. As a vertically integrated group, we are in the process of concluding and will continue to conclude in the future, a significant number of transactions with related parties across various jurisdictions. Specifically, these cross-border transactions relate to the sale of fuels, emissions allowances and certain services, as well as other transactions such as cross-border financing transactions. Even though EPE and its subsidiaries try to carefully follow the arm's length principle as well as unified standards in respect of dealings with affiliates that function as investment advisors, we can not preclude potential disputes with the tax authorities. In particular, in connection with transactions for which there is not an established market price, we may be subject to claims that the prices or interest rates that one of our subsidiaries charges another subsidiary are artificially low or high so as to avoid payment of taxes. This may be connected, for example, with dynamic changes of market terms affecting the calculation of sales prices for heat, energy, raw materials or services applied in such transactions, if they are not promptly and correctly adjusted to reflect such changes. In the event the tax authorities disagree with us on any interpretive matter or challenge the tax position of specific transactions, we may be subject to unexpected tax liabilities or penalties that may have an adverse effect on our business, financial condition, results of operations and cash flows.

In addition to the foregoing, in relation to the subsidiaries of the Company in Germany, JTSD, MIBRAG and EP Germany and their respective subsidiaries are regularly subject to routine tax audits for German corporate income tax, trade tax and value added tax purposes but also for wage tax, energy tax and electricity tax purposes. All tax assessment notices issued for tax periods, which have not yet been subject to a final tax audit, are not yet final and binding and are subject to full review and therefore can be changed by the tax authorities at any time without restrictions. As a consequence of current or future tax audits or previously completed tax audits for which no final tax assessments have been issued, or as a result of possibly divergent tax law interpretations by the tax authorities or tax courts, JTSD, EP Germany or any of their subsidiaries could be obliged to pay additional taxes, which have not yet been reflected by tax provisions.

Additional taxes for JTSD, MIBRAG, EP Germany and their subsidiaries could also apply. For example, JTSD and MIBRAG (and certain of their subsidiaries) have entered into a German tax group for corporate income and trade tax purposes. Generally, German tax authorities apply a restrictive approach when assessing the valid formation and proper execution of a tax group. As several issues relating to, among others, the validity of the profit and loss transfer agreement between JTSD and MIBRAG (see "Management's discussion and analysis of financial condition and results of operations—MIBRAG—JTSD—MIBRAG profit and loss transfer agreement") and its proper execution, are not yet resolved by the German tax authorities and tax courts, there is a risk that the tax group consisting of JTSD, MIBRAG and certain of their subsidiaries will ultimately be rejected by the German tax authorities. If this were the case, taxable income of JTSD, MIBRAG and their relevant subsidiaries would not be pooled at the level of JTSD for German corporate income tax and trade tax purposes but would be taxable at the level of the respective entities on a stand-alone basis. An invalidation of the tax group between JTSD, MIBRAG and their relevant subsidiaries may not only apply for the year in which the tax group is challenged, but may also apply retroactively for previous years. An invalidation may also apply to historical tax groups of MIBRAG prior to 2009 to the extent that the relevant periods have not yet been subject to a tax audit. In addition to the tax group, under German law our subsidiaries could also be subject to higher taxes in relation to intercompany financings. Further to that, there is a risk that the German tax law will be changed in a way that forces MIBRAG to reduce certain provisions for reclamation obligations in its tax balance sheet and recognize the gain resulting therefrom over a period of fifteen years, which would lead to significantly higher taxes over the next fifteen years. This may have an adverse effect on our business, financial condition, results of operations and cash flows.

We are subject to tax risks in connection with recent restructurings.

We have been subject to corporate restructuring in the past, we may be subject to taxes in relation to such restructurings, which have not yet been identified.

We could incur unforeseen taxes, tax penalties and sanctions or could lose tax exemptions and benefits, which could adversely affect our business, financial condition, results of operations and cash flows.

A number of EU Member States face significant budget deficits caused, among other reasons, by lower tax revenues related to slow economic growth and the global economic downturn and, as a result, new taxes are being imposed on the utilities sector, such as the gift tax for emissions allowances in the Czech Republic, in respect of which we expensed a tax of CZK 375 million in 2011 and CZK 204 million in 2012. See "—We are exposed to changes in the way emissions allowances are allocated, including the conditions attaching to free allocations and the allocation of emissions allowances from 2013, as well as volatility in the market prices of emissions allowances that we need to acquire."

In addition, operators of certain solar electricity producing facilities in the Czech Republic which were placed into operation between January 1, 2009 and December 31, 2010 are currently subject to a withholding tax in the Czech Republic in the amount of (i) 26% of the income corresponding to the feed-in tariff, or (ii) 28% of the income corresponding to a "green bonus." Through our wholly-owned subsidiary POWERSUN a.s., we own and operate three solar power facilities with an installed capacity of 3.2 MW_e and we own a 41.7% ownership interest in the Greeninvest Energy, a.s. solar facility, with an installed capacity of 4.0 MW_e in the Czech Republic. Three of these solar power facilities were placed into operation between 2009 and 2010 and are therefore subject to the withholding tax. This tax is currently only applicable for the years ended 2011, 2012 and 2013, but any extension or amendment to such tax legislation or introduction of any similar tax in the future, could have a material adverse effect on our business, financial condition, results of operations and cash flows.

Additionally, MIBRAG currently benefits from an electricity tax reduction for the power producing industry under German law (*Spitzenausgleich für produzierendes Gewerbe*). In 2012 such electricity tax reduction resulted in income from the reimbursement to MIBRAG of the German electricity tax in the amount of €6.1 million pursuant to German GAAP. The electricity tax reduction is subject to an approval of the EU Commission under EU state aid rules which expired at the end of 2012. A new law setting up a successor regime, which is valid for a period of ten years, became effective on January 1, 2013. The new regime follows demands made by the EU Commission requiring EU Member States to link electricity tax reductions to certain energy efficiency criteria including the adoption of energy management systems or environmental management systems. Companies must document their energy consumption and must determine the potential for efficiency improvements in a structured process. Although it suffices for a company to merely show that it has initiated the adoption of an energy management system or environment management system to claim the tax reduction until 2014, after that companies must demonstrate that they have achieved pre-defined goals of reducing total energy consumption in accordance with a sliding scale in comparison to the average consumption during the years 2007 to 2012. It is currently unclear whether or not and to what extent such successor regime will impact MIBRAG's entitlement to an electricity tax refund.

The imposition of any new taxes in the countries in which we operate, or changing interpretations or application of tax regulations by the tax authorities, harmonization of Czech and EU tax law and regulation, extensive time periods relating to overdue liabilities and the possible imposition of penalties and other sanctions due to unpaid tax liabilities may result in additional amounts being payable by us, which could have a material adverse effect on our business, financial condition, results of operations and cash flows.

Risks related to our financial profile

Our substantial leverage and debt service obligations could adversely affect our business and prevent us from fulfilling our obligations with respect to the Notes and the Note Guarantees.

We are highly leveraged. As of December 31, 2012 we had total loans and borrowings of CZK 26,033 million (€ 1,035.52 million, at an exchange rate of CZK 25.14 to €1.00). See "Description of material indebtedness."

The level of our indebtedness could have important consequences to holders of the Notes, including, but not limited to:

- making it difficult for us to satisfy our obligations with respect to the Notes;
- increasing our vulnerability to, and reducing our flexibility to respond to, general adverse economic and industry conditions;
- requiring the dedication of a substantial portion of our cash flow from operations to the payment of principal of, and interest on, indebtedness, thereby reducing the availability of such cash flow for, and limiting the ability to obtain additional financing to fund, working capital, capital expenditures, acquisitions, joint ventures, or other general corporate purposes;

- limiting our ability to borrow additional funds and increasing the cost of any such borrowing;
- restricting us from making strategic acquisitions or exploring business opportunities;
- limiting our flexibility in planning for, or reacting to, changes in our business and the competitive environment and the industry in which we operate; and
- placing us at a competitive disadvantage compared to our competitors, to the extent that they are not as highly leveraged or have greater financial resources.

Any of these or other consequences or events could have a material adverse effect on our ability to satisfy our debt obligations, including the Notes.

In addition, our debt under the Senior Credit Facility Agreement bears interest at a variable rate which is based on EURIBOR or PRIBOR plus an agreed margin and certain additional costs (as defined in the Senior Credit Facility Agreement). Fluctuations in EURIBOR or PRIBOR, changes in the adjusted total leverage of the EPE Group may increase our overall interest burden and could have a material adverse effect on our ability to service our debt obligations.

We may be able to incur substantial additional indebtedness in the future. Although the Indenture and the Senior Credit Facility Agreement contain restrictions on the incurrence of additional secured indebtedness, these restrictions are subject to a number of significant qualifications and exceptions, and under certain circumstances, the amount of indebtedness that could be incurred in compliance with those restrictions could be substantial. In addition, the Indenture and the Senior Credit Facility Agreement do not prevent us from incurring obligations that do not constitute indebtedness under those agreements, and the Indenture does not prevent us from incurring unsecured indebtedness. Moreover, some of the indebtedness we may incur in the future could be structurally senior to the Notes and may be secured by collateral that does not secure the Notes.

We are subject to restrictive debt covenants that may limit our ability to finance our future operations and capital needs and to pursue business opportunities and activities.

The Indenture governing the Notes includes covenants limiting our ability to:

- make investments or other restricted payments;
- transfer or sell Collateral;
- engage in transactions with affiliates;
- create liens on assets to secure indebtedness;
- impair security interests; and
- merge or consolidate with or into another company.

All these limitations will be subject to significant exceptions and qualifications. See "Description of material indebtedness—Senior Credit Facility." The covenants to which we are subject could limit our ability to finance our future operations and capital needs and our ability to pursue business opportunities and activities that may be in our interest.

Our failure to comply with the covenants under the Senior Credit Facility Agreement, the Indenture or under other agreements governing our indebtedness, including as a result of events beyond our control, could result in an event of default which could materially and adversely affect our financial condition, financial returns and results of operations.

Our ability to comply with the covenants and restrictions under the Senior Credit Facility Agreement, the Indenture and under other agreements governing our indebtedness may be affected by events beyond our control. These include prevailing economic, financial and industry conditions.

The Senior Credit Facility Agreement requires us to maintain certain financial ratios, as set out in the Senior Credit Facility Agreement. See "Description of material indebtedness—Senior Credit Facility." Our ability to meet these financial ratios could be affected by deterioration in our operating results, as well as by events beyond our control and we cannot assure you that we will be able to meet these ratios.

If an event of default occurs under Senior Credit Facility Agreement, the Indenture or any other of our debt instruments and is not cured or waived, borrowings under any other debt instruments that we have outstanding, including the Notes, that contain cross-acceleration or cross-default provisions may also be accelerated or become payable on demand, together with accrued and unpaid interest and other fees payable thereunder. Moreover, the Senior Credit Facility Agreement includes certain events of default (such as breach of representations and warranties and cross-defaults) that are in addition to the events of default set forth in the Indenture. In these circumstances, our assets and cash flow may not be sufficient to repay in full all of our indebtedness that has been accelerated, including the Notes then-outstanding, which could force us into bankruptcy or liquidation. We might not be able to repay our obligations under the Notes in such an event.

We require a significant amount of cash to service our debt and sustain our operations. Our ability to generate sufficient cash depends on many factors beyond our control.

Our ability to make payments on and to refinance our debt, to fund working capital, and to make capital expenditures, will depend on our future operating performance and ability to generate sufficient cash. This depends on the success of our business strategy and on general economic, financial, competitive, market, legislative, regulatory and other factors, as well as the other factors discussed in these “Risk factors,” many of which are beyond our control.

We cannot assure you that our business will generate sufficient cash flows from operations, that revenue growth, cost savings and operating improvements will be realized or that future debt and equity financing will be available to us in an amount sufficient to enable us to pay our debts when due, including the Notes, or to fund our other liquidity needs. See “Management’s discussion and analysis of financial condition and results of operations—Liquidity and capital resources of the EPE Group.”

In addition, the Indenture governing the Notes does not include covenants limiting our ability to distribute funds to our parent entity or its shareholders; any such distribution could further limit the cash available in the EPE Group to pay our debts when they become due, including the Notes.

If our future cash flows from operations and other capital resources (including borrowings under the Senior Credit Facility Agreement) are insufficient to pay our obligations as they mature or to fund our liquidity needs, we may be forced to:

• reduce or delay our business activities and any capital expenditures;

• sell assets;

• discontinue specified operations;

• obtain additional debt or equity capital; or

• restructure or refinance all or a portion of our debt, including the Notes, on or before maturity.

We cannot assure you that we would be able to accomplish any of these alternatives on a timely basis or on satisfactory terms, if at all. Any failure to make payments on the Notes on a timely basis would likely result in a reduction of our credit rating, which could also harm our ability to incur additional indebtedness. In addition, the terms of our debt, including the Notes and the Senior Credit Facility Agreement limit, and any future debt may limit, our ability to pursue any of these alternatives. Any refinancing of our debt could be at higher interest rates and may require us to comply with more onerous covenants, which could further restrict our business, financial condition and results of operations. There can be no assurance that any assets which we could be required to dispose of can be sold or that, if sold, the timing of such sale and the amount of proceeds realized from such sale will be acceptable.

Derivative transactions may expose us to unexpected risk and potential losses.

We are party to certain derivative transactions, such as interest rate and foreign exchange rate swap contracts and commodity derivative contracts, with financial institutions to hedge against certain financial and other risks. Changes in the fair value of these derivative financial instruments that are not cash flow hedges are reported in income, and accordingly could materially affect our reported income in any period. Moreover, in light of current economic uncertainty and potential for financial institution failures, we may be exposed to the risk that our counterparty in a derivative transaction may be unable to perform its obligations as a result of being placed in receivership or otherwise. In the event that a counterparty to a material derivative transaction is unable to perform its obligations thereunder, we may experience losses that could materially adversely affect our financial condition, financial returns and results of operations.

Additionally, we cannot guarantee that although we enter into derivative transactions to hedge against, for example, interest rate and commodity price risk, that we will be successful in hedging against all such risks.

The results of PT are fully consolidated in the financial statements of EPE, however EPE owns less than a 100% ownership interest.

As of July 1, 2012, PT’s financial results are fully consolidated in the consolidated income statement of the EPE Group, however, EPE owns only a 73.3% ownership interest in PT. The results of PT are fully consolidated, because the PT is a “subsidiary” of, and is controlled by, or it is controlled by, EPE. Because the results are fully consolidated, but EPE only owns a 73.3% interest, we have access to less than 100% of the EBITDA and net assets of PT. See Notes 38 and 6 to our financial statements for the year ended December 31, 2012.

Market perceptions concerning the instability of the euro, the potential re-introduction of individual currencies within the Eurozone, or the potential dissolution of the euro entirely could have adverse consequences for us with respect to our outstanding debt obligations, such as the Notes, that are euro-denominated.

As a result of the credit crisis in Europe, in particular in Greece, Italy, Ireland, Portugal and Spain, the European Commission created the European Financial Stability Facility (the "EFSF") and the European Financial Stability Mechanism (the "EFSM") to provide funding to Eurozone countries in financial difficulties that seek such support. In March 2011, the European Council agreed on the need for eurozone countries to establish a permanent stability mechanism, the European Stability Mechanism (the "ESM"), to be activated by mutual agreement and to assume the role of the EFSF and the EFSM in providing external financial assistance to Eurozone countries after June 2013. In December 2011, the European Council and each Eurozone country agreed to a package of measures designed to restore confidence and address the continued tensions in financial markets, including (i) bringing forward implementation of the ESM from June 2013 to as soon as Member States representing 90% of the capital commitments to the ESM have ratified the ESM Treaty, which occurred on September 27, 2012, and (ii) a new fiscal compact between all 17 Eurozone countries and, subject to parliamentary vote, all other non-eurozone countries (except the United Kingdom) to put deficit restrictions on Member State budgets, with associated sanctions for those Member States who violate the specified limits. Despite these measures, concerns persist regarding the debt burden of certain Eurozone countries (including, most recently, Cyprus) and their ability to meet future financial obligations, the overall stability of the euro and the suitability of the euro as a single currency given the diverse economic and political circumstances in individual Member States. These and other concerns could lead to the re-introduction of individual currencies in one or more Member States, or, in particularly dire circumstances, the possible dissolution of the euro entirely. Should the euro dissolve entirely, the legal and contractual consequences for holders of euro-denominated obligations and for parties subject to other contractual provisions referencing the euro such as supply contracts would be determined by laws in effect at such time. These potential developments, or market perceptions concerning these and related issues could have adverse consequences for us with respect to our outstanding debt obligations that are euro-denominated, such as the Notes, and, as we have a substantial amount of debt denominated in euro, our financial condition may be materially affected. Furthermore, the Senior Credit Facility Agreement and the Indenture contain, covenants restricting our and our subsidiaries' corporate activities. See "—We are subject to restrictive debt covenants that may limit our ability to finance our future operations and capital needs and to pursue business opportunities and activities." Certain of such covenants impose limitations based on euro amounts (e.g., the amount of additional indebtedness we or our subsidiaries may incur). As such, if the euro were to significantly decrease in value, the restrictions imposed by these covenants would become tighter, further restricting our ability to finance our operations and conduct our day-to-day business.

On March 25, 2013, the European Commission, European Central Bank and International Monetary Fund reached an agreement with the Cypriot Government on the key elements necessary to secure a €10 billion bailout. This agreement was supported by all Eurozone Member States. The terms of any financial bailout for Cyprus will require the country to adopt a series of measures, resulting in, inter alia, the closure of Laiki Bank, Cyprus' second-largest bank, with shareholders, bond holders and uninsured depositors (i.e. those holding deposits in excess of €100,000) losing most of their deposited capital (effectively "bailing-in" the bank), while the business (including most of the assets and obligations) of Laiki Bank will be transferred to the Bank of Cyprus; application of a 'haircut' of around 37.5% on uninsured deposits at the Bank of Cyprus, to be converted into shares of the Bank of Cyprus, with a further 27.5% of deposits to be held as a buffer which may or may not be converted into equity; an increase in the corporate tax rate from 10% to 12.5%; the imposition of temporary restrictions on the movement of capital deposited in Cyprus as of March 27, 2013; and the introduction of structural reforms, privatization of state assets and the shrinking of its banking industry to the EU average size by 2018. Although we do not maintain bank accounts with significant balances in Cyprus and we are in the process of merging our Cypriot holding companies into EPE, from time to time we engage in transactions in Cyprus and may be impacted by such measures or similar ones. For example, in 2012, we engaged in a one-off energy trading transaction in a nominal principal amount of more than €40 million with a counterparty with a Cypriot office. Such measures or similar ones could increase our counterparty risk, increase our tax exposure or subject us to other material adverse effects on the business, financial condition or prospects of the Group.

Risks related to the Notes and the Note Guarantees

Not all three of the major rating agencies have assigned ratings to the Notes.

Not all three of the ratings agencies have assigned ratings to the Notes. Under the Indenture, the Company is not contractually obligated to obtain a rating for the Notes from Moody's or S&P. We would expect that Moody's and S&P would consider a number of factors in determining ratings for the Notes, including our limited operating history, the relatively large number of historical and recent acquisitions that our group (including our parent) has made and potential future acquisitions by us and by our parent. While under our business model, we expect to continue to improve the performance and stability of our group over time, to the extent we were to solicit and receive a rating from Moody's and/or S&P at the current time, we expect that Moody's and/or S&P would be likely to assign sub-investment grade rating to the Notes.

Holders of the Notes may not control certain decisions regarding the Collateral.

The Collateral that will secure the obligations of the Company and the Guarantors under the Notes and the Note Guarantees have not been granted directly to the holders of the Notes but were granted only in favor of the Common Security Agent. The Intercreditor Agreement, the Indenture and the Security Documents provide that only the Common Security Agent has the right to enforce the Collateral. As a consequence, holders will not have direct security interests and will not be entitled to take enforcement action in respect of the Collateral.

The Intercreditor Agreement provides that the Common Security Agent may take enforcement action with respect to any of the Collateral only upon the instruction of an instructing group (as described below), the composition of which may change depending on the EPE Group's capital structure.

As a result of the voting provisions set forth in the Intercreditor Agreement, if creditors under the Senior Credit Facility Agreement and counterparties to certain hedging arrangements represent 40% or more of the aggregate amount of drawn and undrawn uncanceled commitments under the Senior Credit Facility Agreement plus the aggregate amount of debt outstanding under the Notes (the "Total Senior Secured Debt") they will have effective control of all decisions with respect to enforcement against the Collateral prior to the date that is 120 days following the acceleration of any liabilities under the Senior Credit Facility Agreement, the Notes or the Notes. During such period, subject to certain limited exceptions, the Common Security Agent will act with respect to enforcement against such Collateral only at the direction of the majority (66 2/3%) of certain secured creditors, which, for the purpose of instructing the Common Security Agent, includes creditors in respect of drawn and undrawn uncanceled commitments under such senior credit facility agreement and creditors in respect of certain hedging obligations, but does not include the holders of the Notes. If upon the expiry of such period, no enforcement action has been taken by the secured creditors entitled to give enforcement directions to the Common Security Agent, the Instructing Group will be a majority of the senior secured creditors.

In addition, the holders of the Notes will not be able to instruct the Common Security Agent, force a sale of Collateral or otherwise independently pursue the remedies of a secured creditor under the relevant Security Documents unless they comprise an instructing group, which, in turn, will depend on the quantum of the creditors in respect of the drawn and undrawn uncanceled commitments under the Senior Credit Facility Agreement and creditors in respect of certain hedging obligations and the quantum of the Notes voting in favor of any enforcement action.

Currently, creditors under the Senior Credit Facility Agreement and counterparties to certain hedging arrangements represent more than 40% of the Total Senior Secured Debt. The Intercreditor Agreement was entered into on November 29, 2012, prior to the first utilization of the Senior Credit Facility. The Senior Credit Facility includes additional restrictions on our ability to incur pari passu debt that may share in the Collateral or certain hedging obligations that would be permitted under the Indenture.

Disputes may occur between the holders of the Notes, creditors under the Senior Credit Facility Agreement and the hedging counterparties as to the appropriate manner of pursuing enforcement remedies and strategies with respect to the Collateral. In such an event, in situations described above where the holders of the Notes do not control enforcement, the holders of the Notes would be bound by any decisions of the creditors under the our other debt instruments, which may result in enforcement action, or absence thereof in respect of the Collateral, whether or not such action is approved by the holders of the Notes or may be adverse to such holders of the Notes. The creditors under the Senior Credit Facility Agreement and the hedging arrangements or other series of the notes may have interests that are different from the interests of holders of the Notes and such creditors may elect to pursue their remedies under the Security Documents at a time when it would otherwise be disadvantageous for the holders of the Notes to do so.

In addition, if the Common Security Agent sells Collateral comprising the shares of EPE or, if applicable, the shares of any of its subsidiaries as a result of an enforcement action in accordance with the Intercreditor Agreement, claims under the Notes, the Note Guarantees (together with claims under the Notes) and the liens over any other assets securing the Notes and the Note Guarantee may be released. See "Description of material indebtedness—Intercreditor Agreement."

The senior secured creditors have a limited period in which to respond to requests under the Intercreditor Agreement.

The Intercreditor Agreement provides that if in relation to a request for a consent, vote or other action, or a request to provide any confirmation or notification, under the Intercreditor Agreement, any senior secured creditor (including a holder of the Notes) fails to respond to that request within 30 Business Days (as defined in the Intercreditor Agreement) of that request being made or fails to provide details of its senior secured credit participation to the Common Security Agent within the timescale specified by the Common Security Agent, (i) that senior secured creditor's senior secured credit participation will be deemed to be zero for the purpose of calculating the senior secured credit participations when ascertaining whether any relevant percentage (including unanimity) of senior secured credit participations has been obtained to give that consent, carry that vote or approve that action, (ii) that senior secured creditor's status as a senior secured creditor will be disregarded for the purposes of ascertaining whether the agreement of any specified group of senior secured creditors has been obtained to give that consent, carry that vote or approve that action and (iii) in the case of a request for confirmation or notification, that confirmation or notification will be deemed to have been given. If holders of the Notes are unable to respond within the required timeframes, their ability to control or influence matters concerning their rights as holders of the Notes will be lost and such matters will be determined by other senior secured creditors which may have interests different from the holder of the Notes.

No appraisals of any of the Collateral have been prepared by us or on our behalf. The Notes are secured only to the extent of the value of the Collateral that has been granted as security for the Notes and/or the Note Guarantees, and such security may not be sufficient to satisfy the obligations under the Notes and the Note Guarantees.

Our obligations under the Notes and/or the Note Guarantees are secured only by the Collateral, which includes the following:

- the pledge by EPE and its Subsidiaries of the capital stock in each of PE, UE, EPET, EOP, CEH, PTHI, PT (50.07%), HI, NPTH, EBEH, JTSD, LIG, HC, MIBRAG and EP Renewables a.s., the holding company for EPE's renewables project companies;
- the pledge by EPH a.s. of 50% plus one share of the capital stock of EPE;
- the pledge by EPE and certain of the Guarantors of certain bank accounts and intragroup receivables and the enterprise as a whole of EPE;
- the pledge by EOP, PE, UE and EPET of certain trade receivables; and
- the pledge by EOP, PE and UE over substantially all of their remaining assets, including their enterprise as a whole, certain receivables for insurance proceeds and certain movable and immovable assets.

The Collateral granted under German law only secures the Note Guarantees of the relevant Guarantors granting the security interest over such Collateral.

No appraisals of any of the Collateral had been prepared by us or on our behalf. There is no guarantee that the value of the Collateral will be sufficient to enable the Company to satisfy its obligations under the Notes and the Note Guarantees. There is no requirement under the Indenture to provide funds to enhance the value of the Collateral if it is insufficient, though applicable law may provide otherwise. The proceeds of any sale of the Collateral following an event of default with respect to the Notes may not be sufficient to satisfy, and may be substantially less than, amounts due on the Notes.

The amount of proceeds realized upon the enforcement of the security interests over the Collateral or in the event of liquidation will depend upon many factors, including, among others, general market and economic conditions, the condition of the market for the Collateral, the ability to sell Collateral in an orderly sale, the fair value of the Collateral, the timing and manner of the sale, whether or not our business is sold as a going concern, the ability to readily liquidate the Collateral, the availability of buyers and the condition of the Collateral and exchange rates. Further, there may not be any buyer willing and able to purchase our business as a going concern, or willing to buy a significant portion of our assets in the event of an enforcement action.

By its nature, some or all the Collateral may not have a readily ascertainable market value or may not be saleable or, if saleable, there may be substantial delays in its disposal. To the extent that liens, security interests and other rights granted to other parties encumber assets owned by the Company or the Guarantors, those parties have or may exercise rights and remedies with respect to the property subject to their liens, security interests or other rights that could adversely affect the value of that Collateral and the ability of the Common Security Agent or investors as holders of the Notes to realize or enforce that Collateral. If the proceeds of any sale of Collateral are not sufficient to repay all amounts due on the Notes and the Note Guarantees, investors (to the extent not repaid from the proceeds of the sale of the Collateral) would have only an unsecured claim against the Company's and the Guarantors' remaining assets. Each of these factors or any challenge to the validity of the Collateral or the intercreditor arrangement governing our creditors' rights could reduce the proceeds realized upon enforcement of the Collateral. In addition, there can be no assurance that the Collateral could be sold in a timely manner, if at all.

Proceeds from enforcement sales of assets that are part of the Collateral will be applied on a *pari passu* basis in satisfaction of obligations obligations of the Company and/or the Guarantors under the Senior Credit Facility Agreement, certain obligations of the Company and/or the Guarantors to certain hedge counterparties, the obligations of the Company and/or the Guarantors under the Notes and other obligations permitted to be secured *pari passu* with the Notes. You may not be able to recover on the shares and other Collateral that are pledged or assigned because any enforcement sale with respect to such Collateral and the Notes will need to share any proceeds from such enforcement with the creditors under the Senior Credit Facility Agreement, the Notes and certain hedging counterparties as well as any other secured creditors permitted to share in such Collateral. If the proceeds realized from the enforcement of such pledges or such sale or sales do not exceed the amount owed by the relevant providers of Collateral under the Senior Credit Facility, certain hedging obligations, the Notes and such other secured debt, the creditors under such secured obligations which will all share ratably with respect to such amount and the holders of Notes will not fully recover (if at all) under such Collateral. In addition, the Indenture governing the Notes allows the incurrence of certain additional permitted debt in the future that is secured by the Collateral on a *pari passu* basis. The incurrence of any additional debt secured by the Collateral would reduce amounts payable to you from the proceeds of any sale of the Collateral.

To the extent that any other security interests permitted under the Senior Credit Facility Agreement or the Indenture, and other rights encumber the Collateral securing the Notes, those parties may have and may exercise rights and remedies with respect to the Collateral that could adversely affect the value of the Collateral and the ability of the Common Security Agent to realize, sell or foreclose (in each case in accordance with the Security Documents and the Intercreditor Agreement) on the Collateral.

The Company and the Guarantors have control over the Collateral securing the Notes, and the sale of particular assets could reduce the pool of assets securing the Notes.

The Security Documents, subject to the terms of the Senior Credit Facility Agreement and the Indenture, allow the Company and the Guarantors to remain in possession of, retain control over, freely operate, and collect, invest and dispose of any income from the Collateral securing the Notes. So long as no default or event of default under the Senior Credit Facility Agreement or the Indenture is occurring or would result therefrom, the Company and the Guarantors may, among other things, without any release or consent by the Common Security Agent, conduct ordinary course activities with respect to the Collateral, such as selling or otherwise disposing of Collateral and making ordinary course cash payments, including repayments of indebtedness.

Not all assets are included in the Collateral.

There are assets in the EPE Group, which do not make up part of the Collateral, including assets related to our renewables business, assets of MIBRAG, assets of PT and our interest in the Schkopau power plant (through Saale Energie). All or part of the Collateral may be released without the consent of holders of the Notes under certain circumstances, see "—Risks related to our structure—There are circumstances other than repayment or discharge of the Notes under which the Collateral securing the Note Guarantees will be released automatically and under which the Note Guarantees will be released automatically, without your consent or any action on the part of the Trustee." If an event of default occurs and the Notes are accelerated, the Notes will rank equally with the holders of other unsubordinated and unsecured indebtedness with respect to any assets that do not make up part of the Collateral. To the extent the claims of holders of the Notes exceed the value of the assets securing the Notes and other liabilities, claims related to any assets that do not make up a part of the Collateral will rank equally with the claims of the holders of any other unsecured indebtedness. As a result, if the value of the assets pledged as security for the Notes is less than the value of the claims of the holders of the Notes together with any claims of the holders of any indebtedness secured on a senior basis to the Notes or a *pari passu* basis with the Notes, including the Senior Credit Facility, those claims may not be satisfied in full before our unsecured creditors are permitted to make claims against the EPE Group assets that do not make up part of the Collateral (such claims generally ranking equally with those of the holders of the Notes and other unsecured creditors).

It may be difficult to realize the value of the Collateral securing the Notes.

The Collateral securing the Notes is subject to any and all exceptions, defects, encumbrances, liens, security interests and other imperfections permitted under the Indenture or the Senior Credit Facility Agreement and accepted by other creditors that have the benefit of *pari passu* security interests in the Collateral securing the Notes from time to time pursuant to the provisions of the Intercreditor Agreement, whether on or after the date the Notes are first issued. The existence of any such exceptions, defects, encumbrances, liens, security interests and other imperfections could adversely affect the value of the Collateral securing the Notes, as well as the ability of the Common Security Agent to realize or foreclose on such Collateral. Furthermore, the ranking of security interests can be affected by a variety of factors, including, among others, the timely satisfaction of perfection requirements, or statutory liens.

The security interests of the Common Security Agent will be subject to practical problems generally associated with the realization of security interests over property such as the Collateral. For example, the Common Security Agent may need to obtain the consent of a third party, including in some cases certain regulatory consents, to enforce a security interest. We cannot assure you that the Common Security Agent will be able to obtain any such consents. We also cannot assure you that the consents of any third parties will be given when required to facilitate a foreclosure on such assets. In particular, a third party has a right of first refusal over the shares that we own in PT if we plan to dispose of those shares, including through an enforcement action against the shares. Accordingly, the Common Security Agent may not have the ability to foreclose upon those assets, the value of the Collateral may significantly decrease and in any enforcement action, the Collateral would have to be offered first to such party, which could cause delays in the enforcement process or lead to a less competitive bidding process for such assets and thus a lower level of recovery therefrom.

The security interests in the Collateral will be granted to the Common Security Agent rather than directly to the holders of the Notes. The ability of the Common Security Agent to enforce certain of the Collateral may be restricted by local law.

The security interests in the Collateral that secure the obligations of the Company under the Notes and/or the obligations of the Guarantors under the Note Guarantees and provide the obligations of the Guarantors under the Note Guarantees have not been granted directly to the holders of the Notes but were granted only in favor of the Common Security Agent. The Indenture and the Intercreditor Agreement provide that only the Common Security Agent has the right to enforce the Security Documents. As a consequence, holders of the Notes do not have direct security interests and are not entitled to take enforcement action in respect of the Collateral securing the Notes, except through the relevant Trustee, who will (subject to the provisions of the Indenture) provide instructions to the Common Security Agent in respect of the Collateral.

In addition, the ability of the Common Security Agent to enforce the security interests in the Collateral is subject to mandatory provisions of the laws of each jurisdiction in which security interests over the Collateral are taken. For example, the laws of certain jurisdictions may not allow for an appropriation of certain pledged assets, but require a sale through a public auction and certain waiting periods may apply. There is some uncertainty under the laws of certain jurisdictions as to whether obligations to beneficial owners of the Notes that are not identified as registered holders in a Security Document will be validly secured.

In certain jurisdictions, including, among others, the Czech Republic, Germany and the Netherlands, due to the laws and other jurisprudence governing the creation and perfection of security interests and enforceability of such security interests, the respective Collateral will secure a so-called “parallel debt” obligation (the “Parallel Debt Obligation”) created under the Intercreditor Agreement and/or the Indenture in favor of the Common Security Agent as well as, or in lieu of, securing the obligations under the Notes directly. This parallel debt structure is used where certain jurisdictions have legal requirements relating to the creation and ongoing valid existence of security interests which are linked with the original secured claims and where certain actions under the finance documents, such as novation, may cause invalidity of the security interests under local law. The parallel debt is in the same amount and payable at the same time as the obligations of the Company and the Guarantors under the Notes and the Guarantees (the “Principal Obligations”), and any payment in respect of the Principal Obligations will discharge the corresponding parallel debt and any payment in respect of the parallel debt will discharge the corresponding Principal Obligations. Although the Common Security Agent will have, pursuant to the parallel debt, a claim against the Company and the Guarantors (subject to applicable limitation language) for the full principal amount of the Notes, the parallel debt structure has not been tested in court in these jurisdictions and there is no judicial guidance as to its efficacy. Therefore, the ability of the Common Security Agent to enforce the Collateral may be restricted. In addition, holders of the Notes bear some risk associated with a possible insolvency or bankruptcy of the Common Security Agent.

The granting of the security interests in connection with the incurrence of permitted debt in the future may create or restart hardening periods for such security interests in accordance with the laws applicable in certain jurisdictions.

The granting of security interests to secure the Notes and the Note Guarantees may be subject to applicable hardening periods for such security interests in certain jurisdictions (including the Czech Republic). The granting of shared security interests to secure future permitted debt may restart or reopen such hardening periods, in particular, as the Indenture permits the release and retaking of security granted in favor of the Notes in certain circumstances including in connection with the incurrence of future debt. The applicable hardening period for these new security interests can run from the moment each new security interest has been granted or perfected. At each time, if the security interest granted or recreated were to be enforced before the end of the respective hardening period applicable in such jurisdiction, it may be declared void or ineffective and/or it may not be possible to enforce it.

The same rights also apply in connection with the accession of additional Guarantors and the granting of security interest over their relevant assets and equity interests for the benefit of holders of the Notes.

The Collateral is subject to casualty risks.

We intend to continue to maintain insurance or otherwise insure against hazards in the manner described in this Report. There are, however, certain losses that may be either uninsurable or not economically insurable, in whole or in part. Insurance proceeds may not compensate us fully for our losses. If there is a complete or partial loss of any of the Collateral, the insurance proceeds may not be sufficient to satisfy all of the secured obligations, including the Notes and the Note Guarantees. In addition, even if there is sufficient insurance coverage, if there is a total or partial loss of certain Collateral, there may be significant delays in obtaining replacement Collateral.

Certain of the Collateral may require perfection prior to the claims of the holders of the Notes being secured.

Certain types of security, including, but not limited to, enterprise pledges, pledges of moveable property and mortgages by the Company and the Guarantors established in the Czech Republic, may require registration by the respective state authorities in the relevant jurisdictions. For example, for enterprise pledges and pledges of moveable property in the Czech Republic, this entails the drafting of a notarial deed and the registration of the security by a notary public in the pledge register (*rejstřík zástav)*, whereas mortgages need to be registered with the respective cadastral office in the cadastral register (*katastr nemovitosti*). Because mortgages are registered with different cadastral offices depending on the location of the mortgaged property and because the efficiency, level of required formalism and response time may vary significantly among the cadastral offices, perfection of a certain mortgage or mortgages may be delayed by up to several weeks. This delay could have an adverse effect on the perfection of security which would have an effect on the secured claims of holders of the Notes.

Risks related to our structure

The Company is a holding company with no independent operations and will depend on receiving payments or distributions from its subsidiaries to meet its obligations under the Notes.

The Company is a holding company that conducts substantially all of its operations through its direct and indirect subsidiaries. Consequently, the Company has no material, independent operations and derives substantially all of its consolidated revenues from its direct and indirect operating subsidiaries. As a result, its ability to meet its debt service obligations, including its obligations under the Notes, depends upon its subsidiaries' cash flow and earnings and payment of funds to it by its subsidiaries in the form of dividends, loans, advances or other payments, as well as its own credit arrangements. In addition, since some of the Guarantors are also holding companies, such as JTSD, EBEH, LIG, HC, HI, PTHI and CEH, the ability of these Guarantors to make payments on their guarantees will be dependent on the same factors. Applicable laws and regulations and the terms of other agreements to which our subsidiaries may be or become subject could restrict the ability of our subsidiaries to provide funds to us.

Under German law, subsidiaries that are organized in the form of German limited liability companies (GmbH) or limited partnerships with a limited liability company as general partner (GmbH & Co KG) are prohibited from making payments (or granting other financial advantages) to their direct and indirect shareholders (or to subsidiaries of such shareholders that are not, at the same time, subsidiaries of such GmbH or GmbH & Co KG) unless such payments are made out of the company's "free" net assets, i.e. such payments must not cause the company's (or, in the case of a GmbH & Co KG, its general partner's) net assets (assets minus liabilities) to fall below the amount of the company's (or, in the case of a GmbH & Co KG, its general partner's) registered share capital (*Stammkapital*). They are also prohibited from distributing profits which are not available for distribution pursuant to section 268 paragraph (8) of the German Commercial Code (*Handelsgesetzbuch*). If applicable, this would mean that the Company or a Guarantor, as applicable, would be unable to use the earnings of these subsidiaries to the extent they face restrictions in Germany on distributing funds to the Company or such subsidiary Guarantor. According to case law of the German Federal Supreme Court, the ability of a limited liability company to make payments to its direct or indirect shareholders is also limited where the granting of benefits to shareholders would deprive the company of the liquidity or assets necessary to properly meet its obligations towards third parties (so-called "insolvency-causing interference" (*existenzvernichtender Eingriff*)).

Further, under Czech law, there are risks related to the grant of any guarantees provided by the Czech Guarantors and any future Czech Guarantors. Concepts such as corporate benefit and sufficient asset coverage, among others, may restrict the validity enforceability and scope of such guarantees.

In addition and more generally, each form of upstream payment by a subsidiary (including, but not limited to, dividend distributions) is also subject to additional restrictions and requirements set forth by law applicable to such type of upstream payment.

In addition to any legal restrictions, any failure to comply with the covenants and restrictions contained in our agreements could trigger defaults under those agreements, which could delay or preclude the distribution of dividend payments or other similar payments to the Company. Although the Indenture limits the ability of the Company's subsidiaries (including the Guarantors) to enter into future consensual restrictions on their ability to pay dividends and make other payments to the Company, there are significant qualifications and exceptions to these limitations. As a result, we might not have access to the assets or cash flows of our subsidiaries. In addition, the subsidiaries of the Company that do not guarantee the Notes have no obligation to make payments with respect to the Notes.

If our subsidiaries do not distribute cash to the Company (either through dividends, loans, advances or other payments) to make scheduled payments on the Notes, unless the Company obtains other sources of financing, the Company will not have any other source of funds that would allow it to make payments to the holders of the Notes.

The Notes are structurally subordinated to the liabilities of non-Guarantor subsidiaries, and the Notes are not guaranteed by all the Company's subsidiaries.

Certain of our subsidiaries do not guarantee the Notes, including PT, MIBRAG and none of the subsidiaries in our Renewables line of business. We estimate that the Guarantors account for less than half of EPE's consolidated EBITDA for the year ended December 31, 2012 on a pro forma basis. The Note Guarantees are limited. See "—The Notes and the Note Guarantees will be subject to certain limitations on enforcement and may be limited by applicable laws or subject to certain defenses that may limit their validity and enforceability."

In addition, under various circumstances, the Note Guarantees may be released, see "—There are circumstances other than repayment or discharge of the Notes under which the Collateral securing the Note Guarantees will be released automatically and under which the Note Guarantees will be released automatically, without your consent or any action on the part of the Trustee." Our operating subsidiaries are separate and distinct legal entities and those of our subsidiaries that do not guarantee the Notes have no obligation, contingent or otherwise, to pay any amounts due pursuant to the Notes or to make any funds available therefore, whether by dividends, loans, distributions or other payments. Generally, holders of indebtedness of, and trade creditors of, non-Guarantor subsidiaries, are entitled to payments of their claims from the assets of such companies before these assets are made available for distribution to any Guarantor, as a direct or indirect shareholder.

Accordingly, in the event that any non-Guarantor subsidiary becomes insolvent, is liquidated, reorganized or dissolved or is otherwise wound-up other than as part of a solvent transaction:

- the creditors of the Company (including the holders of the Notes) and the Guarantors will have no right to proceed against the assets of such subsidiary; and
- creditors of such non-Guarantor subsidiary, including trade creditors, will generally be entitled to payment in full from the sale or other disposal of the assets of such company before any Guarantor, as a direct or indirect shareholder, will be entitled to receive any distributions from such subsidiary.

As such, the Notes and each Note Guarantee are structurally subordinated to the creditors (including trade creditors) and any preferred stockholders of any non-Guarantor subsidiaries.

The interests of our controlling shareholders may differ from the interests of the holders of the Notes.

The Company is 100% owned by Energetický a průmyslový holding, a.s. ("EPH"), which in turn is beneficially owned by the Shareholder Group. The Shareholder Group consists of Timeworth Limited (44.44%), which is controlled by the PPF Group N.V., which is in turn controlled by Mr. Petr Kellner, Milees Limited (18.52%), which is controlled by Mr. Patrik Tkáč, Biques Limited (18.52%), which is in turn owned by private individuals, none of whom owns individually more than a 20% stake in Biques Limited and Mackarel Limited (18.52%) which is controlled by Daniel Křetínský, our Chairman. Milees Limited and Biques Limited have formed partnerships with J&T Group, on the basis of which J&T Group participates in the beneficial ownership of their combined 37.04% interest in EPH, conferring on J&T Group, however, no rights of control. As a result, each member of our Shareholder Group is able to exercise significant influence over our corporate actions. The interests of our Shareholder Group may differ from yours in material respects. For example, if we encounter financial difficulties or are unable to pay our debts as they mature, the interests of Shareholder Group may be in pursuing acquisitions, divestitures, financings or other transactions that, in their judgment, could enhance their equity investment, even though such transactions might involve risks to you as a holder of Notes. In addition, EPH and our Shareholder Group may pursue significant investment opportunities, which they may seek to finance by extracting cash from the EPE Group through dividends or loans. The Shareholder Group has no contract obligations to fund our business and may not have sufficient liquidity to fund our business if we require additional funding. Additionally, the Indenture permits us to pay advisory fees, dividends or make other payments to the Shareholder Group and its affiliates, and the Shareholder Group may have an interest in our doing so. Members of our management team or board may also hold interests in our Parent and other affiliated companies. Further, Daniel Křetínský, the EPE Group Chairman and the CEO and Chairman of the Board of Directors of EPH (and a member of the Shareholder Group), has the sole power to appoint the Management Board of EPE, which may exacerbate the risks mentioned above given the level of control that one of our shareholders has over the day to day operations of the EPE Group.

Additionally, the Shareholder Group and their affiliates are in the business of making investments in companies and may from time to time acquire and hold interests in businesses that compete directly and indirectly with us, or with which we conduct business. Our Shareholder Group and their affiliates may also pursue acquisition opportunities that may be complementary to our business and, as a result, those acquisition opportunities may not be available to us. For example, under an agreement between EPH and an interested party (the "Interested Party") under certain circumstances EPH is required to offer for sale certain assets of one of our subsidiaries (the "Seller Subsidiary") to the Interested Party. If the Seller Subsidiary does not sell the assets or equivalent assets to the Interested Party, EPH is required to pay a fee instead of approximately CZK 200 million. In this case, the interests of EPH and the EPE Group differ as EPH has the sole decision-making ability to either choose an option that requires them to expend funds directly or choose an option that requires its subsidiary to sell assets. You should consider that the interests of these holders may differ from yours in material respects and understand that in the event of a conflict of interest between you and the Shareholder Group, their actions could affect our ability to meet our payment obligations to you. See “Principal shareholders” and “Certain relationships and related party transactions.”

Our potential acquisitions are subject to uncertainties and risks.

In this Report, we discuss several potential acquisitions, including the potential acquisition of a substantial minority interest in a power distribution and supply company operating in one of the countries in which we have existing operations. These potential acquisitions are at various stages. There can be no assurance that we will reach agreement with all or any of the counterparties in such transactions, and even if an agreement is reached, that we will consummate the acquisitions. In some cases, we have yet to conduct due diligence. Moreover, the timing of these potential transactions is uncertain, and it is possible that as our negotiations progress, agreements with respect to these transactions could be reached at any time, including in the very short term.

We may not be able to obtain the funds required to finance a change of control offer required by the Indenture and, if this occurs, we would be in default under the Indenture.

The Indenture contains provisions relating to certain events constituting a “change of control.” Upon the occurrence of a change of control accompanied by a ratings decline, we are required to offer to repurchase all outstanding Notes at a price equal to 101% of their principal amount, plus accrued and unpaid interest and Additional Amounts (as defined in the Indenture), if any, to the date of repurchase. If a change of control were to occur, we cannot assure you that we would have sufficient funds available at such time, or that we would have sufficient funds to provide to the Company to pay the purchase price of the outstanding Notes or that the restrictions in the Senior Credit Facility Agreement, the Indenture, the Intercreditor Agreement or our other then-existing contractual obligations would allow us to make such required repurchases. A change of control may result in an event of default under, or acceleration of our other indebtedness. The repurchase of the Notes pursuant to such an offer could cause a default under such indebtedness, even if the change of control itself does not. The ability of the Company to receive cash from its subsidiaries to allow it to pay cash to the holders of the Notes following the occurrence of a change of control triggering event may be limited by our then-existing financial resources. Sufficient funds may not be available when necessary to make any required repurchases. If an event constituting a change of control occurs at a time when the EPE Group is prohibited from providing funds to the Company for the purpose of repurchasing the Notes, we may seek the consent of the lenders under such indebtedness to the purchase of the Notes or may attempt to refinance the borrowings that contain such prohibition. If such a consent to repay such borrowings is not obtained, the Company will remain prohibited from repurchasing any Notes. In addition, we expect that we would require third-party financing to make an offer to repurchase the Notes upon a change of control. We cannot assure you that the EPE Group would be able to obtain such financing. Any failure by the Company to offer to purchase the Notes would constitute a default under the Indenture, and to the extent the Trustee becomes entitled to declare the Notes, as applicable, as being due and payable, it would constitute an event of default under the Senior Credit Facility Agreement.

The change of control provisions contained in the Indenture may not necessarily afford you protection in the event of highly leveraged transactions and other important corporate events, including a reorganization, restructuring, merger or other similar transaction involving us that may adversely affect you, because such corporate events may not involve a shift in voting power or beneficial ownership or, even if they do, may not constitute a “change of control” as defined in the Indenture or may not result in a ratings decline. Except as described in the Indenture, the Indenture does not contain provisions that would require the Company to offer to repurchase or redeem the relevant Notes in the event of a reorganization, restructuring, merger, recapitalization or similar transaction.

The definition of “Change of Control” in the Indenture includes a disposition of all or substantially all the assets of the Company and its subsidiaries, taken as a whole, to any person. Although there is a limited body of case law interpreting the phrase “all or substantially all,” there is no definition of the phrase under applicable law. Accordingly, in certain circumstances, there may be a degree of uncertainty as to whether a particular transaction would involve a disposition of “all or substantially all” of the Company’s assets and its restricted subsidiaries taken as a whole. As a result, it may be unclear as to whether a change of control has occurred and whether the Company is required to make an offer to repurchase the Notes.

Investors may not be able to recover in civil proceedings for U.S. securities law violations.

The Company and the Guarantors and their respective subsidiaries are organized outside the United States, their business is conducted, and all assets of the Company and the Guarantors are located, entirely outside the United States. The directors and executive officers of the Company and the Guarantors are not residents of the United States. Although the Company and the Guarantors have submitted to the jurisdiction of certain New York courts in connection with any action under U.S. securities laws or under the Indenture, you may be unable to effect service of process within the United States on the directors and executive officers of the Company and the Guarantors. In addition, because all the assets of the Company and the Guarantors and their respective subsidiaries and all or a majority of the assets of their directors and executive officers are located outside of the United States, you may be unable to enforce against them judgments obtained in the U.S. courts.

Furthermore, we have been advised by our Czech counsel that the United States and the Czech Republic do not presently have a treaty providing for reciprocal recognition and enforcement of judgments, other than arbitral awards, in civil and commercial matters in the Czech Republic, nor has the Czech Ministry of Foreign Affairs declared that reciprocity has been established with the United States in practice. Therefore, judgments rendered by U.S. courts are not currently recognized and enforceable in the Czech Republic. Even if reciprocity is established in the future, judgment obtained in a U.S. court based on civil liabilities, whether or not predicated solely upon the U.S. federal securities laws, will not be recognized and enforced in Czech courts if, among other things:

- the matter falls within the exclusive jurisdiction of the courts of the Czech Republic or goes beyond the competence of any Czech judicial proceedings;
- a Czech court has issued or recognized a final judgment in the same matter or proceedings regarding the same matter are pending before a Czech court;
- the U.S. court has deprived the party against whom the judgment was entered of an opportunity to participate in the proceedings before such U.S. court; or
- the recognition of the U.S. judgment would be contrary to the public policy (*veřejný pořádek*) of the Czech Republic.

The recognition and enforcement in Czech courts of judgments rendered by English and other courts in EU Member States will be subject to similar conditions (except for the need for reciprocity).

Czech and German insolvency laws and other jurisdictions may provide you with less protection than U.S. bankruptcy law.

The Company is incorporated under the laws of the Czech Republic and the Guarantors are incorporated under the laws of the Czech Republic, Germany, Cyprus and the Netherlands. The insolvency laws of foreign jurisdictions may not be as favorable to your interests as the laws of the United States or other jurisdictions with which you are familiar, including in respect of priority of creditors, the ability to obtain post-petition interest and the duration of the insolvency proceedings, and thus may limit your ability to recover payments due on the Notes to an extent exceeding the limitations arising under other insolvency laws. In the event that any one or more of the Company or the Guarantors or any other of the Company's subsidiaries experienced financial difficulty, it is not possible to predict with certainty in which jurisdiction or jurisdictions insolvency or similar proceedings would be commenced, or the outcome of such proceedings. The insolvency and other laws of different jurisdictions may be materially different from, or in conflict with, each other, including in the areas of rights of secured and other creditors, the ability to void preferential transfer, priority of governmental and other creditors, the ability to obtain post-petition interest and the duration of the proceeding. The application of these laws, or any conflict among them, could call into question whether any particular jurisdiction's laws should apply, adversely affect your ability to enforce your rights under the Note Guarantees or the Collateral in these jurisdictions and limit any amounts that you may receive.

The Notes and the Note Guarantees will be subject to certain limitations on enforcement and may be limited by applicable laws or subject to certain defenses that may limit their validity and enforceability.

The Note Guarantees and the Collateral may be voidable by the relevant Guarantors or the relevant grantor of Collateral or by an insolvency trustee, liquidator, receiver or administrator or by other creditors, or may be otherwise set aside by a court, if certain events or circumstances exist or occur, including, among others, if the grantor is deemed to be insolvent at the time of the grant, or if the grant permits the secured parties to receive a greater recovery than if the grant had not been given and an insolvency proceeding in respect of the grantor is commenced within a legally specified "clawback" period following the grant. At each time, if the Note Guarantee or Collateral granted, perfected or recreated were to be enforced before the end of the respective clawback period applicable in such jurisdiction, it may be declared void. To the extent that the issuance of any Note Guarantee or the creation of the Collateral is voided, holders of the Notes, the Trustee and the Common Security Agent would lose the benefit of such Note Guarantee or Collateral and would be creditors solely of the Company and any remaining Guarantors and would therefore benefit only from any remaining Collateral. The holders of the Notes, the Trustee or the Common Security Agent may also be required to repay any amounts received with respect to such Note Guarantee or such Collateral.

In order to effectively secure future indebtedness, including additional Notes, that is permitted by the Intercreditor Agreement and the Indenture to share in the Collateral, it may be necessary in some or all jurisdictions to create additional, second-ranking security over the Collateral at the time such indebtedness is incurred. Any such new security as well as any security interests for future Indebtedness arising under the existing security documents over the Collateral will likely be subject to new clawback periods and, consequently, to potential insolvency challenges as The Intercreditor Agreement provides that any proceeds from the enforcement of Collateral will be distributed on a pro rata basis among the holders of the Notes, the lenders under the Senior Credit Facility Agreement, certain hedge counterparties and the holders of any future indebtedness that share in the Collateral and subsequently become subject to the Intercreditor Agreement; provided, a successful challenge of any ranking of security or any security interest could reduce the amount of enforcement proceeds available for distribution to the secured creditors under the Intercreditor Agreement, including the holders of the Notes. The same applies to new guarantees and guarantee obligations arising for future indebtedness under the Note Guarantees.

In addition, in case the Company issues additional Notes with the same securities identification numbers as the initial Notes issued on October 31, 2012, an insolvency administrator may seek to challenge the enforceability of Collateral and Note Guarantees securing both the additional Notes and the initial Notes previously issued even if the hardening period with respect to the Collateral and Note Guarantees securing the initial Notes has expired, based on the fact that the initial Notes and the additional Notes are fungible and not distinguishable. Any such successful challenge would further reduce the proceeds available to holders of the Notes.

Fraudulent conveyance laws and other limitations on the enforceability and the amount of the Note Guarantees and the Collateral may adversely affect their validity and enforceability.

The Note Guarantees and the Collateral may be subject to claims or could be limited or subordinated in favor of the relevant Guarantor's or relevant Collateral grantor's existing and future creditors under applicable laws. In addition, enforcement of each Note Guarantee will be limited to the extent of the amount which can be guaranteed by a particular guarantor without rendering the guarantee voidable or otherwise ineffective under, or contrary to, applicable law and enforcement of the Collateral will be limited to the extent of the amount which can be secured by a particular security grantor without rendering the security interest voidable or otherwise ineffective under, or contrary to, applicable law. Enforcement of any of the Note Guarantees or the Collateral against any Guarantor and any grantor of Collateral will also be subject to certain defenses available to guarantors and grantors of security interests generally. These laws and defenses include, primarily with respect to the Guarantors, those that relate to fraudulent conveyance or transfer, insolvency, voidable preference, financial assistance, corporate purpose or benefit, preservation of share capital, thin capitalization and defenses affecting the rights of creditors generally.

Although laws differ among various jurisdictions, in general, under fraudulent conveyance and other laws, a court could subordinate or void guarantees or security interests and, if payment had already been made under a guarantee or security interest, require that the recipient return the payment to the relevant Guarantor or security grantor, if the court found that:

- the relevant guarantee or grant of security was held to exceed the corporate objects of the Guarantor or security grantor not to be in the best interests or for the corporate benefit of the Guarantor or security grantor;
- the amount paid or payable under the relevant guarantee or security grant was in excess of the maximum amount permitted under applicable law;
- the Guarantor did not receive fair consideration or reasonably equivalent value for the relevant guarantee or security grant and the Guarantor was: (i) insolvent or rendered insolvent because of the relevant guarantee or security grant; (ii) undercapitalized or became undercapitalized because of the relevant guarantee or security grant; or (iii) intended to incur, or believed that it would incur, indebtedness beyond its ability to pay at maturity; or
- the relevant guarantee was incurred or the security interest was granted with actual intent to hinder, delay or defraud creditors or shareholders of the Guarantor or security grantor or, in certain jurisdictions, even when the recipient was simply aware that the Guarantor or security grantor was insolvent when it granted the relevant guarantee.

In an insolvency proceeding, it is possible that creditors of the Guarantor or an appointed insolvency administrator may challenge the Note Guarantees and security interests as fraudulent transfers or conveyances or on other grounds. In certain situations the relevant bankruptcy court may also act ex officio and declare the Note Guarantees or security interests to be ineffective, unenforceable or void. If so, such laws may permit the court, if it makes certain findings, to:

- void or invalidate all or a portion of a Guarantor's obligations under its Note Guarantee or security interests provided by such Guarantor;
- direct that holders of the Notes return any amounts paid under a Note Guarantee or any Security Document to the relevant Guarantor or to a fund for the benefit of the relevant Guarantor's creditors; or
- take other action that is detrimental to holders of the Notes.

Different jurisdictions evaluate insolvency on various criteria. Generally, however a Guarantor or security grantor would be considered insolvent if at the time it incurred indebtedness:

- the sum of its debts, including contingent liabilities, is greater than the fair value of all its assets;
- the present fair saleable value of its assets is less than the amount required to pay the probable liability on its existing debts and liabilities, including contingent liabilities, as they become due; or
- it cannot pay its debts as they become due.

If a court determined that a Guarantor was insolvent as of the date the Note Guarantees were issued or security interests were created or found that the issuance of the Notes or a Guarantee of the Notes was a fraudulent conveyance or held it ineffective or unenforceable for any other reason, the court could hold that the payment obligations under the Notes or such Note Guarantee are ineffective, or require the holders of the Notes to repay any amounts received with respect to the Notes or such Note Guarantee. In the event of a finding that a fraudulent conveyance occurred, you may cease to have any claim in respect of the relevant Guarantor and would be a creditor solely of the Company and, if applicable, of the other Guarantors under any guarantees which have not been declared void.

Additionally, any future pledge of Collateral in favor of the Common Security Agent, might be avoidable by the pledgor (as debtor-in-possession) or by its trustee in bankruptcy if certain events or circumstances exist or occur, including, among others, if the pledgor is insolvent at the time of the pledge, the pledge permits the holders of the Notes to receive a greater recovery than if the pledge had not been given and a bankruptcy proceeding in respect of the pledgor is commenced within a certain period of time specified in each jurisdiction following the pledge, or in certain circumstances, a longer period.

In addition, under the terms of the Indenture, we are permitted in the future to incur additional indebtedness and other obligations that may share in the liens on the Collateral securing the Notes and the liens on the Collateral securing our other secured debt. The granting of new security interests may require the releasing and retaking of security or otherwise create new hardening periods in certain jurisdictions. The applicable hardening period for these new security interests will run from the moment each new security interest has been granted or perfected. At each time, if the security interest granted or recreated were to be enforced before the end of the respective hardening period applicable in such jurisdiction, it may be declared void or ineffective or it may not be possible to enforce it. Further, certain security documents governing security interests granted by the Guarantors will provide that the amounts guaranteed by such security interests will be limited to the extent of the amount guaranteed by such Guarantor. Therefore, limitations in the guarantees will also serve to limit the amounts guaranteed by the pledges of Collateral.

Further, the Note Guarantees and the Collateral, or the enforcement thereof, will be subject to certain contractual or other limitations or subordinated under Czech, German or other applicable law. The enforcement of the Note Guarantees and the Collateral will be limited to the extent that the granting of such Note Guarantees and the Collateral is not in the corporate interest of the relevant guarantor or provider of security, would be in breach of capital maintenance or thin capitalization rules or any other general statutory laws or that the burden of such Note Guarantee or Collateral securing the Notes and the Note Guarantees exceed the benefit to the relevant guarantor or provider of security. In particular, contractual limits may be applicable to certain Note Guarantees or Collateral to the extent the granting of such Note Guarantee or enforcement of relevant Collateral would result in a breach of capital maintenance rules or other statutory laws or would cause the directors of any Guarantor or provider of Collateral to contravene their duties to incur civil or criminal liability or to contravene any legal prohibition.

There are circumstances other than repayment or discharge of the Notes under which the Collateral securing the Note Guarantees will be released automatically and under which the Note Guarantees will be released automatically, without your consent or any action on the part of the Trustee.

Under various circumstances, Collateral securing the Note Guarantees will be released automatically, including the following:

- upon release of a Note Guarantee (with respect to the liens securing the Notes and such Note Guarantee granted by such Guarantor and the liens securing the capital stock of such Guarantor);
- subject to certain conditions, in connection with any disposition of Collateral, other than to the Company or any of its subsidiaries, permitted by the Indenture;
- in connection with certain enforcement actions taken by the creditors under certain of our secured indebtedness as provided under the Intercreditor Agreement;
- in connection with any disposition of a Guarantor or any of its subsidiaries permitted by the Indenture, other than to the Company or any of its subsidiaries, the release of the assets of such Guarantor or subsidiary and pursuant to which any applicable Note Guarantee is released, the release of the assets of such Guarantor or subsidiary;

- as may be permitted by the Indenture provisions relating to the release and retake of liens;
- upon legal defeasance, covenant defeasance or discharge of the Indenture;
- as may be permitted by the Indenture provisions relating to amendments, supplements and waivers; and
- as may be permitted by the Indenture provisions relating to the restrictions of negative pledges.

In addition, under various circumstances, the Note Guarantees will be released automatically, including the following:

- in the case of a Note Guarantee of a Guarantor, a sale or other disposition (including by way of consolidation or merger) of capital stock of the relevant Guarantor or of a parent thereof, such that such Guarantor ceases to be a subsidiary, or the sale or disposition of all or substantially all the assets of the relevant Guarantor (other than to the Company or a subsidiary), in each case in a transaction otherwise permitted by the Indenture;
- defeasance or discharge of the Notes;
- in connection with certain enforcement actions taken by the creditors under certain of our secured indebtedness as provided under the Intercreditor Agreement;
- as may be permitted by the Indenture provisions relating to additional guarantees; and
- as may be permitted by the Indenture provisions relating to mergers, consolidation, and sales of assets.

Enforcement of the Note Guarantees and the Collateral across multiple jurisdictions may be difficult.

The Notes were issued by the Company, which is incorporated under the laws of the Czech Republic, and guaranteed by the several Guarantors, which are organized or incorporated under the laws of multiple jurisdictions. In the event of insolvency or a similar event, proceedings could be initiated in any of these jurisdictions and in the jurisdiction of organization of a future Guarantor. The rights under the Note Guarantees and the Collateral will thus be subject to the laws of a number of jurisdictions, and there can be no assurance that you will be able to effectively enforce your rights in multiple bankruptcies, insolvency and other similar proceedings. Moreover, such multi-jurisdictional proceedings are typically complex and costly for creditors and often result in substantial uncertainty and delay in the enforcement of creditors' rights. In addition, the bankruptcy, insolvency, administration and other laws of the jurisdiction of organization of the Company and the Guarantors may be materially different from, or in conflict with, one another, including creditors' rights, priority of creditors, the ability to obtain post-petition interest and the duration of the insolvency proceeding. The application of these various laws in multiple jurisdictions could trigger disputes over which jurisdictions' law should apply and could adversely affect the ability to enforce the security and to realize any recovery under the Notes and the Note Guarantees. Moreover, in certain jurisdictions, it is unclear whether all security interests in the Collateral granted to secure the Notes give the Common Security Agent a right to prevent other creditors from foreclosing on and realizing the Collateral or whether certain security interests only give the Common Security Agent and the holders of the Notes priority (according to their rank) in the distribution of any proceeds of such realization. Accordingly, the Common Security Agent and the holders of the Notes may not be able to avoid foreclosure by other creditors (including unsecured creditors) on the Collateral. The laws of certain of the jurisdictions in which the Guarantors are organized limit the ability of these subsidiaries to guarantee debt of, or provide security for, other companies.

Investors may face foreign exchange risks by investing in the Notes.

The Notes are denominated and payable in euro. If investors measure their investment returns by reference to a currency other than the currencies in which their Notes are denominated, an investment in the Notes will entail foreign exchange related risks due to, among other factors, possible significant changes in the value of the euro relative to the currency by reference to which such investors measure the return on their investments. These changes may be due to economic, political and other factors over which we have no control. Depreciation of the euro against the currency by reference to which such investors measure the return on their investments could cause a decrease in the effective yield of the Notes below their stated coupon rates and could result in a loss to investors when the return on the Notes is translated into the currency by reference to which such investors measure the return on their investments. Investments in the Notes denominated in a currency other than United States dollars by United States investors may also have important tax consequences as a result of foreign exchange gains or losses, if any.

If certain changes to tax law were to occur, we would have the option to redeem the Notes.

If certain changes in the law of any Relevant Tax Jurisdiction, as defined in the Indenture become effective that would impose withholding taxes or other deductions on the payments on the Notes or the Note Guarantees, we may redeem the Notes, in whole, but not in part, at any time, at a redemption price of 100% of the principal amount, plus accrued and unpaid interest, if any, and Additional Amounts, if any, to the date of redemption. We are unable to determine whether such a change to any tax laws will be enacted, but if such change does occur, the Notes will be redeemable at our option.

Credit ratings may not reflect all risks, are not recommendations to buy or hold securities and may be subject to revision, suspension or withdrawal at any time.

Credit ratings address our ability to perform our obligations under the terms of the Notes and credit risks in determining the likelihood that payments will be made when due under the Notes. Any ratings of the Notes may not reflect the potential impact of all risks related to the structure, market, additional risk factors discussed above and other factors that may affect the value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal by the rating agency at any time. No assurance can be given that a credit rating will remain constant for any given period of time or that a credit rating will not be lowered or withdrawn entirely by the credit rating agency if, in its judgment, circumstances in the future so warrant. A suspension, reduction or withdrawal at any time of the credit rating assigned to the Notes by one or more of the credit rating agencies may adversely affect the cost and terms and conditions of our financings and could adversely affect the value and trading of the Notes.

There may not be an active trading market for the Notes, in which case your ability to sell the Notes may be limited.

We cannot assure you as to:

- the liquidity of any market in the Notes;
- your ability to sell your Notes; or
- the prices at which you would be able to sell your Notes.

Changes in our financial performance or in the markets where we operate may adversely affect the liquidity of the trading market in the Notes and the respective market prices quoted for the Notes. As a result, we cannot assure you that active trading markets will actually develop for the Notes.

Future trading prices for the Notes will depend on many factors, including, among other things, prevailing interest rates, our operating results and the market for similar securities. Historically, the market for securities like the Notes has been subject to disruptions that have caused substantial volatility in the prices of securities similar to the Notes. The liquidity of a trading market for the Notes may be adversely affected by a general decline in the market for similar securities and is subject to disruptions that may cause volatility in prices. The trading market for the Notes may attract different investors and this may affect the extent to which the Notes may trade. It is possible that the market for the Notes will be subject to disruptions. Any such disruption may have a negative effect on you, as a holder of the Notes, regardless of our prospects and financial performance. As a result, there is no assurance that there will be an active trading market for the Notes. If no active trading market develops, you may not be able to resell your holding of the Notes at a fair value, if at all.

Although the Notes are listed on the Official List of the Irish Stock Exchange and are admitted to trading on the Global Exchange Market, we cannot assure you that the Notes will remain listed. Although no assurance is made as to the liquidity of the Notes as a result of the admission to trading on the Global Exchange Market, the delisting (whether or not for an alternative admission to listing on another stock exchange) of the Notes from the Official List of the Irish Stock Exchange may have a material effect on a holder’s ability to resell the relevant Notes, as applicable, in the secondary market.

The transferability of the Notes may be limited under applicable securities laws.

The Notes and the Note Guarantees have not been, and will not be, registered under the U.S. Securities Act or the securities laws of any state or any other jurisdiction and, unless so registered, may not be offered or sold in the United States, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act and the applicable securities laws of any state or any other jurisdiction. We have not agreed to or otherwise undertaken to register the Notes, and we have no intention to do so. It is the obligation of holders of the Notes to ensure that their offers and sales of the Notes within the United States and other countries comply with applicable securities laws.

The Notes will initially be held in book-entry form and therefore investors must rely on the procedures of the relevant clearing systems to exercise any rights and remedies.

The Notes will initially only be issued in global certificated form and held through Euroclear and Clearstream. Interests in the global Notes will trade in book-entry form only, and Notes in definitive registered form, or definitive registered Notes, will be issued in exchange for book-entry interests only in very limited circumstances. Owners of book-entry interests will not be considered owners or holders of Notes. The common depositary, or its nominee, for Euroclear and Clearstream will be the sole registered holder of the global notes representing the Notes. Payments of principal, interest and other amounts owing on or in respect of the global notes representing the Notes will be made to the paying agent, which will make payments to Euroclear and Clearstream. Thereafter, these payments will be credited to participants’ accounts that hold book-entry interests in the global notes representing the Notes and credited by such participants to indirect participants. After payment to the common depositary for Euroclear and Clearstream the Company will have no responsibility or liability for the payment of interest, principal or other amounts to the owners of book-entry interests. Accordingly, if investors own a book-entry interest, they must rely on the procedures of Euroclear and Clearstream, and if investors are not participants in Euroclear and Clearstream, they must rely on the procedures of the participant through which they own their interest, to exercise any rights and obligations of a holder of Notes under the Indenture.

Unlike the holders of the Notes themselves, owners of book-entry interests will not have the direct right to act upon the Company's solicitations for consents, requests for waivers or other actions from holders of the Notes. Instead, if an investor owns a book-entry interest, it will be permitted to act only to the extent it has received appropriate proxies to do so from Euroclear or Clearstream, as applicable. The procedures implemented for the granting of such proxies may not be sufficient to enable such investor to vote on a timely basis.

Similarly, upon the occurrence of an event of default under the Indenture, unless and until definitive registered Notes are issued in respect of all book-entry interests, if investors own book-entry interests, they will be restricted to acting through Euroclear or Clearstream, as applicable. The procedures to be implemented through Euroclear and Clearstream may not be adequate to ensure the timely exercise of rights under the Notes.

Payments under the Notes may be subject to withholding tax under the EU Directive on the taxation of savings income.

Under EC Council Directive 2003/48/EC on the taxation of savings income (the "Savings Directive"), a Member State is required to provide to the tax authorities of another Member State details of payments of interest or other similar income paid by a paying agent within its jurisdiction to, or collected by such a paying agent on behalf of, an individual resident in that other Member State or certain limited types of entities established in that other Member State. However, for a transitional period, Austria and Luxembourg are instead required (unless during that period they elect otherwise) to operate a withholding system (subject to a procedure whereby, on meeting certain conditions, the beneficial owner of the interest or other income elects for the exchange of information) in relation to such payments, deducting tax at a rate of 35%. The transitional period is to terminate at the end of the first full fiscal year following agreement by certain non-EU countries to the exchange of information relating to such payments. A number of non-EU countries have adopted similar measures (either provision of information or transitional withholding) in relation to payments made by a paying agent within its jurisdiction to, or collected by such a paying agent on behalf of, an individual resident in a Member State or certain limited types of entities established in a Member State. In addition, the Member States have entered into provision of information or transitional withholding arrangements with certain of dependent or associated territories of the Netherlands, Northern Ireland and Great Britain in relation to payments made by a paying agent in a Member State to, or collected by such a paying agent on behalf of, an individual resident in one of those territories or certain limited types of entities established in one of those territories. For these purposes, the term "paying agent" is defined broadly and includes in particular any economic operator who pays interest in any form to, or secures the payment of interest in any form for the immediate benefit of the beneficial owner.

The European Commission has proposed certain amendments to the Savings Directive, which may, if implemented, amend or broaden the scope of the requirements described above, in particular with respect to payments made through certain intermediate structures (whether or not they were established in a Member State) for the ultimate benefit of an EU individual. Investors who are in any doubt as to their position should consult their professional advisors.

If a payment to an individual were to be made or collected through an EU Member State which has opted for a withholding system and an amount of, or in respect of, tax were to be withheld from that payment pursuant to the Savings Directive or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to such Directive amending or broadening the scope of the Savings Directive or introducing similar withholding measures, neither the Company nor any relevant paying agent nor any other person would be obliged to pay additional amounts with respect to any Note as a result of the imposition of such withholding tax. The Company is required to maintain a paying agent with a specified office in an EU Member State that is not obliged to withhold or deduct tax pursuant to any law implementing the Savings Directive or any other Directive implementing the conclusions of the ECOFIN Council meetings of November 26/27, 2000.

Management's discussion and analysis of financial condition and results of operations

The following discussion and analysis summarizes the significant factors affecting our results of operations and financial condition during the years ended December 31, 2011 and 2012. We include in this Report the Company's unaudited pro forma income statements for the year ended December 31, 2012. The consolidated financial information of the EPE Group has been prepared in accordance with IFRS. The consolidated financial statements of EPE as of and for the year ended December 31, 2012 have been audited by KPMG Česká republika Audit, s.r.o., independent auditors. The pro forma income statement for the year ended December 31, 2012 has not been audited and has been derived from our audited financial information and the notes thereto, included elsewhere in this Report. This discussion contains certain forward-looking statements that reflect our plans, estimates and beliefs. Our actual results could differ materially from those discussed in the forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those discussed below and elsewhere in this Report, particularly under the captions "Forward-looking statements" and "Risk factors." This discussion should be read in conjunction with our combined financial statements and related notes included elsewhere in this Report.

Overview of the EPE Group

We are a leading vertically integrated energy utility with operations across the entire energy value chain, focusing on brown coal production, heat and power generation, heat distribution and energy supply and trading. Our principal operations are in the Czech Republic and Germany. We are among the ten largest industrial groups in the Czech Republic in terms of EBITDA and the third-largest brown coal mining company in Germany by tonnage mined. For the year ended December 31, 2012, we had pro forma total sales and pro forma consolidated EBITDA of CZK 45,801 million (€1,821.84 million) and CZK 11,265 million (€448.09 million), respectively. Pro forma EBITDA for the year ended December 31, 2012 for the EPE Group reflects (a) the following non-recurring, non-cash effects related to reclamation provisions: (i) a change in the discount rate (which lead to a CZK 2,718 million (€108.11 million) increase to EBITDA) and (ii) an increase in the assumed inflation rate (which lead to a CZK 582 million (€23.15 million) decrease to EBITDA) and (b) the items related to Saale Energie (which lead to a CZK 355 million (€14.14 million) decrease to EBITDA), which, due to the accounting treatment of the specific contractual arrangement with Schkopau, are charged to operating costs of Saale Energie but relate to entries that would otherwise not be included in EBITDA. A significant part of our business comes from regulated industries (i.e., heat and renewable energy) and business contracted through long-term agreements with a stable customer base (i.e., mining and a part of our power generation business), which we believe provides us with stability of cash flows and visibility of future performance.

Principal operating subsidiaries of the EPE Group

Our principal operating subsidiaries are Mitteldeutsche Braunkohlengesellschaft mbH ("MIBRAG"), Elektrárny Opatovice, a.s. ("EOP"), Pražská teplárenská a.s. ("PT"), United Energy, a.s. ("UE"), Saale Energie GmbH ("Saale Energie") and EP ENERGY TRADING, a.s. ("EPET"). MIBRAG operates in the Mining segment, EOP, PT, Saale Energie and UE operate in the Heat and Power segment and EPET operates in the Energy Supply and Trading segment. Together these subsidiaries accounted for 70.0% of revenues and 98.5% of the EPE Group's EBITDA in the year ended December 31, 2012 (in each case after intercompany eliminations on the EPE Group level).

For a list of our other subsidiaries and minority interests, see Note 38 to our consolidated financial statements for the year ended December 31, 2012.

EPE segments

EPE has four principal segments: Mining, Heat and Power, Renewables and Energy Supply and Trading.

"Mining" consists of Lignite Investments 1 Limited, JTSD Braunkohlebergbau GmbH ("JTSD," the parent of Mitteldeutsche Braunkohlengesellschaft mbH ("MIBRAG")), the MIBRAG Group (i.e., MIBRAG, MIBRAG Consulting International GmbH, GALA-MIBRAG-Service GmbH, Bohr & Brunnenbau GmbH Stedten ("B&B"), Mitteldeutsche Umwelt- und Entsorgung GmbH ("MUEG"), Fernwärme GmbH Hohenmölsen—Webau ("Webau"), Ingenieurbüro für Grundwasser GmbH ("IGB"), MIBRAG Neue Energie GmbH) except for (i) MIBRAG Neue Energie GmbH ("MNE"), which is in our Renewables segment and (ii) B&B, which has immaterial operations and is not part of the consolidated EPE Group. Although they are part of the Mining segment, MUEG, Webau and IGB are associates, and therefore their sales, cost of sales and EBITDA are not reflected in the Mining segment sales, cost of sales and EBITDA.

"Heat and Power" consists of Pražská teplárenská a.s., TERMONTA PRAHA a.s., Teplo Neratovice spol. s r.o., Energotrans SERVIS, a.s., Pražská teplárenská Holding a.s. (an associate), the United Energy Group (United Energy, a.s., EVO—Komořany, a.s., Severočeská teplárenská, a.s., United Energy Moldova, s.r.o., EKY III, a.s., United Energy Invest, a.s., PRVNÍ MOSTECKÁ a.s., PRVNÍ MOSTECKÁ Servis a.s.), the Elektrárny Opatovice Group (Elektrárny Opatovice, a.s., REATEX a.s., EOP & HOKA s.r.o., V A H O s.r.o.), Plzeňská energetika a.s., HC Fin3 N.V., PT Holding Investments B.V., Honor Invest, a.s., NPTH, a.s., Areál Třeboradice, a.s., EP Germany GmbH, Czech Energy Holding, a.s., ROLLEON a.s., EAST BOHEMIA ENERGY HOLDING LIMITED, EBEH Opatovice, a.s and ENERGZET, a.s. Following the acquisition of Saale Energie GmbH by us in July 2012, Kraftwerk Schkopau GbR (an associate), Kraftwerk Schkopau Betriebsgesellschaft mbH (an associate) and Saale Energie GmbH are also included in this segment. Although they are part of the Heat and Power Segment, Pražská teplárenská Holding a.s., Kraftwerk Schkopau GbR, Kraftwerk Schkopau Betriebsgesellschaft mbH are associates, and therefore their sales, cost of sales and EBITDA are not reflected in the Heat and Power segment sales, cost of sales and EBITDA.

"Renewables" consists of Arisun, s.r.o., ČKD Blansko Wind, a.s., POWERSUN a.s., Triskata, s.r.o., VTE Pchery, s.r.o., VTE Pastviny s.r.o., VTE Moldava, a.s., Greeninvest Energy, a.s. (an associate held for sale), Alternative Energy, s.r.o., EP Renewables a.s., MR TRUST s.r.o, CHIFFON ENTERPRISES LIMITED, Claymore Equity, s.r.o. and MNE, which is part of the MIBRAG Group. Although it is part of the Renewables segment, Greeninvest Energy, a.s. is an associate held for sale and therefore its sales, cost of sales and EBITDA are not reflected in the Renewables segment sales, cost of sales and EBITDA.

"Energy Supply and Trading" consists of United Energy Coal Trading, a.s., UNITED ENERGY COAL TRADING POLSKA S.A., COOP Energy a.s. and EP ENERGY TRADING, a.s. COOP Energy a.s. has immaterial operations and is not part of the consolidated EPE Group.

We have included principal administrative costs, such as costs relating to our headquarters, as well as costs relating to the Company and AISE, s.r.o, such as personnel costs and overhead for those entities and EPE Group-level financing costs, under **"Other."**

Data for all segments are aggregated and are presented in columns or rows titled "Total segments." Intersegment transactions, including intersegment revenues and expenses from intercompany loans, are not eliminated within a specific segment but only at the overall aggregate level, which is presented in columns or rows titled "Consolidated data." We do not present EBITDA margin for individual segments because intersegment eliminations during the consolidation process at the Total sales line for each segment make EBITDA margin incomparable across segments. References to the share of EPE Group consolidated EBITDA represented by an individual segment are before intersegment eliminations. The sum of these percentages does not equal 100% because the Other segment accounted for -1.2% of consolidated EBITDA (before intersegment eliminations).

After the listing of the Notes on the Irish Stock Exchange, the EPE Group began to report segment information in accordance with IFRS 8. EPE uses segment reporting in accordance with IFRS, and all figures for the segments reflect segment reporting in accordance with IFRS. Because we did not previously report segment information through IFRS segment reporting, it may be difficult to compare our segment data with our "line of business" data previously reported.

The table below shows summary financial information for the EPE segments:

In million CZK	Year ended December 31, 2011	2012
Total sales		
Mining	2,722	8,431
Heat and Power	13,690	16,776
Renewables	104	148
Energy Supply and Trading	20,683	21,904
Other	74	114
Total segments	37,273	47,373
Intersegment eliminations	(3,847)	(6,308)
Consolidated data	**33,426**	**41,065**
Depreciation and amortization		
Mining	(587)	(2,153)
Heat and Power	(2,812)	(2,978)
Renewables	(46)	(71)
Energy Supply and Trading	(1)	(8)
Other	(1)	(1)
Total segments	(3,447)	(5,211)
Intersegment eliminations	0	0
Consolidated data	**(3,447)**	**(5,211)**
Negative goodwill		
Mining	208	2,540
Heat and Power	0	472
Renewables	0	0
Energy Supply and Trading	0	0
Other	0	0
Total segments	208	3,012
Intersegment eliminations	0	0
Consolidated data	**208**	**3,012**
Profit/(loss) from operations		
Mining	840	5,198
Heat and Power	2,075	3,198
Renewables	32	38
Energy Supply and Trading	21	369
Other	(33)	(130)
Total segments	2,935	8,673
Intersegment eliminations	(14)	2
Consolidated data	**2,921**	**8,675**
EBITDA[(1)]		
Mining	**1,219**	**4,811**
Heat and Power	**4,887**	**5,704**
Renewables	**78**	**109**
Energy Supply and Trading	**22**	**377**
Other	**(32)**	**(129)**
Total segments	**6,174**	**10,872**
Intersegment eliminations	**(14)**	**2**
Consolidated data	**6,160**	**10,874**

(1) Represents Profit/(loss) from operations *plus* Depreciation and amortization *less* Negative goodwill.

Mining

Our Mining segment includes JTSD and the MIBRAG Group (excluding MIBRAG Neue Energie and B&B). We acquired a 50% share in the MIBRAG Group in June 2011, which was consolidated proportionately in the EPE Group income statement from July 1, 2011 onwards. We acquired the remaining 50% share of the MIBRAG Group in June 2012. As such, the MIBRAG Group is fully consolidated only from July 1, 2012 onwards.

Our Mining segment accounted for 19.8% of consolidated EBITDA for the year ended December 31, 2011 (before intersegment eliminations) and 44.2% of consolidated EBITDA for the year ended December 31, 2012 (before intersegment eliminations). The business of our Mining segment is conducted in Germany through our wholly-owned subsidiary MIBRAG.

The table below shows a summary of key operating data for the Mining segment. The operating data are based on the results of 100% of MIBRAG regardless of the date when MIBRAG joined the EPE Group or the ownership share of the EPE Group in MIBRAG at a particular point in time.

		As of and for the year ended December 31, 2011	As of and for the year ended December 31, 2012
Coal production	In Mt	19.0	18.7
Coal sold	In Mt	16.5	16.7
Reserves[(1)]	In Mt	472.1	464.1

(1) Refers to proved and probable reserves as described in the New Reserve Report.

Brown coal production and brown coal sold

For the year ended December 31, 2012, MIBRAG's brown coal production decreased by 0.3 Mt, or 1.6%, to 18.7 Mt as compared to 19.0 Mt for the year ended December 31, 2011, which was mainly due to a decrease in the brown coal consumption in MIBRAG's facilities and a decrease in the stock of brown coal, partially offset by an increase in the volume of brown coal sold to MIBRAG customers by 0.2 Mt from 16.5 Mt to 16.7 Mt in the same period.

Reserves

The evolution of reserves is aligned primarily with our brown coal production in the relevant period. Our reserves at December 31, 2012 were also positively impacted by (i) the recalculation of the remaining reserves at the Profen mine and (ii) the addition of12 million tons of probable reserves from the Pödelwitz field and negatively impacted the termination of our plans to mine in the area impacted by the 2012 landslide in Schleenhain.

The table below shows a summary of key financial data for the Mining segment. The financial data are based on the consolidated financial information before eliminations of intersegment transactions and take into account the ownership share of the EPE Group in MIBRAG and its acquisition date.

		For the year ended December 31, 2011	For the year ended December 31, 2012
Total Sales	in CZK millions	2,722	8,431
	in € millions	110.70	335.36
EBITDA[(1)]	in CZK millions	1,219	4,811
	in € millions	49.57	191.37

(1) Represents Profit/(loss) from operations (December 31, 2011: CZK 840 million, December 31, 2012: CZK 5,198 million) *plus* Depreciation and amortization (December 31, 2011: CZK 587 million, December 31, 2012: CZK 2,153 million) *less* Negative goodwill (December 31, 2011: CZK 208 million, December 31, 2012: CZK 2,540 million).

EBITDA

EBITDA for the year ended December 31, 2012 for the Mining segment reflects the following non-recurring, non-cash effects related to reclamation provisions: (i) a change in the discount rate (which lead to a CZK 2,718 million (€108.11 million) increase to EBITDA) and (ii) an increase in the assumed inflation rate (which lead to a CZK 582 million (€23.15 million) decrease to EBITDA).

EBITDA increased by CZK 3,592 million, or 294.7%, to CZK 4,811 million for the year ended December 31, 2012 as compared to CZK 1,219 million for the year ended December 31, 2011. This increase was mainly due to the non-recurring, non-cash effects relating to the reclamation provisions mentioned above, as well as an increase in the average negotiated sales price of brown coal to MIBRAG's customers, in particular at Schkopau, while volumes remained stable. In addition, the increase was also due to the inclusion of 50% of MIBRAG's performance for the first half of the calendar year 2012 and 100% of MIBRAG's performance for the second half of the calendar year 2012, compared to the inclusion of 50% of MIBRAG's performance during the last six months of the year ended December 31, 2011. Adjusted to exclude the reclamation provision effects of CZK 2,136 million in 2012, EBITDA increased by CZK 1,456 million, or 119.4%, to CZK 2,675 million for the year ended December 31, 2012 as compared to CZK 1,219 million for the year ended December 31, 2011.

Heat and Power

The Heat and Power segment accounted for 79.3% of consolidated EBITDA for the year ended December 31, 2011 (before intersegment eliminations) and 52.5% of consolidated EBITDA for the year ended December 31, 2012 (before intersegment eliminations). We conduct our Heat and Power operations in the Czech Republic through the following subsidiaries: Pražská teplárenská, Elektrárny Opatovice, United Energy and Plzeňská energetika and in Germany through Saale Energie. We conduct other heat and power operations in Germany through our Mining segment, which includes several combined heat and power ("CHP") facilities, and neither the operating data nor the financial data for these CHP facilities in the Mining segment is included within our Heat and Power operating data. The table below shows a summary of key operating data for the Heat and Power segment. The operating data are based on the results of the whole entity regardless of the date when each entity joined the EPE Group or the ownership share of the EPE Group in each entity, but excludes for all periods operating data for Energotrans, which PT sold in June 2012.

		For the year ended	
		December 31, 2011	**December 31, 2012**
Installed heat capacity	MWth	4,105.0	4,105.0
Heat supplied	TJ	18,092.2	18,481.6
Installed cogeneration capacity	MW_e	494.0	500.0
Installed condensation capacity	MW_e	351.0	360.0
Certified grid balancing capacity(1)	MW_e	153.0	184.0
Cogeneration production	GWh	791.9	779.0
Condensation production	GWh	2,607.7	2,309.1
Grid balancing services	GWh	592.9	957.3
Saale Energie(2)	MW_e	400.0	400.0

(1) Grid balancing capacity is included in Installed condensation capacity and Installed condensation capacity.

(2) Saale Energie owns a 41.9% interest in the Schkopau CHP plant in Germany (representing a beneficial use and control over 400 MW_e of the plant's total capacity).

Installed heat capacity

Installed heat capacity remained at 4,105.0 MWth as of December 31, 2012 as compared to 4,105.0 MWth as of December 31, 2011.

Heat supplied

Heat supplied increased by 389.4 TJ, or 2.2%, to 18,481.6 TJ for the year ended December 31, 2012 as compared to 18,092.2 TJ for the year ended December 31, 2011. This increase in heat supplied was primarily due to slightly colder weather conditions in the first six months of 2012 in most of the regions in which we operate as compared to the same period in 2011.

Installed condensation capacity (excluding Saale Energie)

Installed condensation capacity increased by 9.0 MW_e, or 2.6%, to 360.0 MW_e as of December 31, 2012, as compared to 351.0 MW_e as of December 31, 2011. This increase in installed condensation capacity was driven by the recertification of EOP's installed condensation capacity at a higher level.

Certified grid balancing capacity

Certified grid balancing capacity increased by 31.0 MW_e, or 20.3%, to 184.0 MW_e as of December 31, 2012 as compared to 153.0 MW_e as of December 31, 2011. This increase in certified grid balancing capacity was primarily due to the optimization of boiler flexibility at PE, and was also due to the certification of the combined operation of two turbines at UE.

Cogeneration production

Cogeneration production decreased by 12.9 GWh, or 1.6%, to 779.0 GWh for the year ended December 31, 2012, as compared to 791.9 GWh for the year ended December 31, 2011. This decrease in cogeneration production was primarily due to the decrease of the cogeneration production at PT due to an increase in the amount of heat purchased from Energotrans. PT reduced its own heat production and, consequently, the amount of power produced in cogeneration was reduced. Cogeneration production also decreased due to a planned overhaul of certain of UE's cogeneration turbines in the first half of 2012. The decrease was partially offset by an increase in cogeneration production at EOP due to colder weather conditions at the beginning of 2012 as compared to the same period in 2011.

Condensation production

Condensation generation decreased by 298.6 GWh, or 11.5%, to 2,309.1 GWh for the year ended December 31, 2012 as compared to 2,607.7 GWh for the year ended December 31, 2011. This decrease resulted from our decision to temporarily reduce condensation production at EOP after deliveries from Czech Coal stopped on June 7, 2012, to reduce the burn-rate of stocked brown coal (deliveries were fully restored after EOP was granted a preliminary injunction on June 22, 2012) and later as a result of short-term shutdowns to test adjustments to EOP's technology to reduce dependency on deliveries from Czech Coal.

Grid balancing services

Grid balancing services increased by 364.4 GWh, or 61.5%, to 957.3 GWh for the year ended December 31, 2012 as compared to 592.9 GWh for the year ended December 31, 2011. This increase in grid balancing services, principally reserved capacity sold for grid balancing services, primarily reflects a higher success rate in winning tenders for grid balancing services organized by the Czech TSO CEPS.

The table below shows a summary of key financial performance data for the Heat and Power segment as well as sales on a division (Heat and Cogeneration and Power Generation) basis. The financial data is based on the consolidated financial information before eliminations of intersegment transactions and take into account the ownership share of the EPE Group in each entity and its acquisition date, specifically the full consolidation of PT from July 1, 2012. The data also include financial information in respect of ET, which we sold in June 2012 and Saale Energie from July 2012.

		For the year ended December 31, 2011	**For the year ended December 31, 2012**
Heat sales..	in CZK millions	5,717	6,727
	in € millions	232.49	267.58
Power generation and cogeneration sales	in CZK millions	7,713	9,674
	in € millions	313.67	384.81
Other sales..	in CZK millions	260	375
	in € millions	10.57	14.91
Total sales	in CZK millions	13,690	16,776
	in € millions	556.73	667.30
EBITDA[(1)]	in CZK millions	4,887	5,704
	in € millions	198.74	226.89

(1) Represents Profit/(loss) from operations (years ended: December 31, 2011: CZK 2,075 million, December 31, 2012: CZK 3,198 million) *plus* Depreciation and amortization (year ended: December 31, 2011: CZK 2,812 million, December 31, 2012: CZK 2,978 million) *less* Negative goodwill (years ended: December 31, 2011: CZK 0 million, year ended December 31, 2012: CZK 472 million).

EBITDA

As part of our electricity optimization process, one of the subsidiaries in our Heat and Power segment, EOP, engages in sales and resales of electricity generated by EOP, as well as electricity purchased on the wholesale market, which leads to an overall increase in the volume of sales of electricity. However, with an increasing number of resales, total costs as a percentage of total sales increase as the margins realized on each subsequent optimization transaction tend to decline as the frequency of optimization transactions increases. The optimization process therefore has a negative impact on EBITDA margin while having a positive or neutral impact on EBITDA. Moreover, because our contracts with suppliers are generally priced in Czech crowns, but our contracts for sales of electricity are primarily priced in euro, EBITDA from our power generation operations may increase or decrease (and even be negative) depending on currency exchange rate fluctuations (our heat operations are not affected by currency fluctuations as all transactions are priced in Czech crowns). Although we generally lock in the exchange rate at the time a contract is entered through the use of derivatives, the amounts due or paid under these derivative contracts, which offset the exchange rate fluctuation effects discussed above, are not included in EBITDA and are included in Profit/loss from financial instruments in our financial information and/or the Finance income and Finance expense lines. Therefore EBITDA and EBITDA margin may not accurately reflect our results of operations and may not serve as accurate performance indicators of EOP, and consequently also EBITDA in the Heat and Power segment.

EBITDA for the year ended December 31, 2012 for the Heat and Power segment reflects items related to Saale Energie (which lead to a CZK 180 million (€7.16 million) decrease to EBITDA), which, due to the accounting treatment of the specific contractual arrangement with Schkopau, are charged to operating costs of Saale Energie but relate to entries that would otherwise not be included in EBITDA.

EBITDA increased by CZK 817 million, or 16.7%, to CZK 5,704 million for the year ended December 31, 2012 as compared to CZK 4,887 million for year ended December 31, 2011. This increase in EBITDA was primarily due to the acquisition of Saale Energie, which was reflected in our income statement from August 1, 2012, and the full consolidation of PT from July 1, 2012. EBITDA also increased due to a lower gift tax on emissions allowances in 2012 compared to 2011, higher revenues from power sales resulting from higher sales prices of both power and grid balancing services and higher heat sales due to higher heat prices and colder weather conditions 2012 as compared to 2011. EBITDA was also positively impacted by EOP power resales, which increased due to our ability to optimize production diagrams more efficiently. Adjusted to exclude items related to Saale Energie of CZK 180 million in 2012, EBITDA increased by CZK 997 million, or 20.4%, to CZK 5,884 million for the year ended December 31, 2012 as compared to CZK4,887 million for the year ended December 31, 2011.

Renewables

The Renewables segment accounted for 1.2% of consolidated EBITDA for the year ended December 31, 2011 (before intersegment eliminations) and 1.0% of consolidated EBITDA for the year ended December 31, 2012 (before intersegment eliminations). Our Renewables business is conducted in the Czech Republic, Germany and the Slovak Republic through EP Renewables, a.s. (and its subsidiaries) and MNE, and includes wind, solar and biogas operations.

The table below shows a summary of key operating data for the Renewables segment. The operating data are based on the results of the whole entity regardless of the date when each entity joined the EPE Group or the ownership share of the EPE Group in each entity.

		As of and for the year ended December 31, 2011	**As of and for the year ended December 31, 2012**
Installed Capacity	MW_e	24.9	24.9
Power Production	GWh	31.2	38.8

Installed capacity

Installed capacity remained at 24.9 MWe as of December 31, 2012 as compared to 24.9 MWe as of December 31, 2011.

Power production

Power production increased by 7.6 GWh, or 24.5%, to 38.8 GWh for the year ended December 31, 2012 as compared to 32.2 GWh for the year ended December 31, 2011. This increase was primarily due to the commencement of commercial operation of our biogas power plant in Slovakia (which was made operational at the end of 2011), and by longer operational hours and higher load factors for our wind projects.

The table below shows a summary of key financial data for the Renewables segment. The financial data are based on the consolidated financial information before eliminations of intersegment transactions and take into account the ownership share of the EPE Group in each entity and its acquisition date.

		For the year ended December 31, 2011	For the year ended December 31, 2012
Total Sales	in CZK millions	104	148
	in € millions	4.23	5.89
EBITDA(1)	in CZK millions	78	109
	in € millions	3.17	4.33

(1) Represents Profit/(loss) from operations (years ended: December 31, 2011: CZK 32 million, December 31, 2012: CZK 38 million) *plus* Depreciation and amortization (years ended: December 31, 2011: CZK 46 million, December 31, 2012: CZK 71 million) *less* Negative goodwill (years ended: December 31, 2011: CZK 0 million, December 31, 2012: CZK 0 million).

EBITDA

EBITDA increased by CZK 31 million, or 39.7%, to CZK 109 million for the year ended December 31, 2012 as compared to CZK 78 million for the year ended December 31, 2011. This increase in EBITDA was primarily due to increased power production due to better weather conditions for wind energy production, as well as the commissioning of our biogas power plant in Slovakia at the end of 2011 and higher plant utilization through technical improvements at our VTE Pchery subsidiary which reflect the advanced level of development at that facility in 2012 as compared to 2011 and the inclusion of 50% of MNE in the scope of our consolidation from July 1, 2011, and 100% of MNE from July 1, 2012, partially offset by a decrease in power generated at our solar plants.

Energy Supply and Trading

The Energy Supply and Trading segment accounted for 0.4% of consolidated EBITDA for the year ended December 31, 2011 (before intersegment eliminations) and 3.5% of consolidated EBITDA for the year ended December 31, 2012 (before intersegment eliminations) and is conducted in the Czech Republic, the Slovak Republic and Poland through our subsidiary EPET, as well as United Energy Coal Trading, a.s. and UNITED ENERGY COAL TRADING POLSKA S.A. As part of our power trading activities, EPET engages in sales of power generated by EPE Group companies, as well as resales of power purchased on the wholesale market in connection with our power optimization process, which leads to an overall increase in the volume of sales of power. However, with an increasing number of resales, total costs as a percentage of total sales increase as the margins realized on each subsequent optimization transaction tend to decline as the frequency of optimization transactions increases. The optimization process therefore has a negative impact on EBITDA margin, while having a positive or neutral impact on EBITDA. Moreover, because our supply contracts are generally priced in Czech crowns, but we may purchase power in euro, EBITDA from our supply operations may increase or decrease (and even be negative) depending on currency exchange rate fluctuations. Although we generally lock in the exchange rate at the time a contract is entered into through the use of derivative contracts, the amounts due or paid under these derivative contracts, which offset the exchange rate fluctuation effects discussed above, are not included in EBITDA as they are included in the Profit/(loss) from financial instruments line and/or the Finance income and Finance expense lines, unless they qualify for hedge accounting under IFRS, in which case they are reflected in the Cost of sales line. Therefore, EBITDA and EBITDA margin may not accurately reflect our results of operations and may not serve as accurate performance indicators of our Energy Supply and Trading segment.

The table below shows a summary of key operating data for the Energy Supply and Trading segment. The operating data are based on the results of the whole entity regardless of the date when each entity joined the EPE Group or the ownership share of the EPE Group in each entity.

		For the year ended December 31, 2011	For the year ended December 31, 2012
Power traded	GWh	10,638.0	12,072.0
Power supplied	GWh	1,709.4	1,779.4
Natural gas supplied	GWh	1,866.1	1,784.5

Power traded

Power traded increased by 1,434.0 GWh, or 13.5%, to 12,072.0 GWh for the year ended December 31, 2012 as compared to 10,638.0 GWh for the year ended December 31, 2011. This increase in power traded was primarily due to a higher volume of resales of power purchased in connection with our power optimization process.

Power supplied

Power supplied increased by 70.0 GWh, or 4.1%, to 1,779.4 GWh for the year ended December 31, 2012 as compared to 1,709.4 GWh for the year ended December 31, 2011. This increase in power supplied was due to an increased supply of power to retail customers.

Natural gas supplied

Natural gas supplied decreased by 81.6 GWh, or 4.4%, to 1,784.5 GWh for the year ended December 31, 2012 as compared to 1,866.1 GWh for the year ended December 31, 2011. This decrease in natural gas supplied was primarily due to more intense competition in the natural gas market, the loss of some of our larger industrial gas customers, and our decision to limit our activities in the supply of natural gas when there were negative or zero margins.

The table below shows a summary of key financial data for the Energy Supply and Trading segment. The financial data are based on the consolidated financial information before eliminations of intersegment transactions and take into account the ownership share of the EPE Group in the entity and acquisition date.

		For the year ended December 31, 2011	For the year ended December 31, 2012
Total Sales	in CZK millions	20,683	21,904
	in € millions	841.11	871.28
EBITDA(1)	in CZK millions	22	377
	in € millions	0.89	15.00

(1) Represents profit/(loss) from operations (years ended: December 31, 2011: CZK 21 million, December 31, 2012: CZK 369 million) *plus* Depreciation and amortization (years ended: December 31, 2011: CZK 1 million, December 31, 2012: CZK 8 million) *less* Negative goodwill (years ended: December 31, 2011: CZK 0 million, December 31, 2012: CZK 0 million).

EBITDA

While our supply contracts are generally priced in Czech crowns, we may purchase electricity in euro, and therefore EBITDA from our supply operations may increase or decrease (and even be negative) depending on currency exchange rate fluctuations. Although we generally lock in the exchange rate at the time a contract is entered through the use of derivatives, the amounts due or paid under these derivative contracts, which offset the exchange rate fluctuation effects discussed above, are not included in EBITDA and are included in Profit/(loss) from financial instruments and/or the Finance income and Finance expense lines. For this reason, EBITDA and EBITDA margin may not accurately reflect our results of operations and may not serve as accurate performance indicators of our Energy Supply and Trading segment.

EBITDA increased by CZK 355 million, or 1,613.6%, to CZK 377 million for the year ended December 31, 2012 as compared to CZK 22 million for the year ended December 31, 2011. Lower EBITDA in 2011 primarily reflects losses in the amount of CZK 150 million incurred by PEAS (which merged with EPET on January 1, 2013) in connection with the settlement at maturity of a power trading position that was acquired in the first six months of 2008 under a three-year contract. As a result of this transaction in 2008, we implemented more stringent trading controls. Additionally, sales prices for power and natural gas were higher in 2012 as compared to the same period in 2011, contributing to the increased EBITDA in 2012.

Other

The table below shows a summary of key financial data for the Other segment:

		For the year ended December 31, 2011	For the year ended December 31, 2012
Total sales	in CZK millions	74	114
	in € millions	3.01	4.53
EBITDA(1)	in CZK millions	(32)	(129)
	in € millions	(1.30)	(5.13)

(1) For the years ended December 31, 2011 and December 31, 2012 represents Profit/(loss) from operations (CZK negative 33 million, CZK negative 130 million, respectively) *plus* Depreciation and amortization (CZK 1 million, CZK 1 million, respectively), *less* Negative goodwill (CZK 0 million, CZK 0 million, respectively).

Factors affecting EBITDA for the Other segment for the year ended December 31, 2012

The main driver of the negative EBITDA in year ended December 31, 2012 was the personnel expenses of the Company in the amount of CZK 73 million. The costs were primarily associated with remuneration of the board executives of the Company.

Factors affecting EBITDA for the Other segment for the year ended December 31, 2011

The main driver of the negative EBITDA in year ended December 31, 2011 was the personnel expenses of the Company in the amount of CZK 44 million. The costs were primarily associated with remuneration of the board executives of the Company.

Other revenues and expenses

Our repeating expenses are generally related to wages and salaries for part-time employees (administrative staff) and associated social and health insurance, administrative costs for repairs and maintenance, other taxes and fees, costs for audit and accounting services, costs for legal consultancy, operating leases, rent of premises, communication expenses, travel expenses, costs for translation, non-tax deductible fees, rental income and other administrative costs.

Factors affecting the results of operations of the EPE Group

We believe that the following factors have had, and will continue to have, a material effect on the results of operations and financial condition of the EPE Group. As many of these factors are beyond our control and certain of these factors have historically been volatile, past performance will not necessarily be indicative of future performance and it is difficult to predict future performance with any degree of certainty. In addition, important factors that could cause our actual operations or financial conditions to differ materially from those expressed or implied below, include, but are not limited to, factors indicated in this Report under "Risk factors."

Key factors affecting comparability of the results of operations of the EPE Group

The EPE Group was formed through a series of strategic acquisitions and business combinations. The current EPE Group originally began with acquisitions of ownership interests in Pražská energetika ("PRE") in 2004 and in UE in 2005 by J&T Group, which is one of the current beneficial owners of EPH (our parent company). EPH was formed in 2009 and the ownership interests in PE, UE, EPET and PEAS (which merged with EPET on January 1, 2013) were transferred to it by J&T Group and the J&T Group sold EOP to EPH.

Before our formation, many of our current subsidiaries were subsidiaries of EPH, but because the EPE Group has grown steadily through acquisitions and contributions from equity holders, these entities have been under common control for only a short period of time. The acquisition of various subsidiaries or additional interests in such subsidiaries and the disposition of certain subsidiaries means that our results of operations necessarily differ before and after these acquisitions and dispositions and do not reflect a change in organic operating results but rather the impact of an acquisition or disposition.

The following table sets out the periods for which our principal subsidiaries that were contributed to EPH in 2011 or later or were acquired by us in 2011 or later are included in the Company's consolidated financial statements:

Periods presented in the Company's consolidated IFRS financial statements			
Subsidiary	**Year ended December 31, 2011**	**Year ended December 31, 2012**	**Basis for stand-alone presentation**
PT	Proportionate consolidation (3.0% through June 30, 2011; 73.3% thereafter)	Balance sheet—Fully consolidated Income statement—Proportionate consolidation (73.3%) through June 30, 2012; fully consolidated thereafter	Czech GAAP unconsolidated financial statements for the year ended December 31, 2012 (with 2011 as a comparison period)
JTSD/MIBRAG	Proportionate consolidation (50%) from July 1, 2011	Balance sheet—fully consolidated (100%) Income statement—Proportionate consolidation (50%) through June 30, 2012; 100% thereafter	German GAAP unconsolidated annual financial statements for the year ended December 31, 2012 (including comparative financial information for the year ended December 31, 2011)
Saale Energie	None	Balance sheet—fully consolidated (100%) Income statement—fully consolidated beginning August 1, 2012	German GAAP unconsolidated annual financial statements for the year ended December 31, 2012 (including comparative financial information for the year ended December 31, 2011)

Our consolidated financial statements as at and for the years ended December 31, 2012 and December 31, 2011 include the financial results of Energotrans, a.s. for the time during which PT owned Energotrans, a.s. (i.e., until June 2012). In addition, these financial statements only include 50% of MIBRAG from July 1, 2011 and do not reflect our acquisition of the second 50% that we acquired in June 2012 until July 1, 2012. The financial statements only include the results of Saale Energie from August 1, 2012.

Factors impacting the results of our Mining segment

Power merit order in Germany and customers' demand for brown coal

The power merit order in Germany ranks available energy sources for power generation on the basis of their short-run marginal costs ("SRMC") of production. The power plants with the lowest marginal costs are the first to be utilized to meet demand, and the plants with the highest marginal costs are the last ones to be brought online. The SRMC of the last unit required to meet demand sets the marginal price of power at any given point in time. The placement of brown coal and specifically of our customers' power plants in the German merit order therefore has a significant impact on the results of our mining business.

If brown coal and specifically our customers' power plants were to shift in the power merit order, demand for our brown coal would either increase or decrease depending in which direction brown coal moved in the merit order. The German government recently made the decision to discontinue the use of nuclear power plants. Because nuclear power has a lower SRMC than brown coal, the nuclear phase-out in Germany will shift the merit order in favor of brown coal. However, there can be no assurance that such phase-out will not be reversed in the future. On the other hand, renewable energy, such as wind energy, is also lower in the merit order than brown coal, and government subsidies in favor of renewable energy and any increase in renewable energy production (based on favorable weather conditions or investment opportunities) could adversely affect brown coal's position in the merit order and therefore our results of operations. In addition, our brown coal mines are located in a region of Germany that may be subject to high winds, and that region has attracted recent wind-farm developments. As a result, periods of unusually high winds have recently increased, and may continue to increase, the volume of alternative wind energy fed into the power grid. Because of the more favorable position of wind energy in the German merit order, a higher volume of wind energy fed into the grid would decrease the amount of energy taken up from our brown coal-fueled power plant customers, which could have an adverse impact on our business, financial condition, results of operations and cash flows in the future.

In addition to the merit position, brown coal sales are driven by energy demand of the ultimate off-takers. Our two biggest brown coal customers provide heat and power to industrial customers. Both global, and more importantly, regional, economic conditions can thus have an impact on our brown coal sales. See "Risk factors—Risks related to each of our segments—Our revenues and margins of operations may be negatively impacted by volatile prices for power, heat, natural gas, hard coal and emission allowances for CO_2."

Technical conditions of customer power plants

Our customers' power plants experience shut downs from time to time due to technical outages. In a particular year when a major technical outage is planned, there could be a reduction of brown coal sales compared to normal years. Major outages are usually performed in five to seven year intervals, and we are typically informed of outages beforehand which allows us to plan ahead with reductions of production at MIBRAG. Nevertheless, due to a lack of suitable alternative offtakers of brown coal in the area, combined with the fact that it is uneconomical to transport brown coal over longer distances, we are particularly impacted by shut downs at our two largest brown coal customers, the Lippendorf and Schkopau power plants. Such shut downs require us to reduce our brown coal production.

Regulation

As a natural resource extraction company and power and heat producer, we are subject to a variety of laws and regulations, in particular concerning energy, mining and environmental laws that can have an impact on our results of operations. In particular, we have certain long-term reclamation responsibilities that could prove costly. Our mining activities, our and our customers` power plants and our renewable energy facilities are responsible for complying with complex environmental and other regulation such as permit and licensing requirements, emission limits and strict mine and power plant health and safety requirements. These laws and regulations may impact our costs of production, the ability to operate power plants and to feed in power into the networks (particularly in the case of grid congestion) and, consequently, the demand for our brown-coal as well as our results of operations. Other regulations impacting our operations include those relating to the granting of mining rights and emission control permits, mining royalty fee payments, water protection and management, pollution control and soil protection, waste regulation, nature conservation and emissions trading.

Forward contracts

We have historically contracted our sales of brown coal under long-term agreements with our principal customers. These provide pricing formulae which set the price of the brown coal purchased under these contracts, see "Business—Segments—Mining—Customers and material sales contracts." Under our arrangements with Schkopau whereby we supply brown coal for the offtake of energy by Vattenfall, we have secured a fixed revenue stream per month which is based on capacity, not utilization, and we receive the same amount per month regardless of Schkopau's actual usage of brown coal to supply energy to

Vattenfall. The coal supply contract with Vattenfall does not terminate until 2020. We have recently renegotiated the price terms of the Vattenfall contract, and the agreed fixed price component for brown coal for the remaining life of the contract is lower than the fixed price component we received for brown coal sold in 2012, to mainly reflect higher emissions costs for Vattenfall from 2013 onwards. With respect to the Lippendorf coal off-take contractual arrangement, we have recently negotiated a fixed capacity pricing for a part of the expected annual brown coal off-take until December 31, 2014. Our other brown coal supply contracts do not guarantee offtake volumes or fixed streams of revenue, and therefore do not require that the customers buy a certain volume each year or pay us a fee for such volume. Therefore, our results of operations are partially dependent upon our customers' actual demand. Amendments to the current long term contracts or execution of new long term contracts with current or prospective customers influence significantly our results from operations. See "Risk factors—Risks related to our businesses and industries—Risks related to each of our segments—Our revenues and margins of operations may be negatively impacted by volatile prices for power, heat, natural gas, hard coal and emission allowances for CO_2."

Factors influencing power generation in our power plants

The power plants in the MIBRAG Group are primarily intended to supply power needed for our own consumption in the mines. CO_2 related costs are subject to potential market price fluctuations. Such fluctuations may be a consequence of market developments as well as of changes in the European Union and national legislation governing the allocation and trading of CO_2 emissions allowances. We seek to mitigate these effects by forward purchases of CO_2 allowances.

The power production exceeding our own consumption in the mines is sold to the market subject to the same factors as are discussed below under "Factors impacting the results of our heat and cogeneration and power generation combined segments."

Factors impacting the results of our heat and power segment

Our Heat and Power segment sells the following key products to our customers: (a) heat (used for heating and hot water), (b) power, (c) grid balancing services and (d) energy generation by-products (such as ash and fly ash). Factors impacting our top line are typically specific for each of these products, while factors influencing the cost are typically general to all of these products. With the exception of certain facilities at PT, all production facilities are combined heat and power facilities, operating in both highly efficient cogeneration mode, which is an ecological form of conversion of primary energy in fuel, supported by both national and EU legislation, and, with the exception of PT's facilities, in condensation mode. Substantially all of our production is based on brown coal, the cheapest fossil fuel available on the market, which further significantly contributes to our competitiveness.

Weather condition fluctuations

As the vast majority of our heat deliveries are used for heating and the preparation of hot water, weather condition fluctuations (warm vs. typical vs. cold winters) have a material effect on the results of our operations, especially with respect to heat sales. For the same reason, our heat supplies are fairly inelastic when compared to companies that primarily service industrial customers to provide industrial steam, which is more affected by global economic cycles. Unusually warm (or cold) winter temperatures may reduce (or increase) consumers' demand for heat and correspondingly reduce (or improve) our financial performance and results of operations. Even though heat off-take fluctuates with weather conditions in a given year, these fluctuations are relatively small and show no discernible trend in changing weather patterns on average.

Customer demand

Beyond the weather condition fluctuations, customer demand and customer base dynamics are other factors influencing heat supply. As our heat supplies are primarily driven by heating, the key factor influencing our heat supplies is the degree of insulation in our customers' homes, which has been steadily growing in the last two decades. The reduction of heat supply due to the growing degree of insulation has been partially off-set by new connections. The overall annual effect has resulted in the last several years in a slight reduction of heat supplies (at the level of 1-2% p.a. depending on the region, based on EOP data). As the degree of insulation is now relatively high, we believe that this remaining negative trend will level off in years to come.

Regulation

Heat and power generation and supply activities are generally liberalized in the Czech Republic, Germany and elsewhere throughout the European Union, although heat supply is regulated in the Czech Republic and heat distribution, due to its network nature, generally has high barriers to entry (in each territory there is only one distribution network, and the construction of a new distribution network by a competitor would involve large capital investments and costs) and is regulated. Accordingly, heat and power generation and supply activities are exposed to competition, even though the degree of that exposure in practical terms differs from country to country. Nevertheless, individual countries and the European Commission apply various rules and utilize various schemes through which they try to influence the behavior of individual market participants, particularly with respect to heat and power generation activities. Examples of these measures include various support schemes designed to encourage heat and power generation by renewable sources and CHP, promotion of efficient district heating and cooling, an EU-wide CO_2 allowance trading scheme, emission limits, regulation of access to the heat and power transmission and distribution grids and measures aimed at increasing interconnections between national power transmission grids, as well as cross-border interconnections.

Our Heat and Power segment, which comprised 79.3% and 52.5% of our consolidated EBITDA for the years ended December 31, 2011 and 2012, respectively (in each case, before intersegment elimination at the group level), is not entirely liberalized throughout the European Union, and in the Czech Republic the regulators determine the maximum prices that may be charged for heat distribution and/or supply. We are therefore exposed to pricing decisions of the regulators in those jurisdictions. See "Risk factors— Risks related to governmental regulations and laws— Our operations are subject to significant government regulation and laws and our business, financial condition, results of operations and cash flows could be adversely affected by changes in the law or regulatory schemes." In the Czech Republic, the ERO regulates the price that can be charged for supplying heat. The regulated tariffs for heat are based on economically justified costs necessary for production and distribution of heat, an "appropriate" profit margin for producers and VAT. The appropriate profit margin is set individually for each company and is based on historical margins both for the individual company as well as for its peer companies. See "Risk factors—Risks related to governmental regulations and laws—Changes in regulated tariffs could have a material adverse effect on our business, financial condition, results of operations and cash flows."

Forward contracts

An important factor contributing to our results of operations is our strategy of entering into forward contracts both to supply the EPE Group with raw materials on the cost side and to sell our power on the revenue side. We historically contract our purchase of fuel under long-term framework agreements, and we also supply our power on the basis of one-year forward contracts up to two years in advance, with corresponding purchases of emissions allowances. We aim to have sold over 90% of our power capacity (excluding power for grid balancing services) and to have purchased the corresponding emissions allowances (other than those that have been granted within the derogation schemes or transferred from our surplus from previous years) by the start of the calendar year. We have sought to reduce counter-party credit risk under our contracts in part by entering into power sales contracts with utilities or other customers that have a strong credit history and a history of making payments on time in the course of previous contracts with us, such as Slovenské elektrárne, a subsidiary of the Enel Group. We have established a credit policy under which every new customer purchasing services/products over a certain limit has their individual creditworthiness examined before we offer to supply services and we may also require suitable collateral to be granted by customers. In these instances, our cash flows and results of operations are dependent on the continued ability of customers and suppliers to meet their obligations under the relevant power sales contract or fuel supply contract, respectively.

The "Clean-Dark Spread"

A major driver of our profitability is attributable to the fluctuating spread between the prices at which we can sell power on the one hand and the major costs of power production on the other—namely the cost of primary fuel sources, in our case predominantly brown coal and to a small degree also natural gas and hard coal, and CO_2 emissions allowances—the "Clean-Dark Spread." Our power production operations are flexible, allowing us to activate production opportunistically when the Clean-Dark Spread is high, and to reduce it when the Clean-Dark Spread is low. A higher Clean-Dark Spread allows us to increase power production at a higher margin of profitability.

We both sell the power we generate on the wholesale market and purchase power on the wholesale market to supply end customers. In some cases, we may sell the power we generate directly to end-customers, such as the case with Saale Energie GmbH. We purchase two key commodities as part of our power and heat production activities: fuel (mainly brown coal) and emissions allowances.

Power. We sell a majority of the power we generate in liberalized markets, primarily to professional counterparties via OTC transactions at prevailing prices or via power exchanges (primarily the PXE in Prague and the EEX in Leipzig), including under our forward-contracted sales. As such, all related revenues are subject to fluctuations in wholesale power prices. Since power markets are liberalized in the Czech Republic and neighboring European Union countries, prices in these markets are closely correlated. In particular, wholesale power prices in the Czech Republic are fairly similar to those in Germany, with a difference fluctuating at around €0.50-€2/MWh, which reflects fluctuations in the cost of transferring power across the border. Accordingly, the prices at which EPE entities sell the power they produce may reflect events outside their respective domestic territories, such as the development of gas and hard coal prices, prices of emissions allowances, demand-supply dynamics in the German power market, and other factors. The impact of wholesale power price fluctuations on our operating profit is further exacerbated by the fact that the variable costs of generating power through our Czech generation fleet are fairly stable and not related to the factors that drive power prices in the region. Accordingly, our margins are directly impacted when power prices change. We also sell power in regional markets outside the Czech Republic, where different factors such as government and industry regulation and type and price of fuel used for generation may drive power prices. Our variable cost structure is different in those markets, leading to different patterns of volatility that impact our results. In order to reduce the impact of this price volatility, we sell most of the power we generate up to two years in advance at market prices (i.e. with reference to EEX or PXE). Accordingly, wholesale price decreases may not immediately affect our financial performance and results of operations. For example, the global economic crisis that began in 2008 caused substantial declines in power prices in the Czech Republic, when one-year forward power prices fell from almost €90/MWh in the summer of 2008 to close to €40/MWh in early 2009. The decline did not fully affect us until the year ended December 31, 2010. From 2009 to 2012, prices remained relatively stable in the €45/MWh to €55/MWh range, but temporarily increased above €55/MWh in March 2011, due to an accident at the Fukushima Daiichi nuclear reactor in Japan and the related shutdown of nuclear reactors in Germany. In 2013, prices have decreased to approximately €40/MWh, primarily due to the declining price of emissions allowances, which fell from the level of approximately €8-10/tCO_2 to the current level of €4-5/tCO_2, as well as due to increasing production from renewable sources.

Fuel. As part of our power production activities, we purchase and consume large quantities of brown coal, and smaller quantities of hard coal, natural gas and other alternative fuels. Approximately 2.6 million metric tons in 2010, 3.0 million metric tons in 2011 and 3.2 million metric tons in 2012, or 100% in 2010, 99.9% in 2011 and 96.1% in 2012, of the brown coal we use to produce heat and power and 100% of our other fuel needs is purchased from external providers, including Severoceske doly, Czech Coal, Emeran 1860, Sokolovska uhelna, and Pragoplyn. MIBRAG supplies its own needs for brown coal for its cogeneration and power generation operations. Our external fuel costs make up a large proportion of our overall costs and therefore price increases for fuel may lead to a significant impact on our results. See "Business—Heat generation, distribution and supply and cogeneration and power generation—Long-term fuel source contracting." Access to brown coal to fire our cogeneration plants in the Czech Republic is key to our business operations. However, due to the vertical integration with MIBRAG, we believe that any potential shortage of brown coal can be covered by deliveries from MIBRAG, reducing our exposure to supply risks. See "Risk Factors—Risks Related to Our Businesses and Industries—Risks related to each of our segments—We frequently engage a very small number of suppliers, particularly in our power and heat businesses, which significantly magnifies the risk of disruptions in the supply of coal, natural gas and other necessary raw materials and services we receive from third parties."

Emissions allowances. In 2005, the European Union introduced an emissions allowance trading scheme governed by the EU ETS Directive which was later revised in 2009. In accordance with the regulations of the EU ETS Directive, we were allocated free emissions allowances by the Czech and German governments according to their respective National Allocation Plans until December 31, 2012. We acquire emissions allowances through governmental allocations as well as purchase emissions allowances on the open market, if needed to offset our actual emissions. We sell any excess emissions allowances not used in our production activities on the open market. Although the free allocation of allowances under the EU Emissions Allowances Trading System was largely discontinued effective January 1, 2013, on July 6, 2012, the European Commission announced in MEMO/12/530 that it had authorized the Czech Republic's request for a continued free allocation of emissions allowances to the Czech power sector beyond the end of 2012. The scope of these allowances is limited to installations that started to generate power before December 31, 2008 or for which the investment process was "physically initiated" by that date. All our Czech power plants are covered by the derogation. The extension period will last from 2013 to 2019, and the free allowance extension is limited to no more than 70% of emissions for domestic power supply in 2013, declining annually thereafter to zero from 2020 onwards. The EU ETS Directive requires that installations benefitting from free allocations under the derogation invest in projects designed to modernize power generation in the Czech Republic. The value of these investments must mirror the value of the free allocation of emissions allowances, which we continue to achieve through our investments in our existing power plants, facilities and infrastructure to comply with this requirement. See "Risk factors—Risks related to governmental regulations and laws—We are exposed to changes in the way emissions allowances are allocated, including the conditions attaching to free allocations and the allocation of emission allowances from 2013, as well as volatility in the market prices of emission allowances that we need to acquire."

Different principles apply under the EU ETS Directive regarding heat. In compliance with Article 10a of the EU ETS Directive as revised in 2009, District Heating and CHP high efficiency plants shall receive free allowances for heat supply from 2013 to 2027. The derogation is available to all Member States, but is limited in terms of eligibility and quantity. All district heating and highly efficient cogeneration plants are eligible, regardless of the commissioning date. However, the Directive requires a maximum of 80% of free allowances in 2013 with a gradual decline in subsequent years to reach 30% in 2020. Further gradual decline will reach zero free allowances in 2027. Contrary to the free emissions allocation extension granted for power, the Directive does not require heating plants benefitting from the free allocation under the derogation to invest in any projects. See "Business—Derogation from EU ETS".

Our ability to secure sufficient emissions allowances is essential to our results of operations. See "Risk factors—Risks related to governmental regulations and laws—We are exposed to changes in the way emissions allowances are allocated, including the conditions attaching to free allocations and the allocation of emissions allowances from 2013, as well as volatility in the market prices of emissions allowances that we need to acquire." For details regarding the capital expenditures regarding emissions allowances, please refer to "—The EPE Group—Results of operations—Capital expenditures".

Energy optimization. We engage in a strategy of energy optimization whereby we decide whether our subsidiaries will produce power or whether we will purchase power on the wholesale market in order to meet our supply obligations. This decision depends on the price of power on the wholesale market. We will purchase power on the wholesale market for delivery by our power generation business at times when it is more economical for us to buy power for sale under our forward sale contracts rather than generate it ourselves. If this is not the case, we will produce the power. The process of energy optimization also involves selling and then reselling, potentially many times, the power we produce or the power we buy on the wholesale market. We conduct this sale and resale process in order to take advantage of price changes for power on the wholesale market to allow us to capture additional margin on the price of power.

Grid balancing services

In the Power Generation division of our Heat and Power segment, we provide grid balancing services to ČEPS, the Czech Transmission System Operator, and we also provide balancing services (i.e., decreases or increases in power supply on a short-notice basis (e.g., in some cases within 30 seconds)) to the transmission system operator ("TSO") in order to help the TSO maintain a reliable transmission system.

EPE is one of the certified providers of grid balancing services in the Czech Republic. EPE's market share in the provision of grid balancing services in the Czech Republic was approximately 4.7% in 2011 and 7.9% in 2012. We offer the following grid balancing services: (a) Primary Frequency Control, which is the ability to increase or decrease power output automatically based on grid frequency and must be available within 30 seconds; (b) Secondary Power Control, which is the change in the power output of a regulated generating unit, as requested by the load frequency controller, a mechanism operated by the TSO and must be enabled in full within 10 minutes; (c) Minute Reserve Available Within 5 Minutes (MR5), which is the ability to start power generation from 0 MW_e to certified capacity following a TSO request within five minutes; (d) Minute Reserve Available Within 15 Minutes (Negative) (MR15-) and Minute Reserve Available Within 15 Minutes (Positive) (MR15+), which is the decrease/increase, respectively in generating unit power output following a TSO request within 15 minutes; (e) Island Operations Capability (IO), which is the capability to generate power to supply an isolated part of the system, a so-called "island"; and (f) Black Start Capability (BS), which is the capability to start up without an external power supply, reach the set voltage value, connect to the grid and supply an island.

We generate two separate streams of revenues from the provision of grid balancing services, derived from two distinct fee arrangements: Capacity Fees and Activation Fees. Capacity Fees are those paid by the TSO regardless of whether an individual service is actually provided, as we have reserved the required capacities for such services. Activation Fees, in contrast, are paid by the TSO for individual services as and when they are actually provided. The majority of our revenues from grid balancing services come from Capacity Fees.

Factors impacting the results of our Renewables segment

Regulation

In the European Union and, in particular, in the Czech Republic and Germany, there is significant focus on the importance of renewable energy. This focus has led to significant governmental intervention designed to incentivize the production of renewable energy in chosen sectors. However, supportive government policy can change rapidly if a government deems that it has given too much support to a particular sector or when there are unintended negative financial or other negative consequences. For example, in 2005 the Czech Republic enacted laws and regulations designed to promote the use of renewable energy. In 2007, the Czech regulator significantly increased off-take prices for solar energy, which led to distortive behavior and significantly increased the volume of solar energy generated. As the 2005 Czech Act on Promotion of Renewable Energy imposed a legal obligation on energy distributors to financially support (by means of obligatory purchases of energy produced from renewable sources) the owners of solar power plants, the increased off-take price was paid by the energy distributors who passed the higher off-take prices on to the end customers, ultimately resulting in an increase in the price of power for the end customer. In 2010, the Czech Parliament approved significant changes in the law to counteract this price increase and the potentially destabilizing effects to the transmission network (for example through grid congestion, which could by itself impact the feed-in from our power plants), for example by significantly reducing eligibility for support, imposing a withholding tax on operators of solar facilities commissioned between January 1, 2009 and December 31, 2010 and abolishing an income tax exemption. In Germany, statutory law obligates grid operators to pay predetermined remuneration to operators of renewable energy plants for their feed-in to the grid. The costs of such remuneration are ultimately borne by the end customers as they are passed on via a so-called EEG surcharge and are paid as a part of the general electricity price. The applicable amount of feed-in remuneration differs depending on the respective renewable energy source. Once commissioned, the remuneration in general remains fixed for 20 years plus the year of commissioning. However, the amount of remuneration for feed-in from plants newly commissioned is subject to constant changes in the statutory law. For example, the Federal Parliament (*Bundestag*) together with the Council of the Federal States (*Bundesrat*) significantly reduced the feed-in remuneration for electricity from photovoltaic installations in 2012 and further amendments to the remuneration scheme for all other renewable energy sources are under discussion. These shifts in legislative strategy illustrates the potential that regulation has to significantly impact our results of operations if we make investments in certain kinds of renewable energy based on governmental policy, because the government can withdraw its support at any time. We are also the beneficiary of renewable energy subsidies at the EU, Czech and German levels and therefore are reliant on this type of continued financial support for renewables, something that we cannot control.

Project execution

The success of a renewables project is significantly influenced by external factors associated with obtaining required permits and approval processes. This mainly involves obtaining permits under applicable environmental protection legislation from the competent authorities, often including approval of an Environmental Impact Assessment ("EIA"), changes in land zoning plans, approval of all authorities and private parties affected by the planned project, and obtaining a land use decision by the state authority to satisfy zoning requirements, a construction permit and a usage permit. In the preparation of the EIA there may be unforeseen circumstances which have an effect on the project, such as the presence of protected plants and animals and any noise impact or stroboscopic effect. An EIA study has already been prepared or is under preparation for the projects we are currently planning. The parties that influence the feasibility and implementation of a project include state administration and governmental authorities, self-government authorities and private individuals or legal entities. A negative ruling can result in a delay or suspension of a project. Conditions imposed by authorities may negatively influence the timing or profitability of a project. During project development, obstacles can occur that we can not anticipate and that are not known to us at the time of project implementation. A project can also be negatively influenced by failure to reach agreement with a key land owner, as the project construction, including connection to energy mains, may need to pass through the land of a number of owners, so it is essential to obtain easements on the land concerned.

Another factor influencing the financial success of a project can be unexpected problems during construction, in particular, problems associated with geology, transportation of excess loads, technological deficiencies and delayed deliveries of key components. Delayed construction can have a negative effect on obtaining a subsidy. Another significant factor is the conclusion of contracts and the compliance of suppliers of individual parts with the contractual conditions.

Factors impacting the results of our Energy Supply and Trading segment

Wholesale power prices

In our Energy Supply and Trading segment, we both sell power generated by us in our Heat and Power segment in the wholesale market and purchase power from the wholesale market for delivery by the Power Generation division of our Heat and Power segment at times when it is more economical for us to buy power for sale under our forward sale contracts rather than generate it ourselves. As such, all related revenues are subject to fluctuations in wholesale power prices. Since power markets are liberalized in the Czech Republic and neighboring European Union countries, prices in these markets are closely correlated. Accordingly, our margins are directly impacted when power prices change. However, we will only trade when it is economically beneficial to do so, so this uncertainty is somewhat mitigated and our trading revenues during a particular period may vary from comparable periods depending on our trading volumes.

Commodity supply and trading

We supply and trade power and natural gas as part of our Energy Supply and Trading segment.

Our Energy Supply and Trading segment provides our CHP plants with constant access to the power market, enabling us to optimize energy generation based on market demand. As mentioned above, we both sell power generated by us in our Heat and Power segment in the wholesale market and purchase power from the wholesale market for delivery by the Power Generation division of our Heat and Power segment at times when it is more economical for us to buy power for sale under our forward sale contracts rather than generate it ourselves. This decision depends on the price of power on the wholesale market. If the price of power on the wholesale market is lower than the cost of producing power, we will buy power, and if the price on the wholesale market is higher than the cost of producing power, we will produce it. The process of energy optimization also involves selling and then reselling, potentially many times, the power we produce or the power we buy on the wholesale market. We conduct this sale and resale process in order to take advantage of price changes for power on the wholesale market to allow us to capture additional margin on the price of power. For example, if after selling the power that we intend to produce and locking in the sale price, the price of power drops to below our marginal cost of production, we will instead purchase the required amount of power for delivery. If the price of power then increases above our marginal cost of production, we will once again sell power we intend to produce, again locking in the sale price. If prices rise and fall further, we will repeat the process.

While our power and natural gas trading policies require that the majority of our trades are conducted on a back-to-back basis, i.e., we typically only purchase commodities on the market when we have an offsetting sales contract, and we do not maintain large open positions which expose us to downside risk, we also engage in limited opportunistic power and gas trading activities. These trades primarily relate to (a) speculation on seasonal differences in power and natural gas prices, i.e., we purchase gas in the spring and summer with the intention of selling it at a higher price in the winter; and (b) speculation based on announcements relating to the availability of emissions allowances, as a reduction in the number of available emissions allowances typically leads to an increase in emissions allowance prices and thus increasing power prices due to higher production costs. Additionally, in connection with the optimization of our supply and trading business, we are dependent on the liquidity of the wholesale market, and as a result, we may take limited open trading positions, i.e. not match a sale with a purchase until there is more liquidity in the market, or if prices are falling, wait to make the matching purchase transaction. Nevertheless, such opportunistic trading activity is fairly limited, and the maximum exposure we may take through proprietary trading is subject to limits that set the maximum risk of loss on trading portfolios. Under our current policies, open positions in power and gas over any period of time are limited by an aggregate mark-to-market value of €5 million in power and €1 million in natural gas. If we exceed these thresholds on our open positions, we are required by EPE Group policies to close out of our open positions to a value below these thresholds.

Other factors impacting the results of the EPE Group

Capital expenditures

Capital expenditures are necessary to maintain and improve the operations of our facilities and meet operating standards dictated by governmental regulations. Construction and maintenance costs have increased throughout the power industry over the past several years, and future costs will be highly dependent on the cost of components and availability of contractors that can perform the work necessary to maintain and improve other facilities. See "—Liquidity and capital resources of the EPE Group—Capital expenditures."

The table below summarizes our capital expenditures (disregarding actual cash flows) for the Mining segment:

In CZK millions	For the year ended December 31, 2011	For the year ended December 31, 2012
Capital expenditures relating to tangible fixed assets	369	980
Capital expenditures relating to intangible fixed assets excluding emission rights	10	26

Our Mining segment includes the MIBRAG Group (excluding MNE and B&B). We acquired a 50% share in the MIBRAG Group in June 2011, which was consolidated proportionately from July 1, 2011 onwards for income statement purposes. We acquired the remaining 50% share of the MIBRAG Group in June 2012. As such, the MIBRAG Group is fully consolidated only from July 1, 2012 onwards.

Capital expenditures relating to tangible fixed assets increased by CZK 611 million, or 165.6%, to CZK 980 million in the year ended December 31, 2012 from CZK 369 million in the year ended December 31, 2011. This increase in capital expenditures in 2012 is mainly related to the changes in the consolidation scope described above. The most significant areas of capital expenditures in 2012 were the relocation of the state road B176, refurbishments of conveyor belt systems, refurbishments of mining equipment and the acquisition of new land. The majority of these capital expenditures are connected to the development of MIBRAG's mining operations, notably the movement of mining infrastructure to the mining field Peres within MIBRAG's Vereinigtes Schleenhain mine.

Capital expenditures relating to intangible fixed assets (excluding emissions rights) were not material.

The table below summarizes our capital expenditures (disregarding actual cash flows) for the Heat and Power segment:

In CZK millions	For the year ended December 31, 2011	For the year ended December 31, 2012
Capital expenditures relating to tangible fixed assets	870	806
Capital expenditures relating to intangible fixed assets excluding emission rights	29	8

Capital expenditures relating to tangible fixed assets decreased by CZK 64 million, or 7.4%, to CZK 806 million for the year ended December 31, 2012 as compared to CZK 870 million for the year ended December 31, 2011. This decrease was primarily due to capital expenditures at PE returning to normal levels in 2012 as components to 2011 during which year we made exceptionally high capital expenditures to install a new ancillary service unit relating to 21 MWe of installed capacity. This decrease was partially offset by investment in a tunnel under the Vltava river (the connection of a heating system in Holesovice, sourced from a gas fired plant, to the "east bank system," which is sourced from a cheaper source, Energotrans), the acquisition of a heat distribution system in Mělník, Czech Republic, as well as expenses in connection with the refit of EOP's boilers to extend the range of brown coal that can be used, in each case in 2012.

Capital expenditures relating to intangible fixed assets (excluding emission rights) decreased by CZK 21 million, or 72.4%, to CZK 8 million for the year ended December 31, 2012 as compared to CZK 29 million for the year ended December 31, 2011.

The table below summarizes our capital expenditures (disregarding actual cash flows) for the Renewables segment:

In CZK millions	For the year ended December 31, 2011	For the year ended December 31, 2012
Capital expenditures relating to tangible fixed assets	373	61
Capital expenditures relating to intangible fixed assets excluding emission rights	0	0

Capital expenditures relating to tangible fixed assets decreased by CZK 312 million, or 83.6%, to CZK 61 million for the year ended December 31, 2012 as compared to CZK 373 million for the year ended December 31, 2011, primarily due to the commissioning of new renewable energy projects in 2011, which required higher start-up capital expenditures in 2011 as compared to maintenance capital expenditures in 2012.

The table below summarizes our capital expenditures (disregarding actual cash flows) for the Energy Supply and Trading segment:

In CZK millions	For the year ended December 31, 2011	For the year ended December 31, 2012
Capital expenditures relating to tangible fixed assets	5	2
Capital expenditures relating to intangible fixed assets excluding emission rights	5	12

Capital expenditures relating to tangible fixed assets decreased by CZK 3 million, or 60.0%, to CZK 2 million for the year ended December 31, 2012 as compared to CZK 5 million for the year ended December 31, 2011, primarily due to higher investments in new office space for EPET and PEAS (which merged with EPET on January 1, 2013), as well as in EPET's new call center in 2011.

Capital expenditures relating to intangible fixed assets excluding emission rights increased by CZK 7 million, or 140.0%, to CZK 12 million for the year ended December 31, 2012 as compared to CZK 5 million for the year ended December 31, 2011, primarily due to investment in new hardware for EPET's information technology assets and our customer service system.

The table below summarizes our capital expenditures (disregarding actual cash flows) for the Other segment:

In CZK millions	For the year ended December 31, 2011	For the year ended December 31, 2012
Capital expenditures relating to tangible fixed assets	2	2
Capital expenditures relating to intangible fixed assets excluding emission rights	0	0

Acquisitions and divestitures and the structure of the EPE Group

The EPE Group was formed through a series of strategic acquisitions, bolt-ons and business combinations and we may continue to acquire additional subsidiaries in the future or divest subsidiaries and interests in subsidiaries. This will affect our operations in the overall EPE Group's results. Our acquisitions and divestitures may affect our results of operations and the period-to-period comparability of our financial statements. See "—Factors affecting the results of operations of the EPE Group—Key factors affecting comparability of the results of operations of the EPE Group," "Business—History and development of the EPE Group," "Risk factors—Risks related to our businesses and industries—We have recently added new businesses to the EPE Group and have made and may make acquisitions in the future. Newly added or acquired businesses may not be integrated or managed successfully, and we may fail to realize the anticipated synergies, growth opportunities and other benefits expected from these additions or acquisitions as a result," "Recent developments" and "—Sale of Energotrans."

The EPE Group

Description of key income statement line items and key performance indicators of the EPE Group

Key income statement line items

Sales: Energy. We present Sales: Energy in five component parts: sales of electricity, sales of heat, sales of gas, sales of coal and sales of other energy products across all of our segments. We recognize revenue when persuasive evidence exists, usually in the form of an executed sales agreement, that the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. Revenue from the sale of own products and goods in the course of ordinary activities is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Discounts are recognized as a reduction of revenue as the sales are recognized, if it is probable that discounts will be granted and the amount can be measured reliably. Revenues from services rendered are recognized in profit or loss in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed by reference to surveys of work performed. No revenue is recognized if there are significant uncertainties regarding the recovery of the consideration due, associated costs or the possible return of goods.

Sales**: Other**. Sales: Other represent revenues from non-core activities, including sales of brown coal dust and energy by-products (such as ash and gypsum).

Cost of sales: Energy. Cost of sales: Energy is divided into five component parts, namely cost of sold energy, cost of sold gas and other energy products, consumption of coal and other material, consumption of energy and other cost of sales. Cost of sales: Energy does not include directly attributable overhead costs (particularly personnel expenses, depreciation and amortization, repairs and maintenance emission rights, taxes and charges). Cost of sales: Energy also includes losses incurred in energy trading transactions.

Cost of sales: Other. Cost of sales: Other is divided into five component parts, namely cost of goods sold, consumption of material, consumption of energy, changes in work-in-progress, semi-finished products and finished goods and other cost of sales. Cost of sales: Other does not include directly attributable overhead costs (particularly personnel expenses, depreciation and amortization, repairs and maintenance emission rights, taxes and charges).

Personnel expenses. Personnel expenses represent expenses related to employees and board members, including wages and salaries of employees, benefits, remuneration of board members, social and health insurance, provisions related to employees (e.g., provisions for untaken holidays, accruals for bonuses and rewards), revenues/expenses related to employee benefits recorded in accordance with IAS 19 and other costs related to employees during the reporting period.

Depreciation and amortization. Depreciation represents non-cash expenses of tangible assets over time. Amortization represents non-cash expenses of intangible assets over time.

Repairs and maintenance. Repairs and maintenance represent externally incurred costs to bring an asset back to an earlier condition or to keep the asset operating in its present condition.

Emission rights, **net**. Emission rights, net comprise the profit from sale of emission allowances and the consumption of emission allowances on a continuous basis based on the actual production of emissions, with a corresponding decrease in the carrying value of deferred income on a systematic basis over the period for which the rights were issued.

Negative goodwill. Negative goodwill (gain on bargain purchase) represents a gain occurring when the price paid for an acquisition is less than the fair value of net assets of the acquired company.

Taxes and charges. Taxes and charges comprise gift taxes on emission allowances allocated by the Czech government, electricity taxes, property taxes and other taxes and charges (excluding income tax).

Other operating income and expenses. Other operating income and expenses represent items that are of secondary importance compared to the EPE Group's principal activities. These items include, for example, rental income, contractual penalties received from suppliers or paid to customers, consulting fees and commissions expense, transport services, insurance services, consumption of material, gains/losses on sale of intangible assets/property (excluding the sale of emissions allowances), plant and equipment or inventories, creation and reversal of various provisions, outsourcing and administrative fees and professional and advertising services.

Finance income. Finance income comprises interest income on funds invested, dividend income, changes in the fair value of financial assets at fair value through profit or loss, foreign currency gains (only if total foreign currency gains and losses result in net income; receivables in foreign currency are recalculated mark-to-market at the end of the accounting period to Czech crowns) that do not qualify for hedge accounting, gains on sale of investments in securities and gains on hedging instruments that are recognized in profit or loss.

Finance expense. Finance cost comprises interest expense on borrowings, unwinding of the discount on provisions (e.g., on provisions for decommissioning), foreign currency losses (only if total foreign currency gains and losses result in a net expense; payables in foreign currency are recalculated mark-to-market at the end of the accounting period to Czech crowns); realized profit from currency derivative contracts that do not qualify for hedge accounting, changes in the fair value of financial assets at fair value through profit or loss, fees and commissions expense for payment transactions and guarantees and impairment losses recognized on financial assets.

Profit/(loss) from derivative financial instruments. Profit/(loss) from derivative financial instruments represents profit or loss from commodity derivatives (including mark-to-market valuations at the end of the accounting period), currency derivatives (including both realized and mark-to-market valuations at the end of the accounting period), hedging activities and interest rate derivatives that do not qualify for hedge accounting.

Share of profit/(loss) of equity accounted investees. Share of profit/loss of equity accounted investees represents a share of profit of equity accounted associates.

Gain/(loss) on disposal of subsidiaries, special purpose entities, joint ventures and associates. Gain/Loss on disposal of subsidiaries, special purpose entities, joint ventures and associates comprises gain or loss from selling an ownership interest in a company.

Income tax expenses. Income tax expenses represent the sum of the tax currently payable and deferred tax. The tax currently payable is based on taxable profit for the year. Deferred tax is accounted for using the balance sheet method and is recognized on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases.

Other comprehensive income for the year, net of tax. Other comprehensive income represents the difference between net income in the income statement and comprehensive income (which is the change in equity of a business enterprise during a period from transactions and other events and circumstances from non-owner sources; it includes all changes in equity during a period except those resulting from investments by owners and distributions to owners).

Total comprehensive income for the year. Total comprehensive income for the year represents the change in equity during a period resulting from transactions and other events, other than those changes resulting from transactions with owners in their capacity as owners. Total comprehensive income comprises all components of “profit or loss” and of Other comprehensive income, net of tax, and represents the certain gains and losses of the enterprise not recognized in the income statement.

Results of operations of the EPE Group

The following sections provide a period-by-period comparison of the EPE Group’s historical income statement data. The financial data has been prepared in accordance with IFRS, and has been derived from our audited consolidated financial statements for the year ended December 31, 2012, and should be read in conjunction with and is qualified in its entirety by reference to these financial statements, including the notes thereto, and the information under “Presentation of financial information” and “Business”, each of which is included elsewhere in this Report.

Sale of Energotrans

As of December 31, 2011, assets held for sale totaling CZK 11,980 million and liabilities held for sale totaling CZK 2,124 million were fully represented by Energotrans, a.s. (at that time, a subsidiary of PT). On July 28, 2011, a share purchase agreement (the “SPA”) was signed, under which PT sold a 100% interest in Energotrans, a.s. (“ET”) to the ČEZ, a.s. (“ČEZ”) group. This concluded long-running business negotiations between PT and ČEZ about the sale of ET. The transaction was settled on June 28, 2012.

In connection with this transaction, EAST BOHEMIA ENERGY HOLDING LIMITED (the parent company of NPTH, a.s., which holds a 50.07% share in PT) received an advance payment from ČEZ. The advance payment totaling CZK 11,963 million as of December 31, 2010 was received before EAST BOHEMIA ENERGY HOLDING LIMITED was acquired by EPE Group (December 31, 2010). As of December 31, 2011 the advance payment increased to CZK 12,767 million.

The net identifiable assets and liabilities disposed during the transaction totaled CZK 10,629 million. As a result, the EPE Group gained a profit of CZK 2,590 million, and cash flow from investing activities increased by CZK 13,219 million. Simultaneously with the sale, the advance payment from ČEZ was settled, which resulted in an off-setting cash outflow from operating activities of CZK 12,767 million.

Our consolidated financial statements for the year ended December 31, 2012 and as at and for the year ended December 31, 2011 include the financial results of ET for the time during which PT owned ET (i.e., until June 2012).

Results of operations of the EPE Group: the year ended December 31, 2012 compared to the year ended December 31, 2011

The following table sets forth our historical income statement data derived from our audited consolidated financial statements for the year ended December 31, 2012, as well as other financial data. For a description of the changes in the reporting perimeter, see the table titled "Periods presented in the Company's consolidated IFRS financial statements."

	For the year ended			
	December 31, 2011[1]		December 31, 2012[2]	
	(in CZK millions)	%	(in CZK millions)	%
Sales: Energy	32,701	97.8	39,295	95.7
of which: Electricity	19,809	59.3	22,431	54.6
Heat	5,749	17.2	6,859	16.7
Gas	4,956	14.8	3,711	9.1
Coal	2,091	6.2	6,294	15.3
Other energy products	96	0.3	–	–
Sales: Other	725	2.2	1,770	4.3
Total sales	33,426	100.0	41,065	100.0
Cost of sales: Energy	(23,188)	(69.4)	(25,276)	(61.6)
Cost of sales: Other	(680)	(2.0)	(422)	(1.0)
Total cost of sales	(23,868)	(71.4)	(25,698)	(62.6)
	9,558	28.6	15,367	37.4
Personnel expenses	(2,059)	(6.2)	(3,784)	(9.2)
Depreciation and amortization	(3,447)	(10.3)	(5,211)	(12.7)
Repairs and maintenance	(392)	(1.2)	(457)	(1.1)
Emission rights, net	157	0.5	135	0.3
Negative goodwill	208	0.6	3,012	7.3
Taxes and charges	(481)	(1.4)	(382)	(0.9)
Other operating income	669	2.0	2,247	5.5
Other operating expenses	(1,292)	(3.9)	(2,252)	(5.5)
Profit/(loss) from operations	2,921	8.7	8,675	21.1
Finance income	536	1.6	509	1.2
Finance expense	(1,915)	(5.7)	(2,013)	(4.9)
Profit/(loss) from derivative financial instruments	(13)	–	(98)	(0.2)
Net finance income/(expense)	(1,392)	(4.1)	(1,602)	(3.9)
Share of profit/(loss) of equity accounted investees, net of tax	15	–	(9)	–
Gain/(loss) on disposal of subsidiaries, special purpose entities, joint ventures and associates	–	–	4,484	10.9
Profit/(loss) before income tax	1,544	4.6	11,548	28.1
Income tax expenses	(645)	(1.9)	(1,021)	(2.5)
Profit/(loss) for the year	899	2.7	10,527	25.7
Other comprehensive income for the year, net of tax	1	–	125	(0.1)
Total comprehensive income for the year	900	2.7	10,652	25.9
Profit/(loss) attributable to:				
Owners of the Company	901	2.7	10,547	25.6
Non-controlling interest	(2)	–	(20)	–

	For the year ended			
	December 31, 2011[(1)]		December 31, 2012[(2)]	
Profit/(loss) for the year	899	2.7	10,527	25.6
Total comprehensive income attributable to:				
Owners of the Company	902	2.7	10,673	26.0
Non-controlling interest	(2)	–	(21)	(0.1)
Total comprehensive income for the year	900	2.7	10,652	25.9

Key line items

Sales: Energy

Sales: Energy increased by CZK 6,594 million, or 20.2%, to CZK 39,295 million for the year ended December 31, 2012 as compared to CZK 32,701 million for the year ended December 31, 2011.

Sales of electricity

Sales of electricity increased by CZK 2,622 million, or 13.2%, to CZK 22,431 million for the year ended December 31, 2012 as compared to CZK 19,809 million for the year ended December 31, 2011. This increase in sales of electricity was primarily due to a significant increase in sales of electricity by EPET (including PEAS), UE and EOP, generally reflecting higher electricity resales stemming from our electricity optimization process; a higher volume of electricity was purchased from EPE generating companies, as well as on the wholesale market, which was in turn resold on the wholesale market. These increased volumes were primarily bought as a result of EOP's outsourcing its electricity trading to PEAS (which merged with EPET on January 1, 2013), as well as a generally higher volume of trading as PEAS (which merged with EPET on January 1, 2013) increased its electricity pricing optimization activities. This increase also reflects the acquisition of the 50% ownership interest in MIBRAG, which was reflected in our income statement from July 1, 2011, and the subsequent acquisition of the remaining 50%, which was reflected in our income statement from July 1, 2012, and the electricity sales from its three CHP plants. The increase was partially offset by decreases in electricity sales by PT due to an increased purchase of heat from Energotrans, as the purchase price of heat from Energotrans was lower than PT's cost of heat production. When it began to purchase increased volumes of heat from Energotrans, PT reduced its own heat production and, consequently, the amount of power produced in cogeneration was reduced.

Sales of heat

Sales of heat increased by CZK 1,110 million, or 19.3%, to CZK 6,859 million for the year ended December 31, 2012 as compared to CZK 5,749 million for the year ended December 31, 2011. This increase in sales of heat was primarily due to higher heat prices, as well as the acquisition of the 50% ownership interest in MIBRAG, which was reflected in our income statement from July 1, 2011, and the subsequent acquisition of the remaining 50%, which was reflected in our income statement from July 1, 2012, as well as the full consolidation of PT in our income statement from July 1, 2012, and to a lesser extent higher heat volumes at EOP and PT (due to higher heat prices and colder weather in 2012 as compared to 2011), partially offset by decreases in sales volumes of heat at UE (due to slightly warmer weather in the region in which UE operates in 2012 as compared to 2011).

Sales of gas

Sales of gas decreased by CZK 1,245 million, or 25.1%, to CZK 3,711 million for the year ended December 31, 2012 as compared to CZK 4,956 million for the year ended December 31, 2011. This decrease in sales of gas was primarily due to lower gas sales by EPET due to more intense competition in the natural gas market, the loss of some of our larger industrial gas customers, and our decision to limit our activities in the supply of natural gas when there were negative or zero margins.

Sales of coal

Sales of coal increased by CZK 4,203 million, or 201.0%, to CZK 6,294 million for the year ended December 31, 2012 as compared to CZK 2,091 million for the year ended December 31, 2011. This increase in sales of coal was primarily due to the effect of inclusion of the acquisition of a 50% ownership interest in MIBRAG in our 2011 income statement from July 1, 2011, and the subsequent acquisition of the remaining 50%, which was reflected in our income statement from July 1, 2012. MIBRAG itself was able to increase its sales of brown coal due to the fact that it was able to increase the average price of brown coal sold to its three principal customers which led to an increase of €29.2 million in sales of coal from these customers in 2012 compared to 2011. The price increase was partly driven by the application of price escalation formulas contained in our supply contracts as well as a one-off price increase with respect to a fixed capacity payment related to the Vattenfall part of the Schkopau supply contract (€20.0 million).

Sales of other energy products

Sales of other energy products decreased by CZK 96 million, or 100.0%, to CZK 0 million for the year ended December 31, 2012 compared to CZK 96 million for the year ended December 31, 2011. This decrease in sales of other energy products was primarily due to the fact beginning with the year ended December 31, 2012, these items are now classified in the line item Sales: Other.

Sales: Other

Sales: Other increased by CZK 1,045 million, or 144.1%, to CZK 1,770 million for the year ended December 31, 2012 as compared to CZK 725 million for the year ended December 31, 2011. This increase in Sales: Other was primarily due to the effect of inclusion of the acquisition of a 50% ownership interest in MIBRAG in our income statement from July 1, 2011, and the subsequent acquisition of the remaining 50%, which was reflected in our income statement from July 1, 2012, specifically through the processing of coal from other companies used for production of briquettes, sales of brown coal dust and energy by-products (such as ash or gypsum) by MIBRAG.

Cost of sales: Energy

Cost of sales: Energy increased by CZK 2,088 million, or 9.0%, to CZK 25,276 million for the year ended December 31, 2012 as compared to CZK 23,188 million for the year ended December 31, 2011. This increase in Cost of sales: Energy was primarily due to an increase in volumes of power sold and resold in connection with our electricity optimization process (and hence related increased costs in the purchase of power for resale).

Cost of sales: Other

Cost of sales: Other decreased by CZK 258 million, or 37.9%, to CZK 422 million for the year ended December 31, 2012 as compared to CZK 680 million for the year ended December 31, 2011. This decrease in Cost of sales: Other was primarily due to presentation changes related to MIBRAG which resulted mainly in an increase in Cost of sales: Energy and a decrease in Cost of sales: Other.

Personnel expenses

Personnel expenses increased by CZK 1,725 million, or 83.8%, to CZK 3,784 million for the year ended December 31, 2012 as compared to CZK 2,059 million for the year ended December 31, 2011. This increase in personnel expenses was primarily due to the two-step acquisition of MIBRAG and the full consolidation of PT in our income statement from July 1, 2012. Personnel expenses of MIBRAG itself increased in the year ended December 31, 2012 as compared to the year ended December 31, 2011. Such increased expenses at MIBRAG itself were primarily attributable to overall wage increases as a result of a collective tariff agreement, while the number of employees remained relatively stable. At PT itself, personnel expenses decreased due to a lower average number of employees.

Depreciation and amortization

Depreciation and amortization increased by CZK 1,764 million, or 51.2%, to CZK 5,211 million for the year ended December 31, 2012 as compared to CZK 3,447 million for the year ended December 31, 2011. This increase in depreciation and amortization was primarily due to the two-step acquisition of MIBRAG and the purchase price allocation for the acquisition of MIBRAG, as well as the purchase price allocation for the acquisition of the additional ownership interest in PT and the acquisition of Saale Energie, that in each case increased the value of fixed assets.

Repairs and maintenance

Repairs and maintenance increased by CZK 65 million, or 16.6%, to CZK 457 million for the year ended December 31, 2012 as compared to CZK 392 million for the year ended December 31, 2011. This increase in Repairs and maintenance was primarily due to the acquisition of a 50% ownership interest in MIBRAG, which was reflected in our income statement from July 1, 2011, and the subsequent acquisition of the remaining 50%, which was reflected in our income statement from July 1, 2012. These expenses primarily relate to general maintenance of MIBRAG's capital assets, including mining equipment. The increase was partially offset by repairs and maintenance savings at PT.

Emission rights, net

Emission rights, net decreased by CZK 22 million, or 14.0%, to CZK 135 million for the year ended December 31, 2012 as compared to CZK 157 million for the year ended December 31, 2011. This decrease in emission rights, net was primarily due to a decrease in profit from the sale of emission allowances for the year ended December 31, 2012 as compared to the year ended

December 31, 2011 by UE, lower deferred income released to profit as the value of the grant of free emissions rights declined, and lower consumption of emissions rights by unit price.

Negative goodwill

Negative goodwill increased by CZK 2,804 million, or 1,348.1%, to CZK 3,012 million for the year ended December 31, 2012 as compared to CZK 208 million for the year ended December 31, 2011. This increase in negative goodwill was primarily due to the two-step acquisition of MIBRAG. The first 50% ownership interest was acquired in June 2011 and the second 50% ownership interest was acquired in June 2012. Pursuant to IFRS 3—business combinations, EPE booked these acquisitions at fair value determined by an independent valuation expert. The second valuation was higher than the first, reflecting improved business prospects for MIBRAG, and resulted in increases to negative goodwill in respect of both the first and second prongs of the MIBRAG acquisition. The increase in negative goodwill was also due to the acquisition of Saale Energie GmbH in July 2012.

Taxes and charges

Taxes and charges decreased by CZK 99 million, or 20.6%, to CZK 382 million for the year ended December 31, 2012 as compared to CZK 481 million for the year ended December 31, 2011. This decrease in taxes and charges was primarily due to a decrease in the gift tax on emissions allowances at PT, PE, UE and EOP. This decrease was partially offset by an increase in electricity tax expense for the year ended December 31, 2012 as compared to the year ended December 31, 2011, due to the effect of the inclusion of the acquisition of a 50% ownership interest in MIBRAG in our 2011 income statement from July 1, 2011, as well as an increase in the real estate transfer tax for 2012 for Lignite Investments 1 Limited related to the acquisition of the second 50% of MIBRAG.

Other operating income

Other operating income increased by CZK 1,578 million, or 235.9%, to CZK 2,247 million for the year ended December 31, 2012 as compared to CZK 669 million for the year ended December 31, 2011. This increase in other operating income is primarily due to the non-recurring release of reclamation provisions at MIBRAG (CZK 2,136 million), which was caused by an increase in the assumed discount rate and an increase in the assumed inflation rate.

Other operating expenses

Other operating expenses increased by CZK 960 million, or 74.3%, to CZK 2,252 million for the year ended December 31, 2012 as compared to CZK 1,292 million for the year ended December 31, 2011. This increase in other operating expenses is primarily due to the acquisition of a 50% ownership interest in MIBRAG, which was reflected in our income statement from July 1, 2011, and the subsequent acquisition of the remaining 50%, which was reflected in our income statement from July 1, 2012. The increase also reflects the consolidation of Saale Energie from August 1, 2012, and increased use of consulting and outsourcing services by EPE.

Finance income

Finance income decreased by CZK 27 million, or 5.0%, to CZK 509 million for the year ended December 31, 2012 as compared to CZK 536 million for the year ended December 31, 2011.

Finance expense

Finance expense increased by CZK 98 million, or 5.1%, to CZK 2,013 million for the year ended December 31, 2012 as compared to CZK 1,915 million for the year ended December 31, 2011. This increase in Finance expense was primarily due to an increase in EPE's indebtedness in connection with the acquisition of MIBRAG, the acquisition of Saale Energie, and the settlement of the sale of ET.

Profit/(loss) from derivative financial instruments

Profit/(loss) from derivative financial instruments changed to a loss of CZK 98 million for the year ended December 31, 2012 from a loss of CZK 13 million for the year ended December 31, 2011. This change in profit/(loss) from financial instruments was primarily due to losses from financial instruments at EOP and PEAS due to mark-to-market adjustments of energy forward sales and purchase contracts, as well as revaluation of foreign currency derivatives at UE, partially offset by gains on financial instruments at EPET, due to mark-to-market adjustments on currency hedging contracts.

Share of profit/(loss) of equity accounted investees, net of tax

Share of profit/(loss) of equity accounted investees, net of tax decreased by CZK 24 million, or 160.0%, to a loss of CZK 9 million for the year ended December 31, 2012 as compared to a profit of CZK 15 million for the year ended December 31, 2011. This decrease in share of profit of equity accounted investees, net of tax was primarily due to a different scope of consolidation. Equity accounted investees as at December 31, 2012 included Pražská teplárenská Holding a.s. ("PTH"), Mitteldeutsche Umwelt- und Entsorgung GmbH ("MUEG"), Fernwärme GmbH Hohenmölsen—Webau ("WEBAU") (representing an effective shareholding of 25% of MUEG and of 24.48% of WEBAU from January 1, 2012 to June 30, 2012, which reflects the ownership of the first 50% interest in MIBRAG, and 50% and 48.96%, respectively, after July 1, 2012, which reflects the acquisition of the remaining 50% interest in MIBRAG), Kraftwerk Schkopau GbR (representing a shareholding of 41.9% from August 1, 2012, reflecting the acquisition of Saale Energie) and Kraftwerk Schkopau Betriebsgesellschaft GmbH (representing a shareholding of 44.4% from August 1, 2012, reflecting the acquisition of Saale Energie), which contributed a CZK 30 million loss. On December 31, 2011 only PRVNÍ MOSTECKÁ a.s., PTH and from July 1, 2011, 50% of MUEG and WEBAU (representing an effective shareholding of 25% of MUEG and of 24.48% of WEBAU from July 1, 2011 to December 31, 2012, which reflects the ownership of the first 50% interest in MIBRAG) were included.

Gain/(loss) on disposal of subsidiaries, special purpose entities, joint ventures and associates

Gain/(loss) on disposal of subsidiaries, special purpose entities, joint ventures and associates increased by CZK 4,484 million to CZK 4,484 million for the year ended December 31, 2012 as compared to CZK 0 million for the year ended December 31, 2011. This increase in gain on disposal of subsidiaries, special purpose entities, joint ventures and associates was primarily due to the sale of Energotrans, a.s., a subsidiary of PT, in an amount of CZK 2,590 million, as well as the impact of gaining control of PT in an amount of CZK 866 million and the impact from the step acquisition of the remaining 50% ownership in MIBRAG, reflected in the EPE financial statements from July 1, 2012 in an amount of CZK 1,028 million.

Income tax expenses

Income tax expenses increased by CZK 376 million, or 58.3%, to CZK 1,021 million for the year ended December 31, 2012 as compared to CZK 645 million for the year ended December 31, 2011. This increase in income tax expenses was primarily due to a change to deferred tax, which was partially due to the inclusion of the 50% ownership interest in JTSD (the parent company of MIBRAG) in our 2011 income statement starting from July 1, 2011, and the subsequent acquisition of the remaining 50%, which was reflected in our income statement from July 1, 2012, as well as at EPE, which resulted in deferred taxes due to the accrual of costs related to the issuance of the Existing Notes and the Senior Credit Facility, as well as improved profitability of the EPE Group.

Other comprehensive income for the year, net of tax

Other comprehensive income for the year, net of tax, increased by CZK 124 million to CZK 125 million for the year ended December 31, 2012 as compared to CZK 1 million for the year ended December 31, 2011. This increase in other comprehensive income for the period, net of tax, was primarily due to foreign exchange differences arising from the translation of the financial statements of foreign operations.

Total comprehensive income for the year

Total comprehensive income for the year increased by CZK 9,752 million to CZK 10,652 million for the year ended December 31, 2012 as compared to CZK 900 million for the year ended December 31, 2011. This increase in total comprehensive income for the period was due to an increase in profit for the year ended December 31, 2012.

Net debt of the EPE Group:

Net debt (Loans and borrowings *plus* financial instruments and financial liabilities *less* cash and cash equivalents) of the EPE Group increased by CZK 5,275 million to CZK 17,912 million for the year ended December 31, 2012, from CZK 12,637 million for the year ended December 31, 2011. The key components of the increase were the issuance of the Notes and loans from our parent EPH. There was also an impact from bank loans for projects in the Renewables segment.

Balance sheet:

Total assets as of December 31, 2012 were CZK 82,393 million, which represents a CZK 22,363 million increase compared to Total assets as of December 31, 2011 of CZK 60,030. The increase was primarily driven by the change in the scope of consolidation (the full consolidation of JTSD and its subsidiaries and PT and the acquisition of Saale Energie GmbH).

Total equity increased primarily due to the fact that there were no dividends paid out and the EPE Group reported a stronger net profit in the year ended December 31, 2012 compared to the year ended December 31, 2011. Equity including Non-controlling interest for the year ended December 31, 2012 represented 43.9% of the balance sheet total, which is an improvement of 13.2 percentage points compared to the year ended December 31, 2011.

The key movements in the balance sheet as of December 31, 2012 compared to December 31, 2011 were primarily due to the impact of the full consolidation of JTSD and its subsidiaries and PT and the acquisition of Saale Energie GmbH, partially offset by the impact of the sale of Energotrans a.s. by Pražská teplárenská a.s.

Cash and cash equivalents on the balance sheet as of December 31, 2012 includes CZK 4,390 million, which reflects proceeds of the sale of Energotrans, a.s., and is reserved for PT's minority shareholders. For more information, see "—Sale of Energotrans."

Liquidity and capital resources of the EPE Group

Capital resources

Our financial condition and liquidity are and will continue to be influenced by a variety of factors, including:

- our ability to generate cash flows from our operations;
- the level of our outstanding indebtedness, and the interest we are obligated to pay on such indebtedness, which affects our financing costs;
- prevailing interest rates, which affect our debt service requirements;
- our ability to continue to borrow funds from banks and international debt capital markets;
- our level of acquisitions activity; and
- our capital expenditure requirements and development projects.

Our historical liquidity requirements have arisen primarily from the need for us to meet our debt service requirements, to fund capital expenditures for the general maintenance and expansion of our production and heat distribution facilities and for new facilities, to fund growth in our working capital and to support our acquisition strategy.

Our primary sources of liquidity historically have been cash flows from operations of subsidiaries, cash on our balance sheet and external financings (including shareholder loans, since our issuance of the Notes, bonds and, since we entered into the Senior Credit Facility, borrowings thereunder). Our ability to generate cash from our operations depends on future operating performance, which is in turn dependent, to some extent, on general economic, financial, competitive market, legislative, regulatory and other factors, many of which are beyond our control.

We believe that our operating cash flows, together with the cash reserves and future permitted borrowings under our debt facilities, will be sufficient to fund our working capital requirements, anticipated capital expenditures and debt service requirements as they become due.

Cash flow

The following table summarizes our consolidated cash flows for the years ended December 31, 2011 and 2012.

	Year ended December 31, 2011	Year ended December 31, 2012
	(in CZK millions)	
Operating profit before changes in working capital	5,948	9,643
Selected changes to working capital		
Change in financial instruments in other than fair value	7,094	(7,424)
Change in trade receivables and other assets	(466)	(1,317)
Change in inventories (including proceeds from sale)	92	(47)
Change in extracted minerals and mineral products	(51)	(54)
Change in trade payables and other liabilities	1,422	(16,020)
Change in assets held for sale and related liabilities	599	(1,927)
Cash flows generated from (used in) operating activities	**13,061**	**(19,394)**
Selected cash flows from (used in) investing activities		
Acquisition of subsidiaries and special purpose entities, net of cash acquired	(309)	887
Net cash inflow from disposal of subsidiaries and special purpose entities including received dividends	–	13,219
Cash flows from (used in) investing activities	**(1,732)**	**12,439**
Cash flows from (used in) financing activities	**(10,032)**	**12,885**

Our cash flow figures in the periods analyzed were significantly impacted by certain transactions that we have undertaken, specifically the sale of ET by PT (see "—Sale of Energotrans") and related financing arrangements.

Operating Activities

Cash flows from (used in) operating activities changed by CZK 32,455 million or 248.5% to cash flows used in operating activities of CZK 19,394 million for the year ended December 31, 2012, as compared to cash flows generated from operating activities of CZK 13,061 million for the year ended December 31, 2011. This change in cash flows from (used in) operating activities is primarily due to an increase in working capital, partially offset by an increase in operating profit before changes in working capital (from CZK 5,948 million to CZK 9,643 million). The principal reason for the increase in working capital was a negative change in trade payables and other liabilities primarily due to repayments of the advance payment from ČEZ, a.s. to EBEH, the parent of EOP (CZK 12,767 million), which was originally provided in connection with acquisition of EOP in 2009 and fully repaid in June 2012, and the effect from the acquisition of the remaining 50% ownership interest in MIBRAG. Other factors that contributed to the increase of working capital were changes in financial instruments in other than fair value in connection with the acquisition of the 50% ownership interest in MIBRAG and its financial instruments, proportional consolidation of JTSD and its subsidiaries in 2012 (and their full consolidation from July 1, 2012) and by the increase in loans granted to EPH by CZK 5,640 million.

Investing Activities

Cash flows from (used in) investing activities changed by CZK 14,171 million or 818.2% to cash flows from investing activities of CZK 12,439 million for the year ended December 31, 2012, as compared to cash flows used in investing activities of CZK 1,732 million for the year ended December 31, 2011. This change in cash flows from (used in) investing activities is primarily due to the impact of the disposal of Energotrans (cash flows from investing activities of CZK 13,219 million) in 2012 that was partially offset by the impact of the acquisition of the remaining 50% ownership share in MIBRAG and the acquisition of Saale Energie.

Financing Activities

Cash flows from (used in) financing activities changed by CZK 22,917 million, or 228.4%, to cash flows from financing activities of CZK 12,885 million for the year ended December 31, 2012, as compared to cash flows used in financing activities of CZK 10,032 million for the year ended December 31, 2011. In 2012, we issued the Notes in the amount of CZK 12,276 million. The proceeds from the Notes were mainly used to repay external bank loans granted to EPE Group companies (with the exception of external bank loans granted to projects in the Renewables segment). In addition, loans and borrowings from EPH to EPE increased in connection with the acquisition of the remaining 50% interest in MIBRAG.

Capital expenditures

Our strategy is to focus capital investments on projects that maintain our technical equipment and increase operational efficiency. We have managed to keep capital expenditures at reasonably low levels by means of controlled business planning, engineering, procurement and project management at our operating subsidiaries. We expect that our capital expenditures will increase for required IED-related improvements to our power plants, including those of EOP, UE, PE and MIBRAG.

During the years ended December 31, 2012 and 2011, capital expenditures were as follows:

	As of and for the year ended December 31, 2011	As of and for the year ended December 31, 2012
	(In CZK millions)	
Capital expenditures for tangible fixed assets..................	1,619	1,851
Capital expenditures for intangible fixed assets excluding emission rights..	44	46
Capital expenditures for emission rights..........................	2,312	1,643
Total capital expenditures..	**3,975**	**3,540**
Property, plant and equipment, at cost	31,861	48,034

Capital expenditures for tangible fixed assets and intangible fixed assets excluding emission rights

Capital expenditures for tangible fixed assets increased by CZK 232 million, or 14.3%, to CZK 1,851 million for the year ended December 31, 2012 as compared to CZK 1,619 million for the year ended December 31, 2011. This increase in capital expenditures for tangible fixed assets was primarily due to the inclusion of the 50% ownership interest in MIBRAG in our cash flow statement from July 1, 2011, and the subsequent acquisition of the remaining 50%, which was reflected in our cash flow statement from July 1, 2012.

Capital expenditures for intangible fixed assets excluding emission rights increased by CZK 2 million, or 4.5%, to CZK 46 million for the year ended December 31, 2012 as compared to CZK 44 million for the year ended December 31, 2011.

Capital expenditures for emission rights

A portion of our emissions allowance-related capital expenditures represents repurchases of previously sold emissions allowances. Transactions relating to emission allowances are described in detail in Note 32- financial instruments to the EPE consolidated financial statements for the year ended December 31, 2012.

For the periods presented in this Report out of all entities included in EPE Group, only MIBRAG is required to purchase emission allowances for its own consumption due to an insufficient allocation of emission allowances. Our other operating subsidiaries will also need to purchase emissions allowances beginning in 2013 as the result of changes to the system under which fewer emissions allowances are now allocated free of charge. See "Risk factors—Risks related to governmental regulations and laws—We are exposed to changes in the way emissions allowances are allocated, including the conditions attaching to free allocations and the allocation of emissions allowances from 2013, as well as volatility in the market prices of emissions allowances that we need to acquire."

The operating data are based on the results of the entire relevant subsidiary regardless of the date when each such subsidiary joined the EPE Group or the ownership share of the EPE Group in each such subsidiary.

Allocation and consumption of emissions allowances for EPE Group for the year ended December 31, 2012:

in tons(1)	Allocated	Consumed	Surplus (+) / Deficit (-)
EOP..	2,573,697	2,380,062	193,635
UE	1,543,230	1,199,906	343,324
PE	870,951	405,153	465,798
MIBRAG..	790,300	2,039,000	(1,248,700)
PT	551,851	198,341	353,510
Total	6,330,029	6,222,462	107,567

(1) One emissions allowance equals one ton.

Emissions allowances granted to EOP without payment for the year ended December 31, 2012 exceeded the emissions allowances consumed by EOP by 193,635, or 7.5%. Emissions allowances granted to UE without payment for the year ended December 31, 2012 exceeded the emissions allowances consumed by UE by 343,324, or 22.2%. Emissions allowances granted to PE without payment for the year ended December 31, 2012 exceeded the emissions allowances consumed by PE by 465,798, or 53.5%. Emissions allowances granted to MIBRAG without payment for the year ended December 31, 2012 were lower than the number of emissions allowances required by 1,248,700, or by 61.2%. MIBRAG purchased the necessary emissions allowances to meet this shortfall based on its forward contracts with an average purchase price of 16.78 €/ton. Emissions allowances granted to PT without payment for the year ended December 31, 2012 exceeded the emissions allowances consumed by PT by 353,510, or 64.1%.

Allocation and consumption of emissions allowances for EPE Group for the year ended December 31, 2011:

in tons[1]	**Allocated**	**Consumed**	**Surplus (+) / Deficit (-)**
EOP	2,573,697	2,457,063	116,634
UE	1,543,230	1,228,901	314,329
PE	870,951	435,341	435,610
MIBRAG	790,300	2,011,000	(1,220,700)
PT	551,851	252,444	299,407
Total	6,330,029	6,384,749	(54,720)

(1) One emissions allowance equals one ton.

Emissions allowances granted to EOP without payment for the year ended December 31, 2011 exceeded by 116,634, or 4.5%, the emissions allowances consumed by EOP. Emissions allowances granted to UE without payment for the year ended December 31, 2011 exceeded by 314,329, or 20.4%, the emissions allowances consumed by UE. Emissions allowances granted to PE without payment for the year ended December 31, 2011 exceeded by 435,610, or 50.0%, the emissions allowances consumed by PE. Emissions allowances granted to MIBRAG without payment for the year ended December 31, 2011 were lower than the number of emissions allowances required by 1,220,700, or 154.7%. MIBRAG purchased the necessary emissions allowances to meet this shortfall based on its forward contracts with an average purchase price of 16.73 €/ton. Emissions allowances granted to PT without payment for the year ended December 31, 2011 exceeded by 299,407, or 54.3%, the emissions allowances consumed by PT.

Contractual and other material financial obligations of the EPE Group

The table sets out our loans and borrowings as of December 31, 2012.

In CZK millions	**December 31, 2012**
Loans payable to credit institutions	460
Loans payable to other than credit institutions	13,114
of which owed to the parent company	12,664
of which owed to other related companies	—
Bank overdraft	49
Existing Notes	12,404
Liabilities from financial leases	6
Total	26,033
Non-current	16,436
of which owed to the parent company	3,186
of which owed to other related companies	—
Current	9,597
of which owed to the parent company	9,478
of which owed to other related companies	—
Total	26,033

The table below sets out our terms and debt repayment schedule as of December 31, 2012.

	Currency	Nominal interest rate	Year of maturity (up to)	Balance at Dec. 31, 2012	Due within 1 year	Due in 1-5 years	Due in following years
(in CZK millions)							
Secured bank loan................	EUR	Fixed	2025	173	13	36	124
Secured bank loan................	CZK	Variable*	2023	189	9	65	115
Unsecured bank loan	CZK	Fixed	2021	113	13	46	54
Unsecured bank loan	EUR	Fixed	2016	151	17	134	—
Unsecured bank loan	EUR	Variable*	2018	86	—	86	—
Secured bank loan**............	EUR	Variable*	2017	(252)	—	(252)	—
Unsecured loan	CZK	Fixed	2015	6,113	5,678	435	—
Unsecured loan	EUR	Fixed	2019	7,001	3,815	—	3,186
Bank overdraft	EUR	Variable*	undefined	49	49	—	—
Liabilities from financial leases..............................				6	3	3	—
Total interest-bearing liabilities				13,629	9,597	553	3,479

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

** Relates to the Senior Credit Facility Agreement. The fees were paid in 2012 but the principal was drawn in 2013.

This table does not reflect debt repayments since December 31, 2012.

Off-balance sheet arrangements of the EPE Group

The table below sets out our financial commitments and contingencies as of December 31, 2012.

(in CZK millions)	December 31, 2012
Granted pledges—securities(1)	42,670
Other contingent liabilities(2)	40,075
Total	82,745

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

(2) Other contingent liabilities relate to granted loans of CZK 24,838 million, pledged cash of CZK 3,001 million and further pledges of CZK 12,236 million that include pledged fixed assets of CZK 8,577 million, pledged inventories of CZK 329 million and trade receivables of CZK 3,330 million; all were used as collateral for external financing.

Other commitments and contingencies

EPE's parent company, Energetický a průmyslový holding, a.s. ("EPH"), and a major energy company (the "Interested Party") are parties to contractual arrangements under of which they have agreed to use their best efforts to agree on the potential sale of certain heating assets currently held by a certain member of EPE Group (the "Heating Transaction"), provided that the specified conditions will be met, inter alia, that the terms and conditions of the transaction will be agreed between the parties and the transaction will be approved by the respective corporate bodies of each relevant entity. If the Heating Transaction is not completed within the agreed period, EPH will use its best efforts to provide the Interested Party with a similar alternative asset (the "Alternative Transaction"). If the transaction is not completed by the extended deadline either, EPH will pay to the Interested Party compensation of approximately CZK 200 million.

However, the parties have not yet agreed as at the date hereof whether, or under what terms and conditions, the Heating Transaction or the Alternative Transaction will be entered into and completed. Currently EPH is engaged in negotiations with the Interested Party concerning the terms and conditions of the foregoing transactions, including the preparation of due diligence; this should provide a basis to above conclude with certainty whether or not any of the transactions will be entered into and completed.

For the above reasons, the heating assets in question have not yet been recorded as Assets Held for Sale under IFRS 5 and the above compensation has not yet been recorded by EPH.

Quantitative and qualitative disclosures about market risk for the EPE Group

Our activities expose us to a variety of market risks. Our primary market risk exposures relate to foreign exchange, interest rate and commodity risks. To manage these risks and our exposure to the unpredictability of financial markets, we seek to minimize potential adverse effects on our financial performance and capital. Where appropriate, we use derivative financial instruments solely for the purpose of hedging exposure, which corresponds to managing the currency, interest and commodity risks arising from our operations and sources of financing. For this purpose, we have established financial and risk management policies. Although we do not enter into derivative financial instruments for speculative purposes, we do manage the commodity price risks associated with our proprietary trading activities by generally trading on a back-to-back basis, i.e., purchasing from the market where we have a customer in place to purchase the commodity. While the majority of our trades are conducted on a back-to-back basis, we also engage in limited opportunistic power and gas trading activities, mainly in relation to sales of power from own production, where the result of such trading activity depends on movements of wholesale power prices. It is our trading policy not to maintain any large open positions. Potential open positions in electricity and gas over any period of time are limited by an aggregate mark-to-market value of €5 million in electricity and €1 million in natural gas.

The following discussion and analysis only addresses our market risk and does not address other financial risks which we face in the normal course of business, including credit risk and liquidity risk. For an overview of our financial risk management and financial instruments, see our audited consolidated financial statements and related notes included elsewhere in this Report.

Foreign exchange risk

We have exposure to transactional foreign currency risk on sales, purchases and borrowings that are denominated in currencies (primarily euro) other than the respective functional currencies of Group entities (primarily Czech crowns). We use various types of derivatives, including forward exchange contracts with maturities of less than one year, to reduce the exchange rate risk on foreign currency assets, liabilities and expected future cash flows. These contracts are normally agreed with a notional amount and expiry date less than or equal to that of the underlying financial liability or the expected future cash flows, so that any change in the fair value and/or future cash flows of these contracts stemming from a potential appreciation or depreciation of the Czech crown against other currencies is fully offset by a corresponding change in the fair value and/or the expected future cash flows of the underlying position. In respect of monetary assets and liabilities denominated in foreign currencies, we seek to keep our net exposure at acceptable levels by buying or selling foreign currencies at spot rates or forward rates when necessary to address short-term imbalances.

Interest rate risk

Our operations are subject to the risk of interest rate fluctuations to the extent that interest-earning assets (including investments) and interest-bearing liabilities mature or re-price at different times or in different amounts. The length of time for which the interest rate is fixed on a financial instrument indicates to what extent it exposes us to interest rate risk. We use interest rate swaps and other types of derivatives to reduce the amount of debt exposed to interest rate fluctuations and to reduce borrowing costs. These derivative contracts are normally agreed with a notional amount and maturity date lower than or equal to that of the underlying financial liability, so that any change in the fair value and/or expected future cash flows of these contracts is offset by a corresponding change in the fair value and/or the expected future cash flows from the underlying position.

Liquidity risk

Liquidity risk is the risk that the EPE Group will experience difficulties in meeting its obligations associated with financial liabilities that are settled by delivering cash or another financial asset. To counteract this risk, EPE focuses on diversifying sources of funds, which makes it less dependent on one financing source, and we also hold a portion of our assets in highly liquid funds. Liquidity risk is evaluated by monitoring changes in the financing structure and comparing these changes with the EPE Group's liquidity risk management strategy. We typically seek to have sufficient cash available on demand and assets within short maturity to meet expected operational expenses for a period of 90 days, including servicing financial obligations (although this excludes the impact of extreme events that cannot be reliably predicted, like natural disasters).

Credit risk

Credit risk is the risk of financial loss to the EPE Group if customers or counterparties to a contract fail to meet their contractual obligations. This risk arises primarily from the EPE Group's receivables from customers and loans and advances. To counteract this risk, EPE has established a credit policy under which every new customer purchasing services/products over a certain limit, which is based on the size and nature of the particular business, has its individual creditworthiness examined before the EPE Group's standard terms and conditions of payment and delivery are offered. The EPE Group also may require suitable collateral to be granted by customers, and the EPE Group monitors its exposure to credit risk on an ongoing basis.

Commodity risk

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

We manage the natural commodity risk connected with our electricity generation primarily by selling the power we expect to produce on an up to two-year forward basis. In addition, we purchase emission allowances on a forward basis. As of December 31, 2012, we had contracted to sell a significant portion of the power we expect to generate (not including ancillary services) in our Heat and Power segment in 2013 (which corresponds to 2.4 TWh or 88% of our expected annual generation in the Czech Republic) and we have entered into additional long-term contracts for approximately 0.3 TWh or 12% of annual delivery expected for 2014. As of December 31, 2012, we had contracted to sell a significant portion of our power generating capacity (including ancillary services) in our Heat and Power segment in 2013 (which corresponds to 3.5 TWh or 92% of our expected annual capacity in the Czech Republic) and we have entered into additional long-term contracts for approximately 1.0 TWh or 34% of annual capacity expected for 2014.

We aim to reduce exposure to fluctuations in commodity prices through the use of swaps and various other types of derivatives.

We manage the commodity price risks associated with our proprietary trading activities by generally trading on a back-to-back basis, i.e., purchasing from the market where we have a customer in place to purchase the commodity. It is our trading policy not to maintain any large open positions. Potential open positions in electricity and gas over any period of time are limited by an aggregate mark-to-market value of €5 million in electricity and €1 million in natural gas.

Critical accounting policies of the EPE Group

The financial statements for the EPE Group, included elsewhere in this Report, are prepared in conformity with IFRS, which require us to make a number of estimates and assumptions. These estimates and assumptions affect the reported amounts of assets, liabilities, income and expenses, and the disclosure of contingent assets and liabilities. Estimates and assumptions may differ from actual future results. Our significant accounting policies are set out in full in Note 3 to our consolidated audited financial statements for the year ended December 31, 2012, included elsewhere in this Report.

The estimates and assumptions that we consider most critical and that have a significant inherent risk of causing a material adjustment or involve a significant degree of judgment or estimation are discussed below, and should be read in conjunction with the full statement of accounting policies.

Business

In this Report, all references to "EPE Group," "EPE," "we," "us," or "our" are to EP Energy, a.s. and its consolidated subsidiaries. Any projections and other forward-looking statements in this section are not guarantees of future performance and actual results could differ materially from current expectations. Numerous factors could cause or contribute to such differences. See "Risk factors" and "Forward-looking statements."

Overview

We are a leading vertically integrated energy utility with operations across the energy value chain, focusing on coal production, heat and power generation, heat distribution and energy supply and trading. We generate substantial EBITDA in each of the Czech Republic and Germany, where our principal operations are located. We are among the ten largest industrial groups in the Czech Republic in terms of EBITDA. For the year ended December 31, 2012, we had pro forma sales and pro forma consolidated EBITDA of CZK 45,801 million (€1,821.84 million) and CZK 11,265 million (€448.09 million), respectively. A significant part of our business comes from regulated industries (i.e., heat generation and renewable energy), and business contracted through long-term agreements with a stable customer base (i.e., mining), which we believe provides us with stability cash flows and future performance.

We operate our group through four principal segments: Mining; Heat and Power; Renewables; and Energy Supply and Trading. Our core segments, Mining and Heat and Power contributed 96.1% to our pro forma consolidated adjusted EBITDA for the year ended December 31, 2012 (before intersegment eliminations). We expect these two segments to continue to be the main value drivers in our business going forward. For the year ended December 31, 2012, Mining accounted for 35.7% of our pro forma consolidated EBITDA, and Heat and Power together accounted for 60.4% of our pro forma consolidated EBITDA (with the Heat and Cogeneration division being a more significant contributor to pro forma consolidated EBITDA than the Power Generation division), in each case before intersegment eliminations.

Our Mining segment, which we undertake through our German subsidiary, Mitteldeutsche Braunkohlengesellschaft mbH ("MIBRAG"), produces brown coal at relatively low cost, which it supplies to power plants under long-term supply agreements. Our two biggest customers (Lippendorf and Schkopau) are efficient, state-of-the-art power plants operating in base load and are well positioned in the German power merit order. We believe that our customers are limited in the extent to which they can switch suppliers because of geographical, logistical, technological and other commercial and physical barriers to obtaining and utilizing brown coal from other suppliers. We believe these characteristics provide security and stability of brown coal off-take and in turn stability of cash flows. EPE, through MIBRAG, is the third largest producer of brown coal in Germany with total production of approximately 18.7 million tons in 2012.

Our Heat and Power segment owns and operates three large-scale cogeneration plants in the Czech Republic and we also own and operate, through our 73.3% -owned subsidiary, PT, the most extensive district heating system in the Czech Republic which supplies heat to the City of Prague. We are the largest heat supplier in terms of heat supplied in the Czech Republic (disregarding heat supplied by ET to PT), supplying 18.5 PJ of heat for the year ended December 31, 2012. We are one of the lowest cost providers of heat in the Czech Republic and we consistently charge lower heat tariffs than the national average in the Czech Republic. The heat generated in our cogeneration power plants is supplied mainly to retail customers through well maintained and robust district heating systems. Additionally, due to strict zoning requirements, as well as the capital intensive nature of the Heat and Cogeneration business, the heat and cogeneration division of our Heat and Power segment is characterized by high barriers to entry which we believe, coupled with offtake price regulation, do not make it economically feasible for new competitors to enter these markets. As a result, we believe that our exposure to the regulated heat business, support from the government for cogeneration production and our price leadership provides stability of cash flows.

Through our Heat and Power segment, we are the second largest producer of power in terms of electricity generated in the Czech Republic (including ancillary services reported by ERO). Through our acquisition of Saale Energie in 2012, we own a 41.9% interest in the Schkopau CHP plant ("Schkopau") in Germany (representing a beneficial use right over 400 MW_e of the plant's total capacity). Our share of the capacity of the power plant is contracted for sale to Vattenfall Europe Generation AG until 2021 with fixed capacity revenue.

Our Renewables segment owns and operates three solar power plants and holds a minority interest in an additional solar power plant and a majority interest in one wind farm in the Czech Republic with a total installed capacity of 13.2 MW_e. We also own one wind farm in Germany at our MIBRAG facilities with an installed capacity of 6.9 MW_e, two solar power plants in the Slovak Republic each with an installed capacity of 1 MW_e, and a biogas facility in the Slovak Republic with an installed capacity of 2.8 MW_e. In addition, we have one wind farm in the developmental stage in Germany, which we expect to be commissioned in 2014, as well as two wind farms in the development stage in the Czech Republic. While we believe that we will continue to experience growth in our Renewables segment through the development projects currently in progress, we expect that it will remain a relatively small part of our business. For more information, see "—Segments—Renewables—Wind."

The energy supply division ("Energy Supply") of our Energy Supply and Trading segment supplies power procured through our energy trading division ("Trading") to end-consumers in the Czech Republic and the Slovak Republic. The Trading division of our Energy Supply and Trading segment is based in the Czech Republic and purchases and sells power, including sales in the wholesale market of electricity generated by us in our Heat and Power segment and purchases of electricity and natural gas to supply customers through our Energy Supply division.

As the main focus of our Trading division is to purchase electricity and natural gas to service our Energy Supply customers, the majority of our trades are conducted on a back-to-back basis, which means we only purchase the amount of energy that we actually require to cover an existing contract to supply power or natural gas. However, we also engage in limited opportunistic power and gas trading activities. For more information on our Energy Supply and Trading segment, please refer to "—Segments—Energy Supply and Trading."

The following table provides an overview of key operational data on a subsidiary-by-subsidiary basis in our core segments for 2008, 2009, 2010, 2011 and 2012, respectively:

Subsidiary[(1)]	**Key Operational Data**[(2)]	**2008**	**2009**	**2010**	**2011**	**2012**
MIBRAG	Coal produced, *in million tons*	19.0	19.7	19.6	19.0	18.7
Elektrárny Opatovice (EOP)	Heat supplied, *in TJ*	4,152.3	4,070.8	4,421.8	3,744.6	3,842.8
	Cogeneration production, *in GWh*	444.2	416.5	478.9	430.8	456.5
	Condensation production, *in GWh*	1,796.4	1,587.5	1,544.5	1,685.5	1,378.7
Pražská Teplárenská (PT)	Heat supplied, *in TJ*	13,091.0	12,814.0	13,914.0	11,741.0	12,049.0
	Cogeneration production, *in GWh*	207.4	199.8	173.8	60.1	36.0
United Energy (UE)	Heat supplied, *in TJ*	2,153.9	2,077.8	2,224.2	1,808.6	1,770.8
	Cogeneration production, *in GWh*	208.6	200.2	219.9	215.2	197.6
	Condensation production, *in GWh*	596.9	499.0	338.1	721.3	738.2
Plzeňská energetika a.s. (PE)	Heat supplied, *in TJ*	1,097.9	959.5	939.0	798.0	819.0
	Cogeneration production, *in GWh*	121.0	102.0	95.7	85.8	88.9
	Condensation production, *in GWh*	228.2	213.9	201.7	201.0	192.2
EP ENERGY TRADING (EPET)	Electricity supplied, *in GWh*	1,248.0	1,125.2	1,470.3	1,709.4	1,779.4
	Natural gas supplied, *in GWh*	98.0	479.3	1,706.2	1,866.1	1,784.5
	Electricity traded, *in GWh*	7,867.1	8,458.6	8,541.2	10,638.0	12,072.0
Saale Energie	Beneficial use right over power production, *in* MW_e	400.0	400.0	400.0	400.0	400.0

(1) Also reflects predecessor companies, including, in the case of electricity traded at EPET, PEAS (which merged into EPET effective January 1, 2013).

(2) The operating data are based on the results of 100% of the entity regardless of the date on which the entity joined the EPE Group and regardless of the actual ownership share of the EPE Group in the entity. These figures do not include the operating data for Energotrans, which PT sold in June 2012.

The table below sets forth certain financial information relating to our segments for the year ended December 31, 2012 on a pro forma basis:

Key Metrics		**Mining**[2]	**Heat and Power**[4]	**Renewables**	**Energy Supply and Trading**	**Other**	**Total segments**	**Intersegment eliminations**	**Total**
Pro Forma Sales	In CZK millions	10,939	17,746	158	21,904	114	50,861	(5,060)	45,801
	In € millions	435.12	705.89	6.28	871.28	4.54	2,023.11	(201.27)	1,821.84
Pro Forma EBITDA[1]	*In CZK millions*	5,526	5,372	117	377	(129)	11,263	2	11,265
	In € millions	219.81	213.68	4.65	15.00	(5.13)	448.01	0.08	448.09
Pro Forma Adjusted EBITDA[3]	*In CZK millions*	3,390	5,727	117	377	(129)	9,482	2	9,484
	In € millions	134.84	227.81	4.65	15.00	(5.13)	377.17	0.08	377.25
Countries of Operations............		Germany	Czech Republic, Germany	Czech Republic, Germany, Slovak Republic	Czech Republic, Slovak Republic (Energy Supply only)	—	—	—	—

(1) Pro forma EBITDA represents pro forma profit from operations (Mining: CZK 2,344 million, Heat and Power: CZK 1,906 million, Renewables: CZK 42 million, Energy Supply and Trading: CZK 369 million, Other: CZK negative 130 million, Intersegment eliminations: CZK 2 million) *plus* pro forma depreciation of property, plant and equipment and amortization of intangible assets (Mining: CZK 3,182 million, Heat and Power: CZK 3,466 million, Renewables: CZK 75 million, Energy Supply and Trading: CZK 8 million, Other: CZK 1 million, Intersegment eliminations: CZK 0 million) *less* pro forma negative goodwill (Mining: CZK 0 million, Heat and Power: CZK 0 million, Renewables: CZK 0 million, Energy Supply and Trading: CZK 0 million, Other: CZK 0 million, Intersegment eliminations: CZK 0 million).

(2) Our Mining segment includes certain ancillary businesses which are engaged in heat and power generation in Germany.

(3) Pro forma Adjusted EBITDA represents Pro forma EBITDA further adjusted to exclude (a) the following non-recurring, non-cash effects related to reclamation provisions: (i) a change in the discount rate (which lead to a CZK 2,718 million (€108.11 million) increase to EBITDA) and (ii) an increase in the assumed inflation rate (which lead to a CZK 582 million (€23.15 million) decrease to EBITDA), which relate to the Mining segment and (b) the items related to Saale Energie (which lead to a CZK 355 million (€14.14 million) decrease to EBITDA), which, due to the accounting treatment of the specific contractual arrangement with Schkopau, are charged to operating costs of Saale Energie but relate to entries that would otherwise not be included in EBITDA, which relates to the Heat and Power segment.

(4) Heat and Cogeneration is a greater contributor to EBITDA than Power Generation.

The Company

EPE is a joint-stock company, with its registered office at Příkop 843/4, 602 00 Brno, Czech Republic. EPE is 100% owned by Energetický a průmyslový holding, a.s. ("EP Holding" or "EPH").

EP Holding founded EPE on December 16, 2010, as a subsidiary to act as a holding company for entities belonging to the energy businesses of EP Holding and its subsidiaries (the "EPH Group"), in order to separate its strategic energy assets from the other business activities of the EPH Group. However, EPH has additional energy business operations that are not part of the EPE Group. Although EPE was formed in 2010, many of the individual subsidiaries in the EPE Group have a long operating history and a track record of strong performance.

Shareholders

We are a wholly owned subsidiary of EPH, which is a joint-stock company established under the laws of the Czech Republic. The ultimate beneficial owners of EPE are Timeworth Limited (44.44%), Milees Limited (18.52%), Biques Limited (18.52%) and Mackarel Limited (18.52%). Timeworth Limited is controlled by the PPF Group N.V., which is in turn controlled by Mr. Petr Kellner. Milees Limited is controlled by Mr. Patrik Tkáč. Biques Limited is owned by private individuals, none of whom owns individually more than a 20% stake in Biques Limited. Milees Limited and Biques Limited have formed partnerships with J&T Group, on the basis of which J&T Group participates in the beneficial ownership of their combined 37.04% interest in EPH, conferring on J&T Group, however, no rights of control. Mackarel Limited is controlled by Mr. Daniel Křetínský, the Chairman of the Board of Directors of EPE and a former corporate partner of the J&T Group. The PPF Group is one of the largest investment and finance groups in Central and Eastern Europe with approximately €17.6 billion in assets under management. The J&T Group, together with its subsidiaries, is a leading investment group operating predominantly in the Czech and Slovak Republics with approximately €5 billion in assets.

History and development of the EPE Group

The management team of the current EPE Group began to take shape in 2001 within the corporate investment branch of the J&T Group headed by Daniel Křetínský. Shortly after the formation of the team, it began to focus on corporate investments in the energy business and changed its approach from being a financial investor to being a strategic investor. With this change in strategy, the corporate investment branch reached the limits of its ability to further develop the business due to restrictions arising from its membership in the J&T Group.

As a result, the J&T Group and the PPF Group founded EPH in 2009 as a platform for strategic investments in the energy and ancillary industries. The J&T Group (through Milees Limited and Biques Limited) contributed its assets to EPH in exchange for a 40% participation in EPH, and the PPF Group purchased (partly from the J&T Group) a 40% participation for cash. Daniel Křetínský received a 20% participation in exchange for a contribution of assets and for his partnership interest in the J&T Group. In 2010, EPE was formed by EPH and the interests in our current subsidiaries owned at that time by EP Holding (including those mentioned above (PE, UE and EPET)) were contributed to EPE.

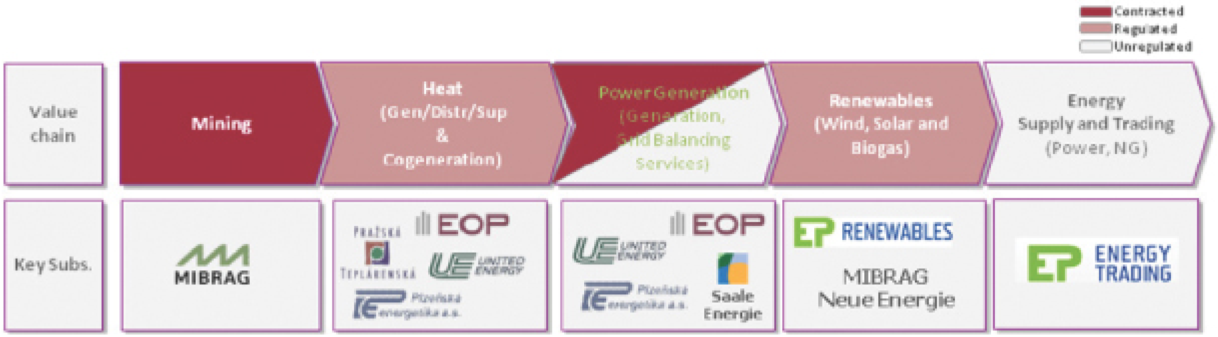
The following timeline provides an overview of the evolution of the EPE Group, through either direct acquisitions, or acquisitions by affiliates which were subsequently contributed to the EPE Group:

- In 2004, a 34% ownership interest in Pražská energetika a.s. (“PRE”) was acquired by the J&T Group;
- In 2005, a 85.16% ownership interest in United Energy a.s. (“UE”) was acquired by the J&T Group;
- Between 2006 and 2008, a 100% ownership interest in Plzeňská energetika a.s. (“PE”) was acquired by the J&T Group (50% in 2006 and 50% in 2008) and in 2008 the interest in PRE was increased to 41.1%;
- In 2009, a 50% ownership interest in MIBRAG was acquired by an entity controlled by Daniel Křetínský;
- In 2009, a 100% ownership interest in International Power Opatovice, a legal predecessor of EOP, and a minority share in PT were acquired by the J&T Group;
- In 2009 EPH was formed, and the ownership interests in PRE, PE, UE, PT, PEAS (now merged with EPET) and EPET (formerly, United Energy Trading, a.s.) were contributed to EPH by the J&T Group and EOP was sold by the J&T Group to EPH;
- In 2010, as part of a swap transaction, EPH’s ownership interest in PT was increased to 72.98% and the stake in PRE was sold;
- In 2010, EPE was formed and the ownership interests in PE, UE, PEAS (now merged with EPET) and EPET, as well as a portion of the interest in PT, were contributed to it by EPH;
- In 2011, the 50% ownership interest in MIBRAG was contributed to EPE by an entity controlled by Daniel Křetínský and EOP and EPE’s remaining interest in PT were contributed by EPH to EPE;
- In 2011, EPE acquired an additional interest in PT, bringing our ownership to 73.3%;
- In 2012, as part of the same transaction, EPE acquired the remaining 50% ownership interest in MIBRAG and EPE (through PT) sold its interest in Energotrans a.s. (“Energotrans”), a heat producer in the Czech Republic, but retained a long-term contract with Energotrans for the purchase of heat which we distribute through PT;
- In 2012, EPE entered into an agreement with the City of Prague regarding the management of day-to-day operations of PT, under which EPE undertook the management of the company; and
- In 2012, EPE acquired a 41.9% ownership interest in the Schkopau power plant (including our beneficial use right over 400 MW_e of the plant’s total capacity), one of MIBRAG’s customers for brown coal sales, through our acquisition of a 100% ownership interest in Saale Energie.

As of December 31, 2012, the majority of our main operating subsidiaries, with the notable exception of PT, are wholly-owned by us. We have a 73.3% indirect ownership interest in PT, and from July 1, 2012, PT has been fully consolidated in our financial statements. The remaining interest in PT is indirectly owned by the City of Prague, which holds 24.3%, and minority shareholders, who own approximately 2.5%. As of December 31, 2012, the EPE Group consisted of EPE and 51 subsidiaries, of which 36 are operating subsidiaries, as well as interests in 10 associates and joint ventures consolidated by the equity method of accounting. For a complete list of our subsidiaries, associates and joint ventures at December 31, 2012 please see Note 38 of our consolidated financial statements for the year ended December 31, 2012.

Segments

We operate our business through four principal segments: Mining; Heat and Power (which has two subdivisions: Heat Generation, Distribution and Supply and Cogeneration ("Heat and Cogeneration") and Power Generation); Renewables; and Energy Supply and Trading (which has two subdivisions: Energy Supply and Trading). Our core segments are Mining and Heat and Power. The following presents how our business lines are vertically integrated and the focus of certain of our subsidiaries within our business lines. For operational data for our principal segments, see "Management's discussion and analysis of financial condition and results of operations."



Mining

We currently run this segment through our wholly-owned subsidiary MIBRAG, 50% of which an entity controlled by Daniel Křetínský acquired in June 2009 and contributed to EPE in June 2011, and the remaining 50% of which we acquired in June 2012. Our Mining segment generated revenues of CZK 8,431 million and EBITDA of CZK 4,811 million for the year ended December 31, 2012. EBITDA for the year ended December 31, 2012 for the Mining segment reflects the following non-recurring, non-cash effects related to reclamation provisions: (i) a change in the discount rate (which lead to a CZK 2,718 million (€108.11 million) increase to EBITDA) and (ii) an increase in the assumed inflation rate (which lead to a CZK 582 million (€23.15 million) decrease to EBITDA). MIBRAG is the third-largest brown coal producer in Germany in terms of brown coal produced, and is a modern, well-maintained mining company headquartered in Zeitz, in the Burgenlandkreis district of Saxony-Anhalt in Germany.

MIBRAG owns a brown coal mine south of Leipzig, Germany, and operates two open-pit brown coal mines (Profen (Saxony-Anhalt) and Vereinigtes Schleenhain (Saxony)), with a combined annual production of approximately 18.7 million tons of brown coal in 2012. Based on examination of our mining capacities, and as supported by IMC, we believe that we have the ability to increase our annual production at MIBRAG by over 20% compared to the current level. In order to do so we, among other things, intend to expand existing mining fields and make further mining fields accessible, which will in some cases require the relocation of industrial or residential structures and communities. In addition to our permitted reserves, we are exploring potential strategic opportunities to expand our mining reserves. The most advanced of these opportunities is the mining field Pödelwitz, and in November 2012, a framework agreement on the relocation of the district of Pödelwitz was signed with the city of Groitzsch. MIBRAG has begun to sign individual agreements with the affected residents on the basis of this framework agreement. We currently estimate compensation payments to be paid by MIBRAG to the city of Groitzsch and the land owners and residents of Pödelwitz to amount to approximately €30-40 million in total. The compensation payments and related expenditures may exceed this estimation of related expenditures, depending on the further process to agree on the exact conditions of the relocation. Although in October 2012 we received approval and a permit to extract brown coal from the Mining Authority, we have yet to apply for an amendment to the Main Operating Plan (*Hauptbetriebsplan*) and a new main operating plan to allow us to commence mining activities in this new mining field. We expect to sign documentation in 2013 to finalize the acquisition of the new mining field. Following preparation of the site (including the relocation of the district of Pödelwitz pursuant to the framework agreement signed in November 2012), and subject to the receipt of the required permits, we expect to be able to begin to exploit the reserves. If this field is included in our Main Operating Plan (*Hauptbetriebsplan*), our reported reserves could increase by up to 25 million tons (including 12 million tons which are classified as probable reserves in the Report). We believe that such an increase in brown coal production would not require any significant additional capital expenditures and could be achieved by employee shift alterations subject to workers' council consent and potentially limited additional hiring depending on the additional volume of production. Given the fact that our variable mining costs are relatively low compared to the fixed costs, such additional brown coal sales would substantially contribute to our margin. As of December 31, 2012, MIBRAG had proved and probable reserves (including the associated relevant licenses to mine) of approximately 464.1 million tons of brown coal, as confirmed by IMC. At current production rates, we believe our remaining reserves would last more than 20 years.

At December 31, 2012, the Mining segment employed 2,291 full-time equivalent employees and we believe that we are perceived as an important employer in the region in which MIBRAG operates, as well as a socially responsible corporate citizen, which allows us to maintain productive relationships with local municipalities and authorities, and we believe this will continue in the future should we expand our operations.

Other activities within the Mining segment

MIBRAG also undertakes certain ancillary activities, such as its ownership and operation of a brown coal dust manufacturing facility, brown coal briquette manufacturing facility and three CHP facilities with total installed electrical output of 208 MW_e. Other than in connection with the continuation of these services and the direct operations of MIBRAG, we do not expect these activities to grow in scale.

MIBRAG owns and operates a brown coal dust factory in Deuben, Germany where raw brown coal is dried and ground to a fine powder and sold as brown coal dust mainly to the cement and lime industry. In 2011, MIBRAG concluded a contract with an initial term ending in 2014 with a trading subsidiary of RWE AG to produce approximately 65,000 tons per year of brown coal briquettes. To fulfill this contract, MIBRAG re-activated its Deuben briquette factory where raw brown coal delivered by RWE is processed for regional sales by RWE.

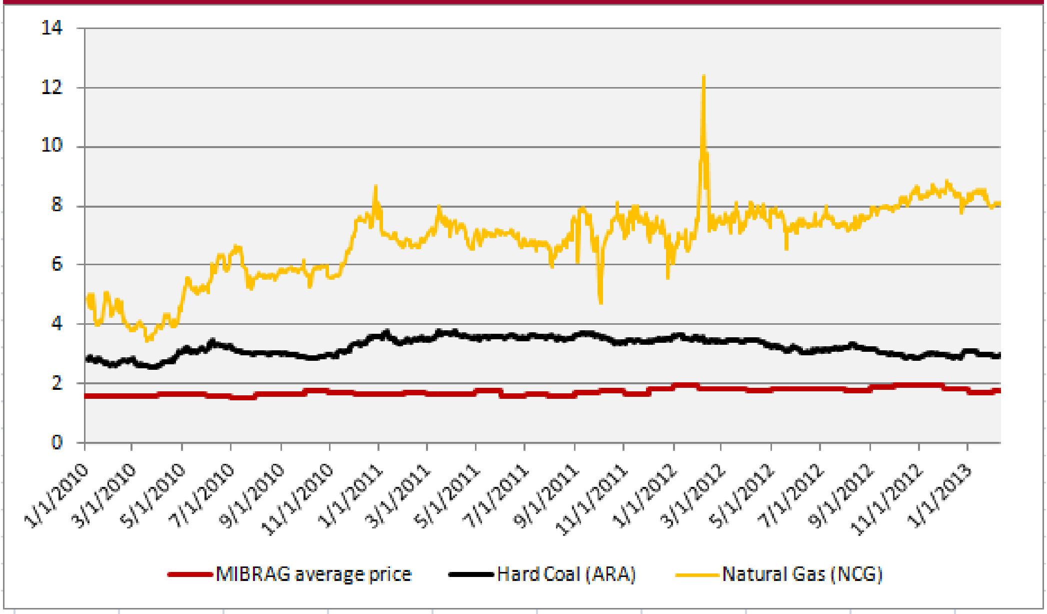
MIBRAG also owns and operates three CHP plants in Mumsdorf, Deuben and Wählitz, Germany, with a total installed capacity of 719 MW_t and 208 MW_e. Through these CHP plants, MIBRAG supplies electricity to its mining operations and feeds the excess electricity into the local power distribution network. MIBRAG also provides grid balancing services. MIBRAG's CHP plants also generate heat, the majority of which is sold to local distributors, with only a small portion sold directly to end consumers, including the Zeitz industrial park and the adjacent municipalities of Meuselwitz, Lucka and Hohenmölsen. Our MIBRAG plants have a high utilization rate, running at an average 80-90% of their combined condensation-based maximum achievable installed capacity. Due to their age, the Mumsdorf power plant is scheduled to cease operations in mid-2013, and the Deuben power plant is scheduled for closure at the end of 2020. All three CHP facilities, Mumsdorf, Deuben and Wählitz, are fueled by MIBRAG brown coal and consumed 771, 711 and 279 thousand tons, respectively, in 2012. These volumes are not included in MIBRAG's brown coal sales figures, since they pertain to internal MIBRAG consumption, but are included in our total production figures. In addition, MIBRAG is taking the first steps in the process for obtaining approval for a power station project to be built at the Profen site. The cost of construction of this power plant is estimated at €1.3 billion. The power station off-take would be supplied by MIBRAG brown coal. The EPE Group is continuing to analyze plans for the construction and operation of this plant, as well as looking for potential partners to finance the construction and off-take of power. The completion of the project is subject to a number of considerations and conditions, including our other MIBRAG coal supply commitments.

Customers and material sales contracts

The majority of the brown coal mined at the MIBRAG sites is directly supplied to three combined heat and power plants in the region, Lippendorf (installed capacity of 1,866 MW_e), Schkopau (installed capacity of 900 MW_e) and Chemnitz (installed capacity of 185 MW_e) through long-term contracts, which provide us with a significant degree of price stability and thus long-term visibility into our sales, cash flows and operating results over the course of the contracts. Under our coal supply agreement for the Schkopau power plant according to which we supply brown coal for the off-take of energy by Vattenfall, we have secured a fixed revenue stream per month which is based on a capacity fee, which we receive regardless of the actual supply of the Schkopau power plant with brown coal. A similar fixed revenue stream arrangement has been recently concluded for a smaller part of the Lippendorf brown coal offtake. Additionally, through our ownership of 41.9% of Schkopau through Saale Energie, which includes our beneficial use right over 400 MW_e of the plant's total capacity, we have effectively secured a customer for our brown coal for the future regardless of the current long-term brown coal supply contract with E.ON. While some part of our brown coal supply contracts do not guarantee off-take volumes or, except with respect to Schkopau-Vattenfall and additional off-take volumes to Lippendorf, fixed streams of revenue, we believe that our customers are limited by the extent to which they could switch suppliers, because of geographical, logistical, technological and other commercial and physical barriers to obtaining and utilizing brown coal from other suppliers. Thus, we believe that under current conditions, most of MIBRAG's customers, including its three core customers, have no economically viable fuel alternative to the brown coal supplied to them by MIBRAG.

Further, the price of MIBRAG's brown coal is low and stable compared to that of other fuels, since brown coal is not traded as a commodity and typically is sold close to the mines from where it is extracted, therefore, we believe MIBRAG's brown coal offers energy supply security to MIBRAG's customers.

Comparison of various fuel prices w/o transportation (€/GJ)



Source: EEX, Bloomberg, ECB, MIBRAG
Notes: NG recalculated from HHV to LHV by coefficient 1.11; CO2 emissions of hard coal and lignite comparable; prices without transportation costs

For the year ended December 31, 2012, 76.5% of MIBRAG's revenue according to German GAAP was derived from the sale of brown coal to the Lippendorf, Schkopau and Chemnitz power plants, which are our Mining segment's three largest customers. We consider our customers to be highly credit-worthy. Lippendorf is owned by Vattenfall and EnBW, which also off-take the power produced in Lippendorf. Lippendorf also supplies heat to local municipalities and process steam to adjacent chemical industrial plants. Schkopau, which is owned by E.ON and EPE, produces power and heat and process steam. Schkopau's off-takers include Vattenfall (590 MW_e), which off-takes power, Dow Chemicals (200 MW_e), which off-takes power, heat and process steam supplied directly to its adjacent chemical industrial plants and Deutsche Bahn (110 MW_e). Schkopau has a unique power generation capacity since it has the only generator in eastern Germany that is able to produce the specific frequency of electricity used in Deutsche Bahn's grid. Chemnitz is predominantly owned by local municipalities and provides heat and power to those municipalities through the local distribution network. Both Lippendorf and Schkopau benefit from a superior position within the brown coal power generation market, as they are state of the art plants with high efficiencies and lower marginal costs than hard coal-fired and natural gas plants, placing them ahead of such plants within the German power merit order. As a result, our customers' state-of-the-art power plants operate in base load.

The table below provides a summary of key information with respect to our arrangements with our principal customers:

Customer	Installed capacity (MW_e)	Purchased volume in 2011 (Million tons)	Purchased volume in 2012 (Million tons)	Contract term	Selected contractual features regarding offtake conditions	Price adjustment mechanisms	Percentage of brown coal demand supplied by MIBRAG in 2011	Percentage of brown coal demand supplied by MIBRAG in 2012
Lippendorf(1)	1,866	9.7	9.7	2039	No express minimum purchase obligation	Price escalation mechanism based on inflation measures, including, labor costs, producer price index and power price development; For 2013 and 2014, capacity and output fee pricing mechanism for volumes above the basic threshold of 9. 5 Mt	100%	100%
Schkopau(2) (3)	900	5.1	5.1	2020	No express minimum purchase obligation; capacity reservation fee linked to 590 MW_e Vattenfall off-take	Three pricing frameworks depending on contract: (1) Deutsche Bahn (110 MW_e) price linked mainly to hard coal price at the German border; (2) Dow Chemicals (200 MW_e) price linked to hard coal price at the German border but currently capped; (3) Vattenfall (590 MW_e) capacity and output price mechanism, whereby both price elements are currently fixed and capacity fee is paid monthly, regardless of the actual use of the 590 MW_e capacity and therefore regardless of brown coal consumption	100%	100%
Chemnitz	185	1.1	1.0	2022	No minimum purchase obligation	Price escalation mechanism based on inflation measures	100%	100%

(1) There are separate supply contracts with Vattenfall and EnBW, respectively, with equal terms.

(2) There is one underlying Schkopau supply contract, however, the pricing is divided according to the three customers of Schkopau, i.e. Vattenfall (590 MW_e), Dow Chemicals (200 MW_e) and Deutsche Bahn (110 MW_e).

(3) The pricing related to the Vattenfall 590 MW_e offtake has been renegotiated with a fixed pricing mechanism from 2013 until the end of the contract including a price (*Arbeitspreis*)and a capacity charge (*Leistungspreis*) with a one-off escalation in 2017 unless the parties agree to a different pricing arrangement for the period after 2016.

Furthermore, we expect to sign a contract for the supply of the Buschhaus power plant in Lower Saxony with MIBRAG brown coal. Under the five-year supply agreement, MIBRAG expects to deliver approximately 200,000 tons of brown coal annually to Buschhaus, beginning in 2013.

Permits and licenses

We are the legal owners of nearly all of the real property on which our active mines are located, and we regularly acquire land for future mining projects and sell land where reclamation projects have been completed. Although we own the land where we are actively mining, this ownership position does not automatically grant the right to exploit and use any mineral resources located there as in Germany, the ownership of land does not automatically include ownership of the brown coal located on or under the relevant piece of land. Ownership of the brown coal will be legally acquired upon extraction of the brown coal, which requires a mining right in the form of an exploitation permit (*Bewilligung*) granted by the Mining Authority. In return, mining companies are generally required to make royalty payments. In Germany, a federal law provides for the general principles for royalties to be paid. The local state governments are entitled to further specify the amounts of royalty fees to be paid. So-called old mining rights (*alte Gewinnungsrechte*), generally including mining rights granted under the laws of the former German Democratic Republic, are permanently exempt from royalty payment obligations and approximately 1.0% of our current brown coal reserves are covered by this general exemption. Approximately 73.3% of our current brown coal reserves are currently covered by a rolling exemption pursuant to regulations of the Federal State of Saxony (until December 31, 2015). The remaining 25.7% of our current brown coal reserves are currently subject to a royalty fee. See “Risk factors—Risks related to mining operations—We may be subject to mining royalty fee payments to certain governmental authorities, and any such imposition of fees could materially and adversely affect our business, financial condition, results of operations and cash flows.”

Under the current legal regime in Germany, MIBRAG, in pursuing its exploitation projects, is required to comply with two separate mining planning and approval processes. The first is the approval of a Framework Operating Plan (*Rahmenbetriebsplan*), which is a comprehensive regulatory requirement for mining projects that are subject to an environmental impact assessment and requires the cooperation and approval of the Mining Authority. Both of MIBRAG’s primary mines, the Vereinigtes Schleenhain and Profen sites, are covered under our current Framework Operating Plans for their reserve capacities of 301.3 million tons and 181.4 million tons, respectively. As of December 31, 2012, the remaining proved reserves are estimated to be 282.6 million tons and 169.5 million tons respectively, as confirmed by IMC. These approvals are valid until December 31, 2029, for the Profen mine and until December 31, 2041, for the Vereinigtes Schleenhain mine. In addition to our permitted reserves, we have contractual rights to mine approximately 130 million tons of brown coal at Luetzen in Saxony-Anhalt, which we do not own (subject to our obtaining the necessary governmental approvals and the relocation of public infrastructure, including residential communities), and we also have certain options on potential mining fields in areas nearby our current mines. We are pursuing certain of these option rights. The most advanced of these opportunities is the mining field at Pödelwitz. Although in October 2012 we received approval and a permit to extract brown coal from the Mining Authority, we have yet to apply for an amendment to our Main Operating Plan (*Hauptbetriebsplan*) (described below) to allow us to commence mining activities in this new mining field. If this field is included in our Main Operating Plan (*Hauptbetriebsplan*), we could be able to present approximately 25 million tons of additional proved reserves (including 12 million tons which are classified as probable reserves in the New Reserve Report). In November 2012, a framework agreement on the relocation of the district of Pödelwitz was signed with the city of Groitzsch. MIBRAG has begun to sign individual agreements with the affected residents on the basis of this framework agreement. Additionally, we have an option to extract an additional 75 million tons in Doebitschen, subject to our obtaining of necessary governmental approvals. The quality of the brown coal and mining conditions in these additional sites is uncertain and may be less favorable than those at which we are currently mining.

The second permit process involves the Main Operation Plan (*Hauptbetriebsplan*), which must be renewed every two years for the respective mine. The Main Operating Plan specifies the development of the mining operations within the area covered by the Framework Operating Plan assuming a certain level of brown coal production in the respective two years. However, the Main Operating Plan does not limit our brown coal production in the respective period. See also “Risk factors—Risks related to our businesses and industries—Risks related to each of our segments—Our licenses may be suspended, amended or terminated prior to the end of their terms or may not be renewed.”

We seek to operate our mines within the confines of our permits and have not had any significant problems involving permit violations in the past, nor have we had to pay any penalties or fines. The permitting system involves permanent cooperation and discussions with the relevant state mining authorities, sometimes on a weekly basis, about our current operations plans and we do not anticipate objections or other serious obstacles from the relevant state mining authorities in the future.

We are also subject to ongoing obligations under the MIBRAG privatization agreement and BvS Settlement Agreement. See “Risk factors—Risks relating to our mining operations—We are subject to ongoing obligations under the MIBRAG privatization agreement which might affect the operations and profitability of MIBRAG.”

Heat and Power

We conduct our Heat and Power operations in the Czech Republic and, since July 2012, Germany through the following subsidiaries: PT (Czech Republic), EOP (Czech Republic), UE (Czech Republic), PE (Czech Republic), and, since July 2012, Saale Energie (Germany).

The Heat and Power segment generated sales of CZK 16,776 million (€667.3 million) and EBITDA of CZK 5,704 million (€226.89 million) for the year ended December 31, 2012. The Heat and Power segment generated adjusted Pro Forma EBITDA of 5,727 million (€227.81 million which excludes the items related to Saale Energie (which lead to a CZK 355 million (€14.14 million) decrease to EBITDA), which, due to the accounting treatment of the specific contractual arrangement with Schkopau, are charged to operating costs of Saale Energie but relate to entries that would otherwise not be included in EBITDA. The Heat and Power segment accounted for 60.4% of our pro forma adjusted consolidated EBITDA for the year ended December 31, 2012 (before intersegment eliminations) (with the Heat and Cogeneration division being a more significant contributor).

We are the leading heat supplier in terms of TJ of heat supplied in the Czech Republic and the second largest power supplier in terms of electricity generated in the Czech Republic (including ancillary services as reported by ERO).

We own and operate a group of plants in the Czech Republic and Germany, all of which, other than our PT plants, are cogeneration plants with the ability to operate in condensation mode and to only produce power when demand and prices warrant. The table below lists current operating data regarding each of our plants:

Company	Location	Type	Installed Capacity				Ownership
HEAT & POWER FLEET			On boilers	Heat off-take	Cogeneration[(1)]	Condensation[(1)]	
Elektrárny Opatovice (EOP)	Opatovice Czech Republic	Cogeneration (CHP) Brown coal fired	932 MW_t	698 MW_t	183 MW_e	180 MW_e	100%
United Energy (UE)..................	Komořany Czech Republic	Cogeneration (CHP) Brown coal fired	1076 MW_t	511 MW_t	89 MW_e	150 MW_e	100%
Plzeňská Energetika (PE)	Pilsen Czech Republic	Cogeneration (CHP) Brown coal fired	401 MW_t	200 MW_t	90 MW_e	21 MW_e	100%
Pražská Teplárenská (PT)	Prague Czech Republic	Cogeneration (CHP), natural gas and hard coal fired	1696 MW_t	1598 MW_t	132 MW_e	0 MW_e	73.3%
Saale Energie...........................	Schkopau Germany	Brown coal fired power plant	n/a (virtual unit only)	n/a (virtual unit only)	0 MW_e	400 MW_e	100%

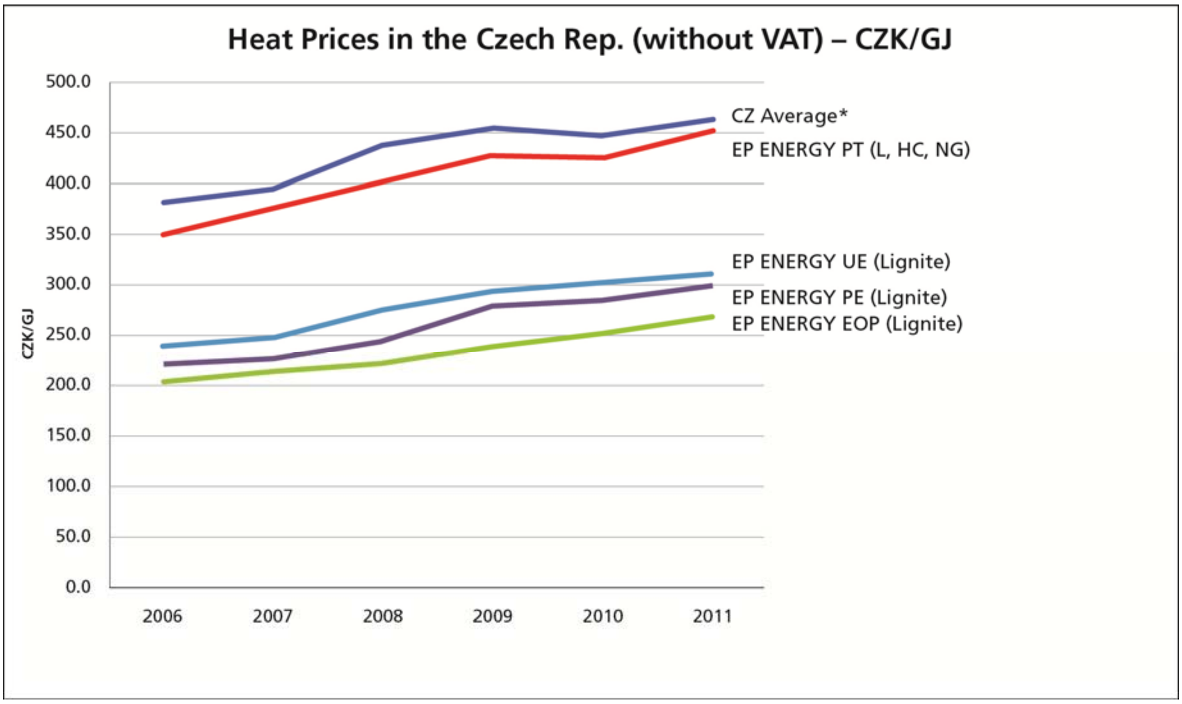
(1) Installed cogeneration capacity represents the electrical capacity of generators that can deliver heat in cogeneration mode. Installed condensation capacity represents electrical capacity of generators that can produce power in condensation mode only. Total installed electrical capacity is determined by adding installed cogeneration capacity and installed condensation capacity together.

(2) On July 17, 2012, we acquired 100% of Saale Energie, with a 41.9% interest in the Schkopau power plant, which includes our beneficial use right over 400 MW_e of the plant's total 900 MW_e power generating capacity, but none of its heat and process steam capacity.

In the Czech Republic, heat generation and distribution is a regulated industry, whereby the applicable regulators approve the methodology by which annual tariff rates for heat are set. Such tariffs are set by the ERO based on direct costs plus justified indirect costs and an "appropriate" profit margin for the producers. The "appropriate" profit margin is set individually for each company and is based on historical margins both for the individual company as well as for peer companies. However, the regulation has not required heat suppliers to obtain explicit approval for their prices if their price of heat is lower than CZK 600/GJ or their profit is lower than CZK 200/GJ. The heat generation and distribution industry is generally characterized by high barriers to entry due to ownership restrictions imposed by the government of the sole regional heat distribution system. This, combined with the regulated prices in the heat generation and distribution business, underpins the stability of the cash flows of the Heat division of our Heat and Power segment.

Our Heat division has a highly competitive cost structure, which is the product of (i) operational efficiency resulting from a mainly brown coal fuel base and cogeneration plant design, (ii) multiple long-term contracts securing our primary fuel sources (see "—Long-term fuel source contracting"), (iii) well-maintained district heating distribution networks that require low capital expenditures by us, (iv) a long-term supply contract between PT and Energotrans for the supply of heat by Energotrans to PT for distribution to PT's customers and (v) potential derogation from the EU ETS auctioning of emissions allowances until 2020.

These factors allow us to offer low-cost heating to our customers, with our subsidiary EOP providing heat at the lowest price point in the Czech Republic (42% below the average Czech market price in 2011) and both PT and UE providing heat at approximately 10% below the average Czech market price. We are currently below our price ceiling set by regulators as well as the prices of alternative heating solutions, which allowed us flexibility to increase our prices, if necessary, while remaining competitive in 2012.



Source: ERO and Company data, 2011

Cogeneration versus condensation mode

All of our plants (except those operated by PT) are capable of being run in either cogeneration mode, whereby the byproduct of power generation, heat, is funneled into a heating distribution network, thus capturing otherwise wasted energy, and sold in the form of heat to our customers, or condensation mode, whereby only power is produced. We switch between cogeneration and condensation modes depending upon (1) the demand for heat and (2) the price of power. Although plants operating in cogeneration mode are more energy efficient, they will produce less power than the less efficient condensation mode. Therefore, when the price of power relative to the price of heat is high, we may operate in condensation mode for more of our capacity. Conversely, during the winter months, the demand for heat is high enough relative to the demand for power that it is economical for us to run most of our capacity in cogeneration mode.

Efficient and low-cost CHP plants

The Heat and Cogeneration and Power Generation divisions of our Heat and Power segment share the same CHP plants and technologies, which results in shared fixed costs and allows us to charge lower prices than many of our competitors and realize higher margins in both divisions.

Cogeneration is generally considered to be the most efficient way of using the primary energy in fuel. Typical steam condensing plants are only 25-40% efficient (*i.e.*, only 25-40% of the fuel is converted to energy), while even the most efficient natural gas fueled power plants are only 50-60% efficient. Our fleet of CHP plants, in contrast, operates at higher peak efficiencies in cogeneration mode (EOP: 71%, UE: 67% and PE, which is much smaller in size: 48%) by capturing some or all of the otherwise wasted by-product, heat, created in the power generation process.

In addition, our CHP plants are largely fueled by brown coal (EOP: 99.9%; PE: 99.8%; UE: 97.5%), which allows us to maintain a highly competitive cost structure in both our and Heat and Cogeneration and Power Generation divisions. 66% of the heat that PT sells is purchased from Energotrans, all of which is generated by brown coal. The cost of brown coal, the primary fuel for plants, and the cost of the CO_2 emissions permits under the EU ETS required to offset the CO_2 we produce, are significantly lower than those associated with either natural gas or hard coal.

Moreover, we source the majority of our brown coal for our CHP plants from suppliers under long-term contracts. Through these contracts we are able to purchase brown coal at relatively low and stable prices, which provide us with more predictable costs. Unless we are able to secure brown coal supplies from third parties at competitive prices, starting no later than 2016, we plan to supply our EOP CHP plant with MIBRAG brown coal, with the actual supply volume depending on developments in the Czech coal market in the meantime, which will further secure our supply of fuel. Our use of brown coal as our primary power source means we are able to operate our CHP plants more cheaply and more efficiently than our non-brown coal based competitors, which results in lower offtake prices for our customers.

In addition, there is significant support from EU energy and environmental regulations and initiatives, which adds to the advantageous positioning of our Heat and Power segment within the European heat and power sectors. Directive 2004/8/EC of the European Parliament and of the Council already affirmed that "promotion of high-efficiency cogeneration based on a useful heat demand is a Community priority" due to its ability to save primary energy, avoid network losses, reduce emissions and increase the security of Europe's internal energy supply. More recently, Directive 2012/27/EU on Energy Efficiency (the "EED") was adopted and entered into force on December 4, 2012 providing a common legal framework for the promotion of energy efficiency within the EU deemed to ensure the achievement of the EU's target of a 20% increase in energy efficiency by 2020. According to the EED, electricity from high-efficiency cogeneration shall be afforded priority or guaranteed access to the transmission or distribution network and EU Member States shall carry out a comprehensive assessment of the potential for the application of high-efficiency cogeneration and efficient district heating and cooling and shall notify the EU Commission of the results. EU Member States shall also encourage the implementation of methods of high-efficiency cogeneration and take adequate measures for efficient district heating and cooling infrastructure to be developed. In light of the foregoing, cogeneration is expected to continue to be a cornerstone of EU energy strategy and a focus for support.

Furthermore, due to its efficiency, cogeneration is currently experiencing a positive market image and a high level of public and political support in the Czech Republic, Germany and in Europe in general, which we believe provides us with growth opportunities and a competitive advantage over our non-CHP competitors. Additionally, we receive a government subsidy, which was CZK 45 for every MWh of power generated in highly efficient cogeneration mode in the Czech Republic and resulted in approximately CZK 35.1 million in subsidized contributions to us in 2012, and which increased to CZK 200/MWh (i.e. by 344%) on January 1, 2013. Additionally, as all of our power plants in the Czech Republic are directly connected to local power distribution networks, we benefit from a government subsidy for highly efficient cogeneration plants connected to regional distribution networks. While this subsidy was canceled for 2012, it was reintroduced in 2013 with the level of the subsidy set at CZK12/MWh.

Long-term fuel source contracting

A significant proportion of our annual fuel consumption for our CHP plants is covered by long-term contracts, which provides us with a certain degree of price stability and thus long-term visibility into our fuel costs.

- Our CHP plants in the Czech Republic: in aggregate, we have contracted approximately 44 million GJ of brown coal annually until 2015 (including the disputed Czech Coal contract), 18 million GJ annually for years 2016 and 2017 and approximately 14 million GJ annually for years 2018 to 2035 for our CHP plants in the Czech Republic.
- Schkopau (through Saale Energie): annual contracted amount of 28.7 million GJ; the underlying brown coal supply agreement for the entire power plant stipulates annual supplies of up to 64.5 million GJ (28.7 million GJ correspond to our beneficial use right over 400 MW_e of Schkopau's total capacity of 900 MW_e).

Extensive heating distribution networks

All of our cogeneration plants are connected to large-scale district heating networks, which were built to connect to large numbers of households and to supply densely populated areas and therefore have a large and stable customer base.

We operate extensive heat distribution networks in the Czech Republic, which supply both residential and industrial clients with heat. We supply heat to the largest Czech cities, including Prague, Pilsen, Hradec Králové, Pardubice, Most and Litvínov. Extensive, highly-developed and well-maintained district heating systems in the Czech Republic allow us to cheaply and efficiently distribute the energy we capture in the cogeneration process as heat to end-consumers linked to those district heating systems. PT also purchases heat for distribution to our customers under a long-term contract with Energotrans. We have a stable customer base, with a significant portion of our heat off-take delivered to residential apartment blocks through district heating systems, which we believe means our Heat and Cogeneration division is less vulnerable to economic downturns and industrial cyclicalities. We believe district heating is an important and growing market in the Czech Republic.

In addition, in February 2013 the Czech government proposed the imposition of a carbon tax in its proposed Act on Changes to Taxation of Solid Fuels, Gas and Mineral Oils, which would be applied from January 2014. The proposed carbon tax would keep in place the current tax liberalization of individual households and would apply to facilities which are not part of the EU greenhouse gas emissions trading system and not subject to tax liberalization. We believe that, if implemented, the carbon tax would make district heating an even more competitive form of heating in the Czech Republic, due to its low carbon emissions profile and the lack of emissions at the point of the end-consumer. However, we believe that the implementation of the carbon tax will be significantly delayed.

Derogation from EU ETS

On July 6, 2012, the European Commission announced in MEMO/12/530 that it had authorized the Czech Republic's request for a continued free allocation of EU ETS allowances to Czech power sectors beyond the end of 2012, which had initially been set as the date for the end of free allocations. The scope of these allowances is limited to installations that started to generate electricity before December 31, 2008 or for which the investment process was "physically initiated" by that date, and thus, all of our Czech power plants are covered by the derogation. The extension period lasts until 2019 at the latest, and the free allowance extension is limited to no more than 70% of emissions for domestic electricity supply in 2013, declining annually thereafter to zero from 2020 onwards. Additionally, the Directive requires that installations benefitting from free allocation under the derogation invest in projects designed to modernize power generation in the Czech Republic. The value of these investments must mirror the value of the free allocation, which we continue to achieve through our investments in our existing power plants, facilities and infrastructure to comply with this requirement.

Different principles apply to the EU ETS Directive regarding heat. In compliance with the revised EU ETS Directive Article 10a, district heating CHP plants receive free allowances for heat supply until 2027. The derogation is available to all Member States, but is limited in terms of eligibility and quantity. All district heating and highly efficient cogeneration plants are eligible, regardless of the commissioning date. However, the Directive requires a maximum of 80% of free allowances in 2013 with a gradual decline in subsequent years to reach 30% in 2020. Further gradual decline will reach zero free allowances in 2027. Contrary to the free emission allocation extension granted for electricity, the EU ETS Directive does not require heating plants benefitting from the free allocation under the derogation to invest in any projects.

The following table provides an overview of the actual and expected free allocation of emission allowances for our Heat and Power segment:

	2013	2014	2015	2016	2017	2018	2019	2020
				In thousand tons				
Heat	758	653	557	469	395	336	278	222
Power Generation	1,854	1,589	1,324	1 059	794	529	265	0
Total	**2,612**	**2,242**	**1,881**	**1,528**	**1,189**	**865**	**543**	**222**

Source: Czech Ministry of the Environment

As all free allocations will be granted directly from the European Commission, the extent of any such allocations (either in respect of power generation or cogeneration) applicable to our businesses, if any, is uncertain.

Grid balancing services

In our Power Generation division, we are one of the largest certified providers of grid balancing services in the Czech Republic in terms of revenues and megawatt hours of capacity provided and in 2012 we had an approximately 7.90% market share in the Czech Republic in the provision of grid balancing services, according to data provided by ČEPS, the Czech Transmission System Operator.

Grid balancing services are balancing services (*i.e.* decreases or increases in electricity supply on a short-notice basis (in some cases within 30 seconds of the order instructions)) offered by electricity producers to the transmission system operator ("TSO") in order to assist the TSO in maintaining a reliable transmission system. As a result of the contracting process for the provision of grid balancing services through an advance auction process and a framework agreement with the TSO, we have visibility over the entire revenue stream for one year in advance and over 70%-80% for two years in advance. Therefore, this business provides a predictable and steady stream of revenue and a reliable contribution to our EBITDA. The grid balancing services portion of our Power Generation division is poised to grow as an increasing share of the power generation market moves to renewables, which will in turn increase the demand for grid balancing services as power produced through renewables sources can be more unpredictable and erratic than power produced through other sources of supply.

We have two separate revenue streams from the provision of grid balancing services, derived from two distinct fee arrangements: Capacity fees and "as-provided" fees. Capacity fees are those paid by the TSO regardless of whether an individual service is actually provided through a framework agreement with the TSO. As-provided fees, in contrast, are paid by the TSO for individual services (although we only receive capacity fees for some services) as and when they are actually supplied.

Our Power Generation division offers a wide-range of grid balancing services. The table below summarizes the types of grid balancing services offered by our Power Generation division in 2012:

Name of Service	Nature of Service
Primary Frequency Control (PR)	• Ability to increase or decrease power output automatically based on grid frequency • Must be available within 30 seconds of the instruction • Capacity fee only
Secondary Power Control (SR)	• Change in power output of a regulated generating unit, as requested by the load frequency controller, a mechanism operated by the TSO • Must be enabled in full within 10 minutes of the request from the load frequency controller • Both capacity and as-provided fee
Minute Reserve Available Within 15 Minutes (Negative) (MR15-)	• Decrease in generating unit power output following a request from the TSO • Both capacity and as-provided fee
Minute Reserve Available Within 15 Minutes (Positive) (MR15+)	• Increase in generating unit power output following a request from the TSO • Both capacity and as-provided fee
Minute Reserve Available Within 5 Minutes (MR5)	• Ability to start power generation from 0 MW_e to certified capacity within 5 minutes • Both capacity and as-provided fee
Island Operations Capability (IO)	• Capability to generate power to supply an isolated part of the system (a so-called “island”) • Capacity fee only
Black Start Capability (BS)	• Capability to start up without an external power supply, reach the set voltage value, connect to the grid and supply an island • Capacity fee only

Our key subsidiaries

<u>Elektrárny Opatovice (EOP)</u>—Heat and cogeneration and power generation

EOP, an indirectly wholly-owned subsidiary of EPE, is a leading brown coal fueled heat generator and distributor in the Czech Republic, providing among the lowest-priced heat in the Czech Republic because of its cogeneration capabilities. EOP’s plant has an installed capacity of 932 MW_t (on boilers), 698 MW_t (heat off-take), 183 MW_e (power cogeneration) and 180 MW_e (power condensation). EOP supplied around 3.8 PJ of heat annually in 2012, providing heat to more than 60,400 households in Hradec Králové, Pardubice and Chrudim. (J&T Group acquired 100% of International Power Opatovice a.s., a legal predecessor of EOP, in November 2009, which was later contributed to us). At December 31, 2012, EOP employed 368 full-time equivalent employees.

A substantial majority of the heat supplied by EOP is to residential and municipal customers. EOP is also an important provider of grid balancing services to ČEPS, the Czech Transmission System Operator, which is a holder of an electricity transmission license for the Czech Republic under the Energy Act and provides electricity transmission and control services across the Czech transmission system.

Currently EOP uses brown coal obtained from Czech Coal for its operations. This contract is currently the subject of a dispute with Czech Coal and may be subject to early termination. See “—Legal proceedings—Litigation with Czech Coal.” By the time the contract terminates, we intend to switch to using brown coal from other suppliers or from our MIBRAG facilities to supply EOP with brown coal, which we anticipate being able to achieve with relatively low capital expenditure or operating expenditure requirements by adjusting shift conditions (subject to workers' counsel consent) at MIBRAG, which we expect will have a positive or neutral impact on the overall performance of the EPE Group.

For the year ended December 31, 2012, EOP and its subsidiaries generated sales and EBITDA of CZK 6,529 million (€259.71 million) and CZK 2,092 million (€83.21 million), respectively, in each case before intercompany eliminations. This data was extracted from management accounts for EOP which were used to prepare the consolidated financial information of the Company.

***PT*—Heat and cogeneration**

PT, an indirectly 73.3% owned subsidiary of EPE, owns and operates the largest district heating network in the Czech Republic, as well as 34 heating stations and four CHP plants with a total installed capacity of 1,696 MW_t (on boilers), 1,598 MW_t (heat off-take) and 132 MW_e (power cogeneration). 24.3% of PT is indirectly owned by the City of Prague and the remaining approximately 2.5% share is owned by small shareholders. PT is the leading heat supplier to residents and businesses of Prague, supplying approximately 12 PJ of heat in 2012 to more than 260,000 households across a district heating network of over 640 km. 61% of PT's customers are residential, 5% are industrial and 34% represent commercial offices, public infrastructure and the services sector. In 2012, PT's fuel base for its heat supply, which includes heat purchased from Energotrans, based on a long-term contract, corresponded to the following: 66% brown coal, 24% natural gas, 3% hard coal and 7% municipal waste. Although PT owns and operates cogeneration sources (which do not run in condensation mode), we only directly generate heat and power through these sources during peak demand in the winter months. PT as a business focuses on heat distribution and buys most of its heat from Energotrans, a former PT subsidiary, which we sold to ČEZ, a.s. in 2012, and the ZEVO Malešice waste-to-energy plant. PT also owns and operates a system of gas boilers on the west bank of the Vltava river, which supplies approximately 3 PJ of heat annually. In 2012, EPE entered into an agreement with the City of Prague regarding the management of day-to-day operations of PT under which EPE undertook the role of managing the company, and as a consequence of such agreement, from July 1, 2012, we consolidated 100% of the results of PT in our results. As of December 31, 2012, PT employed 718 full-time equivalent employees.

After a series of modernization efforts in recent years, in which PT's heat distribution network was retrofitted with sophisticated remote meter reading and automation, PT is able to provide stable heat supplies at prices approximately 10% below the Czech national average.

In 2012, our subsidiary PT sold Energotrans, a heat generating company, to ČEZ, a.s. As part of the sale, PT continues to have an important long-term heating supply contract with Energotrans whereby PT buys heat from Energotrans to distribute through PT's heat distribution network in Prague.

For the year ended December 31, 2012, PT and its subsidiaries generated sales and EBITDA of CZK 7,102 million (€282.50 million) and CZK 2,413 million (€95.98 million), respectively (34.0% EBITDA margin), in each case before intercompany eliminations. This data was extracted from management accounts for PT which were used to prepare the consolidated financial information of the Company.

***United Energy a.s. (UE)*—Heat and cogeneration and power generation**

UE, an indirectly wholly-owned subsidiary of EPE, is a major heat and cogeneration producer in the northern Bohemian region of the Czech Republic. UE owns and operates a CHP plant at Komořany (near the city of Most). UE's plant has a total installed capacity of 1076 MW_t (on boilers), 511 MW_t (heat off-take), 89 MW_e (power cogeneration) and 150 MW_e (power condensation). In 2012, UE's fuel sources consisted of brown coal 96.6% and biomass 3.3%, and it supplied approximately 1.77 PJ of heat to approximately 34,900 households in the cities of Most and Litvínov and 799.3 GWh of electricity to the grid. 58.8% of UE's customers are residential, 9.1% are industrial and 32.1% are municipalities and other institutions. UE owns over 100 km, or 90%, of the primary heat grid in Most and Litvínov.

J&T Group acquired UE in 2005. UE was contributed to EPH on October 6, 2009 and to EPE upon its incorporation. As of December 31, 2012, UE employed 341 full-time equivalent employees.

For the year ended December 31, 2012, UE and its subsidiaries generated sales and EBITDA of CZK 2,086 million (€82.98 million) and CZK 933 million (€37.11 million), respectively (44.7% EBITDA margin), in each case before intercompany eliminations. This data was extracted from management accounts for UE which were used to prepare the consolidated financial information of the Company.

***Saale Energie*—Cogeneration and power generation**

We own a 41.9% interest in the Schkopau power plant through the acquisition of a 100% stake in Saale Energie in July 2012 from NRG Energy, Inc. USA. The remaining 58.1% of Schkopau is owned by E.ON. E.ON, one of the world's largest investor-owned power and gas companies, also operates the plant. The Schkopau plant began commercial operations in 1996 and has a net installed capacity of 900 MW_e. Its capacity is contracted under long-term agreements with Vattenfall Europe, Dow Chemical and Deutsche Bahn. Vattenfall is one of the Europe's largest generators of electricity and the largest producer of thermal steam. Through its 41.9% stake, Saale Energie has a beneficial use right over 400 MW_e of the plant's total installed capacity of 900 MW_e, which has been contracted under a long-term power supply agreement with Vattenfall. This contract provides Saale Energie with a regular and stable revenue stream through a fixed monthly capacity fee regardless of the actual utilization of the 400 MW_e capacity by Vattenfall Europe. Other costs of power generation, especially coal consumption costs charged by MIBRAG and operation and maintenance fees charged by E.ON, are passed through to Vattenfall with no material disadvantage to Saale Energie. The costs of the brown coal are passed through by mirroring the terms of the brown coal supply agreement with MIBRAG in the power purchase agreement between Saale Energie and Vattenfall. Our interest in the Schkopau power plant was financed with a shareholder loan directly provided by EPH.

Renewables

The Renewables segment generated sales and EBITDA of CZK 148 million (€5.89 million) and CZK 109 million (€4.33 million), respectively and accounted for 1.0% of our consolidated EBITDA for the year ended December 31, 2012 (in each case before intersegment eliminations at the group level). A primary strength of our Renewables segment is that it is a regulated business that provides stable, low-risk cash flows. Our renewable energy output is fed into the national grid, and in general, off-take prices and feed-in tariffs for solar, wind and biogas are fixed for 15 years in the Czech Republic and the Slovak Republic, in each case following the commissioning date, and for 20 calendar years not including the year of commissioning, in Germany, which we believe allows for reliable visibility into our future results of operations. We consider the Renewables segment to be a growth-area both in the energy markets and in our business given the increased focus on clean energy technologies by the EU and national governments and the rapid improvement in technology to create renewable energy and because of the development projects we have in progress. However, we expect the Renewables segment to remain a relatively small part of our overall business.

We own one wind farm in Germany at our MIBRAG facilities with an installed capacity of 6.9 MW_e, two solar power plants in the Slovak Republic each with an installed capacity of 1 MW_e and a biogas facility in the Slovak Republic with an installed capacity of 2.8 MW_e. In addition, we have one wind farm in the development stage in Germany, which we expect to be commissioned in 2014, as well as two wind farms in the development stage in the Czech Republic. We believe the two Czech wind park projects to be in the advanced stage of the permit process and on track to be commissioned in 2014. We own and operate three solar power plants and hold a minority interest in an additional solar power plant and a majority interest in one wind farm in the Czech Republic with a total installed capacity of 13.2 MW_e.

While we believe that we will continue to experience growth in our Renewables segment through the development projects currently in progress, we expect that it will remain a relatively small part of our business.

Wind

Our wind operations are conducted in the Czech Republic through VTE Pchery, s.r.o., in which we hold a 64% stake, with an installed capacity of 6.0 MW_e as of 2012. We also own and operate one wind farm in Germany through MIBRAG Neue Energie GmbH with an installed capacity of 6.9 MW_e.

We intend to further develop three wind park projects, which, if commissioned, will amount to total installed capacity of up to 169 MW_e (VTE Pastviny: up to 52 MW_e, VTE Moldava: up to 54 MW_e and MIBRAG: up to 63 MW_e). We expect the MIBRAG wind farm to be commissioned in 2014. The VTE Moldava wind park project is in the advanced stage of the permit process and we believe that it is on track to be commissioned in 2014, and we believe that the VTE Pastviny wind park project is on track to obtain its required permits in 2014, the Senior Credit Facilities Agreement imposes restrictions on the further development of these wind park projects. Under the terms of the Senior Credit Facilities Agreement, we are prevented from making further investments in our Moldava and Pastviny wind park projects unless such investment is financed by VTE Moldava, a.s. or VTE Pastviny, s.r.o., respectively, from loans by our parent, EPH, or an affiliate of EPH, and does not exceed a certain threshold amount.

Despite the current restrictions on the further development of our Czech wind operations, we intend to continue to focus on development opportunities in the renewable energy sector, at all times ensuring that any new venture meets our strategic, capital expenditures and strict cash flow return requirements.

Solar

Our solar operations are based in the Czech Republic and the Slovak Republic. In the Czech Republic, we own and operate POWERSUN a.s. (100% ownership), with an installed capacity of 3.2 MW_e. We also have a 41.7% ownership interest in the

Greeninvest Energy, a.s. solar facility, which we also operate with an installed capacity of 4.0 MW_e. In the Slovak Republic, we own and operate Arisun (100% ownership), with an installed capacity of 1.0 MW_e, and Triskata, s.r.o. (100% ownership), with an installed capacity of 1.0 MW_e.

Biogas/biomass

We currently hold an interest in a biogas plant in the Slovak Republic through Alternative Energy, a 90% owned subsidiary, which was commissioned in 2011 with installed capacity of 2.8 MW_e. Additionally, our United Energy plant is ready for biomass co-firing for up to 10% of energy content, and we believe that other plants we operate can be switched to biomass co-firing relatively easily should it be economically desirable.

Waste-to-energy

We are developing our capability in waste-to-energy facilities in order to take advantage of this potential growth area of business. For example, in 2012 in the Czech Republic 67% of solid municipal waste was landfilled, while 24% was recycled and only 9% was used in waste-to-energy plants. A waste-to-energy project at the Komořany site owned by our subsidiary United Energy in the Czech Republic is currently in an advanced state of development and would have a fuel input capacity of 150 kt per annum. The technical design for this site has been prepared and agreed upon, and the requisite environmental impact assessment has been granted. The waste-to-energy project at Komořany site is currently requesting partial funding by EU subsidies as one of only two such projects in the Czech Republic. In order to comply with public procurement rules we may be required to select a general contractor soon. However, we do not intend to proceed with further implementation of the project until the regulatory framework changes so that the economic viability of the project is guaranteed. Under the current legislative environment in the Czech Republic, it is very unlikely that we would proceed with the development of this plant.

Energy Supply and Trading

Through our Energy Supply and Trading segment we sell power and natural gas to end customers in the Czech Republic and the Slovak Republic. For the year ended December 31, 2012, the Energy Supply and Trading segment accounted for 3.5% of our consolidated EBITDA (before intersegment eliminations at the group level).

The Energy Supply division of the Energy Supply and Trading segment focuses on the supply of power and natural gas to end customers. We have a portfolio of large customers, not only in the commercial sector, but also in the public and municipal sector, and we are successfully expanding in the retail sector.

Acting as a supplier enables us to take advantage of synergies with our other segments, especially the Power Generation division of our Heat and Power segment, and the Trading division of the Energy Supply and Trading segment. Our Trading division buys power generated by our Heat and Power segment and sells it to the wholesale market while at the same time buying from the wholesale market and selling to the Energy Supply division the volume of power that the Energy Supply division will sell to end-customers. Our trading arm also allows us to perform power procurement for supplies to end customers through purchases from significant market players, independent traders, and the Power Exchange Central Europe, a.s. ("PXE"). As the final step of the value chain, Energy Supply provides a direct link to our customers and removes risks from potential redistributions of margins, allowing us to capture full margins across the value chain. Additionally, our Energy Supply division allows us to leverage existing relationships with customers by providing dual fuel solutions (i.e., both power and natural gas). As of December 31, 2012, volume corresponding to approximately 57.6% of the electricity we generated was sold via Energy Supply to the end-customer, with the balance sold through Trading in the wholesale market generally under forward sales agreements. Furthermore, in line with our aim to strengthen our vertical integration, we have recently begun expanding our retail operations in our Energy Supply and Trading segment, with expansion into the retail sector for electricity in order to diversify and stabilize our customer base and to reduce risks associated with customer concentration.

We also trade power and natural gas primarily to fulfill our supply obligations or to virtually match our power production with our supply obligations.

Energy optimization and trading activities

Our Energy Supply and Trading segment provides our CHP plants with constant access to the power market, enabling us to utilize state-of-the-art energy optimization based on market demand. As part of this strategy, we both sell electricity generated by us in our Heat and Power segment in the wholesale market and purchase electricity from the wholesale market for delivery by our power generation business at times when it is more economical for us to buy electricity for sale under our forward sale contracts rather than generate it ourselves. This decision depends on the price of power on the wholesale market. If the price of power on wholesale market is lower than the cost of producing power, we will buy power, and if the price on the wholesale market is higher than the cost of producing power, we will produce it. The process of energy optimization also involves selling and then reselling, potentially many times, the power we produce or the power we buy on the wholesale market. We conduct this sale and resale process in order to take advantage of price changes for power on the wholesale market to allow us to capture additional margin on the price of power. For example, if after selling the power that we intend to produce and locking in the sale price, the price of power drops to below our marginal cost of production, we will instead purchase the required amount of power for delivery. If the price of power then increases above our marginal cost of production, we will once again sell power we intend to produce, again locking in the sale price. If prices rise and fall further, we will repeat the process.

While our power and natural gas trading policies require that the majority of our trades are conducted on a back-to-back basis (for example, we typically only purchase commodities on the market when we have an offsetting sales contract, and we do not maintain large open positions which expose us to downside risk), we also engage in limited opportunistic power and gas trading activities. These trades primarily relate to (a) speculation on seasonal differences in power and natural gas prices, i.e., we purchase gas in the spring and summer with the intention of selling it at a higher price in the winter; and (b) speculation based on announcements relating to the availability of emissions allowances, as a reduction in the number of available emissions allowances typically leads to an increase in emissions allowance prices and thus increasing power prices due to higher production costs. Additionally, in connection with the optimization of our supply and trading business, we are dependent on the liquidity of the wholesale market, and as a result, we may take limited open trading positions, i.e. not matching a sale with a purchase until there is more liquidity in the market, or if prices are falling, waiting to make the matching purchase transaction. Nevertheless, such opportunistic trading activity is fairly limited, and the maximum exposure we may take through proprietary trading is subject to limits setting the maximum risk of loss on trading portfolios. Under our current policies, potential open positions in power and gas over any period of time are limited by an aggregate mark-to-value of €5 million in power and €1 million in natural gas. If we exceed these thresholds on our open positions, we are required by EPE Group policies to close out of our open positions to a value below these thresholds.

Our Energy Supply and Trading subsidiary

EP ENERGY TRADING, a.s.

EPET, a wholly-owned subsidiary of EPE, is a leading independent trader of natural gas and supplier of electricity, natural gas and related services to final customers in the Czech Republic and the Slovak Republic. EPET was established in 2005 as a subsidiary of UE. Effective January 1, 2013, EPET merged with PEAS, a former subsidiary primarily acting in our Energy Supply and Trading segment, with EPET as the surviving entity.

At December 31, 2012, EPET employed 56.5 full-time equivalent employees. EPET's advantage is its access to the EPE Group's own electricity generating capacities. In 2012, EPET supplied 1,779 GWh of electricity and 1,785 GWh of natural gas to industrial and retail clients in the Czech Republic and the Slovak Republic. EPET also trades natural gas, predominantly on a back-to-back basis for its natural gas supply customers, trading 3,240 GWh of natural gas in 2012. EPET is subject to our trading policies and limits on speculative trading. EPET's core function is to exploit synergies with our other segments to cover the entire energy value chain. For these reasons, we believe EPET will continue to make up only a small percentage of our overall EBTIDA.

For the year ended December 31, 2012, EPET generated sales of CZK 8,494 million (€337.87 million). This data was extracted from the management accounts for EPET, which were used to prepare the consolidated financial information of the Company, and does not reflect the merger with PEAS, which was effective as of January 1, 2013.

Employees

At December 31, 2012, we had 4,393 full-time equivalent employees in our operations. The majority of our employees are employed in the Heat and Power and the Mining segments. These segments contain 45.5% and 52.6% of our full-time equivalent employees, respectively.

In order to ensure a steady flow of qualified, skilled mining employees for MIBRAG, we operate a training school curriculum designed to train previously inexperienced candidates to fill our technical mining personnel needs. Training for industrial mechanics and electronics technicians lasts 3.5 years, with 2 years being spent at MIBRAG's training center at Deuben and the last 1.5 years assigned to various technical tasks in production or maintenance. At December 31, 2012, MIBRAG employed approximately 122 trainees and an additional 24 young people in a junior manager program.

Historically we have enjoyed good labor relations and we are committed to maintaining these relationships. Other than management and professional personnel, the majority of our employees is represented by local trade unions and is covered by a number of collective bargaining and works council agreements, which usually last between 12 and 18 months. On July 18, 2012, we extended the framework collective bargaining agreement for employees employed by MIBRAG for the period from September 1, 2012 until March 31, 2014. Similarly, effective January 1, 2013, we entered into a collective bargaining agreement for employees of PT which extends until December 31, 2016, and, effective January 1, 2012, the current collective bargaining agreement for employees of UE was amended to extend until December 31, 2013, on November 26, 2012, we entered into a collective bargaining agreement for employees of PE which extends until December 31, 2013 and on December 2, 2011, we entered into a collective bargaining agreement at EOP that will need to be renegotiated upon the responsible union providing us with six months notice. We continue to enter into further collective bargaining agreements as required in the Czech Republic and the Slovak Republic.

Environmental matters

Operations in our Mining, Heat and Power and Renewables segments often involve the requirement to comply with regulatory regimes designed to protect the environment. We endeavor to comply with all known environmental regulations and have not been made aware of any material breaches of applicable environmental regulations by any member of the EPE Group.

European Union

Czech, Slovakian, German and EU regulations impose strict standards for CO_2, SO_x, NO_x, CO and solid particulate matter emissions. Starting in 2016, the stricter emission targets set by the European Industrial Emissions Directive ("IED") principally apply for large combustion plants. We estimate that complying with these targets by the 2016 deadline will require investments in the Czech Republic in excess of €80 million across the EPE Group. We are unable to estimate whether additional capital expenditures to comply with the IED will be required at MIBRAG or Saale Energie.

Czech Republic

The key law focusing solely on the energy sector is Act No. 458/2000 Coll. (the "Czech Energy Act") which provides the legal basis for conducting business in the energy sector and obtaining the necessary licenses for the generation, distribution and sale of electricity, natural gas and heat. The Czech Parliament enacted the Czech Energy Act in 2000 and broadly amended it in August 2011 as a means of implementing the EU Third Electricity Directive. The Czech Energy Act contains provisions in compliance with applicable EU legislation. Its main principles are: (i) the conduct of business in the electric energy sector only with licenses issued by the ERO; (ii) the unbundling of transmission and distribution system operations; (iii) the liberalization of the market by allowing competition in the energy sector; (iv) the establishment of a strong and independent regulatory authority (i.e., the ERO); and (v) the protection of end-consumers.

We believe that we are in full compliance with all applicable regulations and requirements under the Czech Air Protection Act. Since we own numerous coal-fired power plants classified as "existing particularly large combustion plants," under applicable legislation we may exchange and allocate the assigned aggregate emission limits between our coal-fired power plants in such a way as to ensure compliance with the Czech Air Protection Act and we are therefore able to optimize heat and power generation.

Germany

Our mining permits require us to submit a reclamation plan which obligates us to restore our mining sites in accordance with specific standards. We may further be required to create and maintain a cash reserve to cover the costs of implementing our reclamation plan. The IMC Report estimates reclamation costs of approximately €344 million, which is based on a 2010 expert opinion. In late 2012, MIBRAG obtained an updated expert opinion regarding estimated reclamation costs of both mines and on that basis the latest estimate of such reclamation costs is €307.8 million. As of December 31, 2012, we have a CZK 5,611 million (€223.2 million) non-cash ecological provision for restoration and decommissioning booked as a liability on the EPE balance sheet pursuant to IFRS and €83.9 million booked as a liability on the MIBRAG balance sheet pursuant to German GAAP, respectively, and no cash reserves. Reclamation procedures with respect to MIBRAG's Profen mine are currently planned to begin in 2030 and with respect to MIBRAG's Vereinigtes Schleenhain mine in 2041. We currently incur cash costs of approximately €2-3 million per year for ongoing reclamation and other measures.

Legal proceedings

Companies in our segments often face litigation both on a private commercial level, as well as litigation commenced by national and local regulatory bodies.

Litigation with Czech Coal

We are currently in a number of disputes with Czech Coal, a Czech mining company, regarding mutual claims concerning coal and heat deliveries, excessive coal pricing and compensation payments.

In a dispute with EOP, Czech Coal is seeking early termination of an agreement for the supply of brown coal to EOP until 2015 on the basis of our alleged failure to make a payment of CZK 20 million, relating to VAT. As a result of this dispute, in June 2012, Czech Coal halted its supply of brown coal to EOP. However, we were granted a preliminary injunction and an extension thereof ordering Czech Coal to continue supplying us with brown coal according to the terms of our agreement, except as to price, until December 31, 2013. If we are not able to secure supplies of brown coal from third parties at competitive prices, we plan to use

MIBRAG's coal to meet the brown coal demands of EOP in the event Czech Coal stops delivering brown coal to EOP at the end of 2013. This plan requires both time and changes to employee arrangements, subject to workers' council consent and combined additional capital expenditures of approximately CZK 227 million to refit the EOP power plant to accept other grades of brown coal which differ from that supplied by Czech Coal, and to improve the environmental impact of the EOP power plant. See "Risk factors—Risks relating to our business and industry—We frequently engage a very small number of suppliers, particularly in our power and heat businesses, which significantly magnifies the risk of disruptions in the supply of coal, natural gas and other necessary raw materials and services we receive from third parties."

In addition, our UE facility is a party to several litigation matters with Czech Coal that resulted from a contract on coal deliveries to UE. In 2005 Czech Coal tried to unilaterally increase prices of brown coal deliveries for our UE facility outside of the contractual terms, and, subsequently, in 2006 terminated brown coal supplies thereto; after a series of provisional arrangements, brown coal deliveries by Czech Coal to UE finally stopped in 2008. We have succeeded in replacing the deliveries from Czech Coal in full by deliveries from other mining companies. As UE did not pay the increased price to Czech Coal, Czech Coal Services sued UE for CZK 257 million. There is an ongoing legal dispute as to whether Czech Coal discontinued its deliveries lawfully or not.

Litvínovská uhelná (a member of the Czech Coal group) sued UE for CZK 216 million. The subject of this dispute is the penalty for disclosing restricted information and unpaid invoices for delivered coal from 2009. UE denies having disclosed the restricted information and claims that the receivables at issue were offset against receivables of Czech Coal Services (a legal predecessor of Litvínovská uhelná).

Another legal dispute arose from still ongoing deliveries of heat from UE to Czech Coal facilities, for which Czech Coal from time to time refuses to pay (or to pay in full) due to a set-off against its other alleged claims against UE. UE has also sued several Czech Coal group companies alleging unpaid deliveries of heat for approximately CZK 136 million.

UE has sued Czech Coal group companies in several other disputes regarding (i) damages arising from abuse of monopoly position in the amount of CZK 320.27 million, (ii) unpaid claims resulting from a settlement agreement in the amount of CZK 8 million and (iii) damage caused by an abusive insolvency petition in the amount of CZK 66 million.

As a result, UE and Czech Coal are currently engaged in several interlocked litigations involving claims for allegedly unpaid brown coal price and contractual penalties by Czech Coal, and claims for brown coal delivery, heat price, and other related matters, by UE.

The outcome of the litigation matters set out above is unclear.

Other litigation

EOP is also subject to a dispute with its former minority shareholders claiming inadequacy of the compensation received for their shares subject to a compulsory sell-out procedure ("squeeze-out"), challenging an underlying expert valuation. As the compensation was not paid by EOP but instead by its former majority shareholder (International Holdings, B.V.), any resulting liability is thus expected to be the responsibility of the former shareholder.

UE is subject to multiple ongoing disputes with Lesy České republiky ("Lesy ČR"), the company responsible for Czech state forests, relating to damage caused to nearby forests by UE's emissions. UE and Lesy ČR have been involved in similar disputes since 1995, and the total amount of damages claimed is up to CZK 54 million. In July 2012, UE submitted a settlement offer to Lesy CR proposing a settlement amount of CZK 18 million, covering the period from 1995 to 2005, which was rejected. UE is currently considering its options with respect to ending these disputes.

UE is also subject to several disputes with its former shareholders claiming inadequacy of the compensation received for their shares subject to a compulsory sell-out procedure ("squeeze-out"), challenging the validity of the underlying resolution of the general shareholder meeting. The outcome of this matter is unforeseeable and we intend to defend ourselves vigorously.

MIBRAG is subject to an ongoing dispute filed by 50Hertz Transmission GmbH ("50Hertz") in Germany in 2011. 50Hertz operates an upstream transmission grid and seeks retroactive payment from MIBRAG for costs under the burden-sharing mechanism related to the promotion of renewable energies (so-called EEG surcharge) between August 2004 and December 2008 under the German Renewable Energies Act (*Erneuerbare Energien Gesetz*). Transmission grid operators generally charge energy supply companies with the EEG surcharge depending on the quantity of electricity delivered by them to end customers. Energy supply companies are in turn entitled to pass the EEG surcharge on to end customers as a part of the electricity price. In March 2013, the District Court of Halle (*Landgericht Halle*) rendered a partial judgment in favor of 50Hertz ordering MIBRAG to provide detailed data on its deliveries of electricity to end customers from August 2004 to December 2008 to allow for a calculation of EEG surcharge payments potentially owed by MIBRAG. MIBRAG's appeal against the judgment is pending. If the court ultimately decides in favor of 50Hertz on whether MIBRAG owes 50Hertz the EEG surcharge for the above period, MIBRAG's liability could be significant.

In May 2010, the European Commission initiated formal proceedings against EPH, EPE's parent company, and EP Investment Advisors, s.r.o. ("EPIA"), an affiliated company, for potential breach of their procedural obligations during the on-site inspection in November 2009 undertaken as part of an antitrust investigation. As a result of the proceeding, on March 28, 2012 the European Commission imposed a fine of €2.5 million. EPH and EPIA are jointly and severally liable for the fine and have recorded adequate provisions with respect thereto. In June 2012, EPH and EPIA appealed the commission's decision.

In August 2012, Škoda Investment a.s. filed an unjust enrichment claim against Plzeňská energetika a.s. for approximately CZK 63 million. This unjust enrichment claim allegedly arises from the fact that Plzeňská Energetika owns and operates utility distribution systems (e.g., for gas, water and heat), which lie on the property of Škoda Investment a.s. and thereby illegally restrict the ownership of Škoda Investment a.s.

Other than the private commercial litigation described above, we are not involved in any legal or arbitration proceedings that are expected to have, either individually or in the aggregate, a material adverse effect on our financial position. To our knowledge, no such other legal or arbitration proceeding is currently threatened.

Information technology systems

Our operational efficiency, which we believe is core to our competitive advantage, is partly a result of group-wide investments in information technology systems which allow our operating entities to coordinate their operations and help us to maintain group-wide policies and management of our operations. This is especially important in the coordination between the Power Generation division of our Heat and Power segment and our Energy Supply and Trading segments, which requires minute-by-minute information about levels of supply available to be sold or traded and the prices of power and natural gas on the wholesale market. In addition, the Trading division of our Energy Supply and Trading segment relies on proprietary software for the monitoring and clearing of trades in electricity and natural gas.

Safety systems

Safety and quality management covering health and safety ("HSE") management systems, technology and people is an integrated part of our management system, and as of December 31, 2012, we employed 85 full-time equivalent employees in HSE management. We believe we, as well as our facilities and equipment, are in compliance with all legal requirements and best practices and continually attempt to improve the level of safety in our operations by implementing measures to evaluate, avoid, remove and mitigate risks. Furthermore, we maintain comprehensive training programs designed to ensure the safety of our employees. Additionally, when selecting and evaluating our suppliers, we take their approach to safety issues into account.

Our subsidiaries operating in the Heat and Power segment have implemented an integrated health and safety management system, BOZP (*bezpečnost a ochrana zdraví při práci*), which complies with the standards set by international norm ISO 14001, as well as Czech norm ČSN OHSAS 18001, and which provides HSE guidelines and best practices, as well as training programs for our employees.

For the year ended December 31, 2012, our subsidiaries operating in the Heat and Power segment had following accident rates (expressed in number of accidents per one million hours): EOP (0), PT (0.8), UE (25.5) and PE (19.3).

In our Mining segment, MIBRAG maintains its own occupational health and safety system, internally known as Arbeitsschutz Management System ("AMS"). The department responsible for overseeing AMS has 42 safety officers, 9 safety assistants, 1 physician, 2 medical assistants and 30 firefighters and paramedics. AMS contains guidelines for employee HSE, environmental protection and fire-fighting that are based on an analytical documentation of accidents and near-accidents, incidents, risks, safety evaluations, inspection plans and implementation of preventative or corrective measures. Furthermore, AMS involves regular training and risk assessments and safety audits and meetings that help MIBRAG improve its safety performance.

The company's accident frequency rate of reportable accidents per one million hours was 2.7 in 2012. In 2011, this rate was 1.06 and 1.1 is the long-term target for MIBRAG. MIBRAG outperformed the average of brown coal mining companies in Germany in 2011 (3.3 reportable accidents per one million hours) and despite the relatively high rate in 2012, MIBRAG also outperformed the average of brown coal mining companies in Germany in 2012 (2.9 reportable accidents per one million hours), according to the German Lignite Industry Association.

The EPE Group subsidiaries have the following certificates in the area of health protection, safety and processes:

- EOP – ISO 14001:2004, ISO/IEC 17021: 2007
- PT – ISO 9001:2001, ISO 14001:2005
- EPET – ISO 9001:2009
- MIBRAG – ISO 9001:2000, ISO 3834-3

Insurance

While all commercial, procedural and supervisory decisions regarding insurance policies are made by EPE senior management, we do not enter into insurance contracts at the EPE Group-level. Our individual operating subsidiaries maintain insurance policies in a combined amount of €5,930 million with different coverage limits applying to each company. Our main insurance carriers are currently Generali and Allianz. At the individual company-level including the key operating companies EOP, MIBRAG, PT, UE and PE, our policies cover risk to property (fire, flood, earthquake, weather and theft) in an aggregate amount of €4,206 million, third-party liability in an aggregate amount of €654 million, business interruptions in an aggregate amount of €455 million, machinery loss of profit in an amount of €440 million and risk of equipment breakdown in an aggregate amount of €174 million. We believe that our policies are in accordance with customary industry practices, including deductibles and coverage amounts.

Management

Executive officers and directors of EP Energy, a.s. ("EPE")

The following table sets forth the name, age (as of December 31, 2012) and principal position of each of EPE's current members of the board of directors (the "Board") and officers:

Name	Age	Position
Daniel Křetínský	37	Chairman of the Board
Jan Špringl	34	Vice Chairman of the Board
Tomáš David	41	Member of the Board; Chief Executive Officer
Pavel Horský	39	Member of the Board; Chief Financial Officer
Jiří Feist	50	Member of the Board; Chief Strategic Officer
Marek Spurný	38	Member of the Board
Dr. Joachim Geisler	57	Director of Mining
David Onderek	42	Director of Heat and Power
Tomáš Novotný	39	Director of Coal Trading and Logistics

The members of the Board and officers listed above can be reached at Příkop 843/4, 602 00, Brno, Czech Republic, telephone number +420 232 005 300 or Pařížská 130/26, 110 00 Prague 1, Czech Republic.

There are no potential conflicts of interest between any duties of any of the member of the Board or officers listed above and their private interests or other duties, except for any such potential conflict described in "Certain relationships and related party transactions", "Risk Factors—Risks related to our structure—The interests of our controlling shareholders may differ from the interests of the holders of the Notes" and "Principal Shareholders."

Daniel Křetínský has been the Chairman of the Board since EPE was founded on December 16, 2010 and through his role as a partner in the J&T Group, was also involved in the founding of EPE's parent company, Energetický a průmyslový holding a.s. ("EPH"). At EPE, he is also a member of the strategic committee and the risk steering committee. Mr. Křetínský holds board positions at certain of EPE's subsidiaries. Mr. Křetínský also serves on several boards of companies that are affiliated with EPE, including its parent company EPH, Slovenský plynáreuský priemysel, a.s. ("SPP", a Slovak integrated gas utility) and sister company EP Investment Advisor, s.r.o., and also holds positions at companies unaffiliated to EPE, including Vice Chairman of the Board of AC Sparta Praha fotbal, a.s. Mr. Křetínský was previously on the board of several EPE companies as well as on the board of several companies unaffiliated with EPE. Mr. Křetínský holds a bachelor degree in political science and master and doctoral degrees in law from the Masaryk University in Brno.

Jan Špringl has been a member of the Board since December 16, 2010 and a Vice Chairman of the Board since March 5, 2013, and was the Chief Executive Officer until March 2013. At EPE, he is also a member of each of the Strategy, Investment and Risk Steering Committees. As part of his role on the EPH management team, Mr. Špringl is a member of the Board of SPP, and holds management and board positions at certain of EPE's subsidiaries and other affiliates. Mr. Špringl has also served in the past and now serves as acting secretary or member of the board of directors at several companies affiliated and unaffiliated with EPE. Before he joined EPE, Mr. Špringl served in various management and supervisory board positions at other affiliated companies. Mr. Špringl holds a degree from the Faculty of Business Administration of the University of Economics in Prague.

Tomáš David has been the Chief Executive Officer and a member of the Board since March 5, 2013 and had been the Head of the Heat and Power segment since EPE's incorporation in 2010. He has been the acting Director of Renewables and Energy Supply and Trading since March 2012. At EPE, he is also a member of each of the Strategy, Investment and Risk Steering Committees. Mr. David has also served on the board of directors of Elektrárny Opatovice, a.s. and as a member of the supervisory board of NPTH, a.s., both subsidiaries of EPE, since August 1, 2010. Mr. David holds various positions with companies affiliated with EPH, for example as the Director of Energy Sector Development of EPH. Prior to that, he worked as the Chief Strategy Officer at Eurotel Praha, a leading Czech mobile phone operator, and 9 years in A.T. Kearney, a leading global management consulting firm. He holds an M.Sc. degree in Nuclear Physics from the Charles University in Prague and an M.B.A. degree from Rochester Institute of Technology, New York.

Pavel Horský has been a member of the Board since March 20, 2012 and has served as EPE's Chief Financial Officer since September 1, 2012 and a member of the Risk Steering Committee of EPE since March 5, 2012. He is the Head of Treasury of EPH and he holds positions on the boards of directors or the supervisory boards of several other companies that are affiliated with EPE, including EPH, Slovak Gas Holding B.V. and EPH Financing I, a.s. Prior to joining EPH, he held a market risk advisory position at RBS. Mr. Horský has a master's degree in mathematics and physics from Masaryk University in Brno.

Jiří Feist has been the Chief Strategy Officer since April 1, 2012 and has been a member of the Board since March 2013. Mr. Feist formerly served as the Strategy and Business Development Director for the ČEZ Group and Chief Strategy Officer for ČEPS, a.s. Mr. Feist holds a master's degree from ČVUT FEL Praha.

Marek Spurný has been a member of the Board since EPE was founded in 2010, and was the Vice Chairman of the Board until March 2013. He also serves on EPE's compliance committee and on boards of directors and supervisory boards of several of EPE's subsidiaries and affiliates, including SPP Bohemia, a.s., Honor Invest, a.s. (a subsidiary of SPP), EP Investment Advisors and EP Industries. Mr. Spurný has been a member of the board of directors of EPH since October 7, 2009. Before joining EPE, Mr. Spurný served in various supervisory board positions at other affiliated companies of EPE. He has a law degree from Palacký University in Olomouc.

Dr. Joachim Geisler has been Director of Mining of EPE since February 20, 2012. Dr. Geisler has been the Chief Executive Officer of MIBRAG since January 2008 and became a Managing Director of JTSD Braunkohlebergbau GmbH (the parent company of MIBRAG) in April 2010. Prior to joining MIBRAG, he served as a board member of other mining companies, such as Deutsche Steinkohle AG and RAG Saarberg AG and worked as a free-lance consultant engaging in international mining M&A consultancy. Dr. Geisler holds a PhD degree in Mining Science and Technology from RWTH Aachen (Germany).

David Onderek has been the Director of Heat and Power since March 7, 2013. He also serves on various management boards of companies that are affiliated with EPE. Prior to joining EPE in July 2012, Mr. Onderek held the position of Vice Chairman of the Supervisory Board of PPC Úžín, a.s., an affiliate of ČEZ, and he previously worked for companies affiliated with the ČEZ group from January 1994. He holds a Master's degree in Economics of Power Generation from the Czech Technical University in Prague and a Master of Business Administration degree from the University of Pittsburgh.

Tomáš Novotný has been Director of EPE's Coal Trading and Logistics since February 2012 and also serves as the Chairman and Executive Head of United Energy Coal Trading a.s. (a subsidiary of EPE). Mr. Novotný also serves as a member of the board of directors and as Executive Head of ĚZC a.s. (a subsidiary of EPH), a supplier of logistics to EPE, and holds various management board positions at other companies affiliated with EPE. Mr. Novotný holds a Master of Economics degree from the University of Economics in Prague.

The board of directors of EPH, as appointed by Daniel Křetínský, appoints the members of the Board that conducts EPE's operations. However, the Board requires the approval from EPH's remaining shareholders to undertake certain significant transactions and measures. These include, e.g., material debt financing, material acquisitions and divestitures and mergers.

Principal shareholders

We are a wholly owned subsidiary of EPH, which is a joint stock company established under the laws of the Czech Republic. The ultimate beneficial owners of EPE are Timeworth Limited (44.44%), Milees Limited (18.52%), Biques Limited (18.52%) and Mackarel Limited (18.52%). Timeworth Limited is controlled by the PPF Group N.V., which is in turn controlled by Mr. Petr Kellner. Milees Limited is controlled by Mr. Patrik Tkáč. Biques Limited is owned by private individuals, none of whom owns individually more than a 20% stake in Biques Limited. Milees Limited and Biques Limited have formed partnerships with J&T Group, on the basis of which J&T Group participates in the beneficial ownership of their combined 37.04% interest in EPH, conferring on J&T Group, however, no rights of control. Mackarel Limited is controlled by Mr. Daniel Křetínský, the Chairman of the Board of Directors of EPE and a former corporate partner of the J&T Group. The PPF Group is one of the largest investment and finance groups in Central and Eastern Europe with approximately €17.6 billion in assets under management as of June 2012. The J&T Group, together with its subsidiaries, is a leading investment group operating predominantly in the Czech and Slovak Republics with approximately €5 billion in assets.

All the shares of the Company are owned by EPH. The rights of EP Holding as a shareholder in the Company are contained in the articles of association of the Company and the Company will be managed by its directors in accordance with the articles of association and with the provisions of the laws of the Czech Republic.

Certain relationships and related party transactions

We enter into transactions with certain related parties or our affiliates from time to time and in the ordinary course of our business. For all transactions above a certain monetary threshold we follow arm's length principles, and we apply unified standards with regards to dealings with affiliates, especially those that function as investment advisors, and we believe these agreements are on terms no more favorable to the related parties or our affiliates than what they would expect to negotiate with disinterested third parties.

For the purposes of this discussion:

- Accounts receivable and other financial assets represent money owed to EPE;
- Accounts payable and other financial liabilities represent money owed by EPE;
- Revenues means income of EPE; and
- Expenses means costs of EPE.

Relationship with EP Holding

EPH is our parent company, owning 100% of the shares in the Company.

The total value of transactions and balances with EPH as at and for the periods ending December 31, 2011 and 2012 are set out below:

	As at and for the year ended December 31,	
	2011	2012
	(CZK in millions)	
Accounts receivable and other financial assets	6,682	12,322
Accounts payable and other financial liabilities	151	12,683
Revenues	249	371
Expenses	544	612

Loan Agreements

Our transactions and balances with EPH primarily consist of loans incurred or extended between EPH and EPE, each acting as both lender and borrower.

As of December 31, 2012, we had CZK 12,683 million outstanding in shareholder loans and other liabilities owed to EPH and had CZK 12,322 million of receivables due from EPH. These loans are subordinated under the Intercreditor Agreement in certain specified circumstances. We refinanced part of these loans from proceeds from the Senior Credit Facility in an amount of CZK 9,388.56 million in January 2013. The revenues and expenses presented above are primarily interest paid or received by each of EPE and EPH under the transactions mentioned above.

EPH acts as a guarantor under certain of our credit facilities. See "Description of material indebtedness—PEAS RBS Facility Agreement", "—EPET Citibank Facility Agreement," "—EPET Citibank Overdraft Facility Agreement" and "—PEAS Citibank Facility Agreement."

Other relationships

Although we do not have formal arrangements with EPH, management level EPE employees have assisted, and in the future will assist on, projects at EPH, as EPH seeks to support the operations of EPE. Additionally, we share certain business operation services with EPH, for example our email servers and computer systems. We intend to continue these relationships going forward.

Further, in the past, EPH has entered into agreements that affect the EPE Group. For example, under an agreement between EPH and an interested party (the "Interested Party") under certain circumstances EPH is required to offer for sale certain assets of one of our subsidiaries (the "Seller Subsidiary") to the Interested Party. If the Seller Subsidiary does not sell the assets or equivalent assets to the Interested Subsidiary, EPH is required to pay a fee instead of approximately CZK 200 million, see "Risk factors—Risks related to our structure—The interests of our controlling shareholders may differ from the interests of the holders of the Notes."

On August 31, 2012 and again in 2013, our parent company, Energetický a průmyslový holding a.s. ("EPH"), filed binding bids to purchase a brown coal-fired plant, Chvaletice, located in the Czech Republic from ČEZ, a.s. Had those bids been successful, EPH would have assigned the acquisition rights to us. We have subsequently been informed that EPH's bids were not successful, and a third party's bid was accepted by ČEZ, a.s., subject to regulatory clearance.

EPH is also negotiating to purchase a substantial minority interest in a power distribution and supply company operating in one of the countries in which we have existing operations (the "Power Supply Company"). Subject to concluding negotiations satisfactorily, EPH could soon enter into a purchase agreement for the minority interest. Any purchase agreement in relation to the minority interest in the Power Supply Company would be subject to obtaining consent from the majority shareholder, satisfactory completion of due diligence, regulatory approval and obtaining anti-trust clearance. There can be no assurance that EPH will acquire the minority interest in the Power Supply Company. If EPH is successful in acquiring the minority interest in the Power Supply Company, we expect that EPH will fund the acquisition using a combination of cash on hand and indebtedness. Following such acquisition, we expect that EPH would contribute the holding company for the minority interest to EPE in exchange for subordinated shareholder funding and/or equity.

Relationship with EP Investment Advisors

EP Investment Advisors ("EPIA") is a company wholly-owned by EPH, which makes it our affiliate.

The total value of transactions and balances with EPIA as at and for the periods ended December 31, 2011 and 2012 are set out below:

	As at and for the year ended December 31,	
	2011	**2012**
	(CZK in millions)	
Accounts receivable and other financial assets	—	3
Accounts payable and other financial liabilities	10	7
Revenues	—	2
Expenses	2	46

EPIA provides consulting services to the EPE Group through a number of specific consulting agreements as well as more informal arrangements. This includes certain members of our senior management. The balances at period ends and expenses incurred to EPIA for these consulting services are set out above.

In addition to these agreements, EPIA has entered into a number of other agreements with certain of the subsidiaries related to the provision of various consultancy services (for instance, in relation financing and merger and acquisition arrangements) and other business operations services. For instance, EPIA was paid a financing arrangement fee in connection with the acquisition of PT.

EPIA also provides more informal services at the management level to both EPE and EPH. For example, most of the legal counsel and financial and technical analysts at the company are employees of EPIA, but provide assistance to both EPE and EPH on a project-by-project basis. We intend to put in place a framework agreement to formalize these arrangements in the future.

Relationship with EP Industries

EP Industries ("EPI") is a company owned by certain of our shareholders. We have no formal arrangements with EPI, however our employees will at times assist with specific projects at EPI or will provide services to EPI in relation to specific projects.

Relationships with certain other institutions

Certain credit institutions are treated as "Other related parties." The total value of material transactions with certain of these credit institutions, namely PPF Banka a.s ("PPFB") and J&T BANKA, a.s. ("J&TB") which mainly related to bank account deposits and loans used to finance our operations, were as follows as at December 31, 2011 and 2012.

	As at and for the year ended December 31,	
	2011	2012
	(CZK in millions)	
Accounts receivable and other financial assets	J&TB: 252	J&TB: 991
	PPFB: 345	PPFB: 847
Accounts payable and other financial liabilities	J&TB: 125	J&TB: 30
	PPFB: —	PPFB: --
Revenues	J&TB: 4	J&TB: 11
	PPFB: 5	PPFB: 8
Expenses	J&TB: 4	J&TB: 11
	PPFB: 20	PPFB: --

Description of material indebtedness

Senior Secured Notes due 2019

Overview

On October 31, 2012, the Company issued €500,000,000 aggregate principal amount of Senior Secured Notes due 2019 (the "2019 Notes") under an indenture dated October 31, 2012, as supplemented on November 9, 2012, and as otherwise amended, supplemented or modified from time to time (the "2019 Notes Indenture"), among the Company, each of the guarantors named therein, Citibank, N.A., London Branch, as trustee (the "2019 Notes Indenture"), principal paying agent and transfer agent and Citigroup Global Markets Deutschland AG as registrar.

Ranking

The 2019 Notes are the general, senior secured obligations of the Company and rank equally in right of payment with the Company's existing and future indebtedness that is not subordinated in right of payment to the 2019 Notes (including, without limitation, the Senior Credit Facility Agreement are guaranteed on a senior secured basis by the 2019 Notes Guarantors (as defined below), rank effectively senior to all existing and future indebtedness of the Company that is unsecured or secured by liens second to the liens securing the 2019 Notes to the extent of the value of the property securing the 2019 Notes and rank senior in right of payment to all existing and future obligations of the Company subordinated in right of payment to the 2019 Notes. In addition, the 2019 Notes are structurally subordinated in right of payment to all existing and future indebtedness and other liabilities of the Company's non-guarantor subsidiaries and effectively subordinated to all of the Company's existing and future secured indebtedness that is secured by property or assets that do not secure the 2019 Notes to the extent of the value of the property or assets securing such indebtedness.

Interest Rates, Payment Dates and Maturity

The 2019 Notes bear interest at a rate of 5.875% per annum. Interest on the 2019 Notes is payable semi-annually in arrears on May 1 and November 1 of each year, beginning May 1, 2013. The 2019 Notes will mature on November 1, 2019.

Guarantees

The 2019 Notes are jointly and severally guaranteed on a senior secured basis by the Guarantors (the "2019 Notes Guarantors").

The guarantee of each 2019 Notes Guarantor is its general, senior secured obligation and (i) ranks equally in right of payment with all existing and future indebtedness of such 2019 Notes Guarantor that is not subordinated in right of payment to such guarantee, including with respect to the guarantee of the 2019 Notes by each 2019 Notes Guarantor, indebtedness under the Senior Credit Facility Agreement, (ii) ranks effectively senior to all existing and future indebtedness of such 2019 Notes Guarantor that is unsecured or secured by liens second to the liens securing the 2019 Notes to the extent of the value of the property securing the Existing Notes, (iii) ranks senior in right of payment to all existing and future indebtedness of such 2019 Notes Guarantor that is subordinated in right of payment to such guarantee and (iv) is effectively subordinated to any existing and future indebtedness and other liabilities of such 2019 Notes Guarantor that are secured by liens senior to the liens securing such guarantee, or secured by property and assets that do not secure such guarantee, to the extent of the value of the property and assets securing such indebtedness and other liabilities.

Security

The 2019 Notes and the related guarantees are secured by first ranking liens on the same assets that will secure the obligations under the Senior Credit Facility Agreement.

Optional Redemption and Change of Control

At any time prior to November 1, 2019, the Company may redeem all or part of the 2019 Notes at a redemption price equal to 100% of the principal amount of the 2019 Notes redeemed plus (1) the excess of (a) the present value at such redemption date of (i) the principal amount of such 2019 Note at November 1, 2019, plus (ii) all required interest payments that would otherwise be due to be paid on such 2019 Note during the period between the redemption date and November 1, 2019, excluding accrued but unpaid interest to the redemption date, computed using a discount rate equal to the bund rate at such redemption date plus 50 basis points over (b) the principal amount of such 2019 Note, together with (2) additional amounts, if any, and (3) accrued and unpaid interest on the 2019 Notes, if any, to the redemption date (subject to the rights of holders of record on relevant record dates to receive interest due on the relevant interest payment date).

Upon the occurrence of both certain change of control events and a ratings decline, each holder of 2019 Notes may require the Company to repurchase all or a portion of its 2019 Notes at a purchase price equal to 101% of the principal amount of the 2019 Notes, plus additional amounts, if any, accrued and unpaid interest to the date of purchase.

If the Company sells assets which constitute collateral securing the 2019 Notes under certain circumstances, the Company is required to make an offer to purchase the 2019 Notes at 100% of the principal amount of the 2019 Notes, plus accrued interest to the date of purchase and additional amounts, if any, with the excess proceeds from the sale of the assets which constitute collateral securing the 2019 Notes, if the excess proceeds exceed €20.0 million.

In addition, in the event that the Company becomes obligated to pay Additional Amounts (as defined in the 2019 Notes Indenture) to holders of the 2019 Notes as a result of changes affecting taxes applicable to payments on the 2019 Notes, the Company may redeem the 2019 Notes in whole but not in part at any time at 100% of the principal amount of the 2019 Notes plus accrued and unpaid interest to the redemption date and all additional amounts then due and which will become due on the redemption date as a result of the redemption or otherwise.

Covenants

The 2019 Notes Indenture contains covenants that, among other things, limit the ability of the Company and the Company's subsidiaries to:

- make investments or other restricted payments;
- create liens on assets to secure indebtedness;
- transfer, lease or sell assets which constitute collateral securing the 2019 Notes;
- engage in certain transactions with affiliates;
- engage in certain business activities;
- consolidate, merge or transfer all or substantially all of the Company's assets and the assets of the Company's subsidiaries taken as a whole; and
- impair the security interests for the benefit of the holders of the 2019 Notes.

These covenants are subject to a number of important limitations and exceptions.

Events of Default

The 2019 Notes Indenture contains customary events of default, including, among others, the non-payment of principal or interest on the 2019 Notes, certain failures to perform or observe any other obligation under the 2019 Notes Indenture or security documents, the failure to pay certain indebtedness or judgments and the bankruptcy or insolvency of the Company, any Significant Subsidiary (as defined in the 2019 Notes Indenture) or any group of subsidiaries that, taken together, would constitute a Significant Subsidiary. The ongoing occurrence of any of the events of default would permit or require the acceleration of all obligations outstanding under the 2019 Notes.

Senior Credit Facility

This section headed "Senior Credit Facility" is a summary of the Senior Multicurrency Term and Revolving Facilities Agreement dated October 18, 2012, among, inter alia, EP Energy, a.s., as borrower, and UniCredit Bank Czech Republic, a.s. and certain other financial institutions as mandated lend arrangers and UniCredit Bank AG, London Branch, as facility agent and security agent (the "Senior Credit Facility Agreement"). Terms not defined herein are as defined in the Senior Credit Facility Agreement. The Senior Credit Facility Agreement originally provided for senior facilities of approximately €1,000 million, divided into two term loan facilities, one (divided into three tranches) amortizing in an amount of up to €502 million (all three tranches together, "Facility A") and one non-amortizing in an amount of up to CZK 10,575,000,000 (the CZK equivalent amount of up to €423 million) ("Facility B") and a revolving credit facility (the "Revolving Credit Facility") of up to €75 million. Following the issuance of the Notes in 2012, Facility B was canceled in full and the commitments under Facility A were reduced by €70.6 million to €431.4 million. The commitments under Facility A were further reduced by €40 million at the end of 2012 pursuant to the Facility A repayment schedule.

On January 21, 2013, we borrowed €391.4 million under Facility A and €40 million under the Revolving Credit Facility. As of March 31, 2013, we had €391.4 million (excluding accrued interest) outstanding under Facility A and €40 million outstanding under the Revolving Credit Facility.

The proceeds of Facility A are made available for the purpose of (1) refinancing existing shareholder indebtedness, (2) specified distributions to shareholders (including through the repayment of shareholder loans) and (3) general corporate purposes (including acquisitions).

Each of the SCFA Initial Guarantors (as defined below) may become a borrower under the Senior Credit Facility Agreement, subject to certain conditions, including compliance with public procurement laws, if applicable.

A commitment fee is payable on the available but unused amount of each facility, calculated as a percentage rate per annum equal to 40% of the margin applicable to that facility, commencing from the date of the Senior Credit Facility Agreement. The commitment fee is payable quarterly in arrear.

Interest

The interest rate under the Senior Credit Facility Agreement is EURIBOR (or PRIBOR for CZK denominated loans), plus mandatory costs and a margin initially set at 3.25% per annum for Facility A and 2.50% for the Revolving Credit Facility. The margins on Facility A are reviewed quarterly and may be adjusted if the EPE Group attains certain leverage ratios to a minimum margin of 2.00% per annum and a maximum of 3.50% for Facility A. The margin on the Revolving Credit Facility is not subject to adjustment.

Maturity

Facility A will terminate and be finally repayable in full on December 31, 2017. The Revolving Credit Facility will (subject to extension (if any) in accordance with the terms thereof) terminate and be repayable in full on the third anniversary of the date of the Senior Credit Facility Agreement.

Guarantees and security

The Senior Credit Facility will initially be guaranteed by the following entities (each an “SCFA Initial Guarantor”, and together the “SCFA Initial Guarantors”):

- Honor Invest, a.s. (“HI”, a holding company for PTHI);
- NPTH, a.s. (“NPTH”, the direct owner of 50.1% of PT);
- EAST BOHEMIA ENERGY HOLDING LIMITED (“EBEH”, the holding company for EOP and NPTH);
- JTSD-Braunkohlebergbau GmbH (“JTSD”, the owner of Mitteldeutsche Braunkohlengesellschaft mbH (“MIBRAG”));
- LIGNITE INVESTMENTS 1 LIMITED (“LIG”, the owner of JTSD);
- HC Fin3 N.V. (“HC”, the owner of EBEH and LIG);
- Plzeňská energetika a.s. (“PE”);
- United Energy, a.s. (“UE”);
- EP ENERGY TRADING, a.s. (formerly known as “United Energy Trading”, a.s.) (“EPET”);
- Czech Energy Holding, a.s. (“CEH”);
- P-T Holding Investment B.V. (“PTHI”, the holding company owning a 49.0% stake in Pražská teplárenská Holding, a.s., (“PTH”), which owns Pražská teplárenská, a.s. (“PT”)); and
- Elektrárny Opatovice, a.s. (“EOP”, which became an SCFA Initial Guarantor on November 29, 2012).

The Senior Credit Facility is secured on a *pari passu* basis with the Notes on the Collateral:

Certain other security is required to be granted by the SCFA Initial Guarantors following the date of the Senior Credit Facility Agreement as may be requested by the Security Agent (as defined therein) and subject to certain exceptions.

In addition, further guarantees and security are required to be provided by the EPE Group if any of the aggregate EBITDA, net assets or turnover (calculated on an unconsolidated basis excluding intra-group items and investments) of EPE, each other borrower (if any) and the Guarantors (as defined in the Senior Credit Facility Agreement) (other than certain specifically designated excluded entities and assets, including, amongst others, MIBRAG) falls below 95% of the consolidated EBITDA, net assets or turnover of the EPE Group (excluding certain specified excluded companies until such time (if any) as they become additional Guarantors). This guarantor test will be tested annually.

Prepayment

The Senior Credit Facility Agreement allows for voluntary prepayments, and will require mandatory prepayment in full or in part, in certain circumstances. These include (*inter alia*):

- subject to certain excluded transactions, from proceeds from the disposal of assets;
- subject to certain exceptions, from insurance proceeds; and
- a change of control, i.e. (i) the initial ultimate shareholders (or funds controlled by them) ceasing to control together EPE or EP Holding, or (ii) any initial ultimate shareholder (or persons acting in concert) gaining sole management control over EPE, or (iii) material change in the senior management of the company which has or is likely to have a Material Adverse Effect (as defined in the Senior Credit Facility Agreement) without prior consent of the majority lenders and is not remedied within a specified grace period; in each case subject to certain exceptions.

Covenants, representations and warranties and events of default

The Senior Credit Facility Agreement contains representations and warranties and undertakings common to facilities of this type and includes customary operating and financial covenants, subject to certain agreed exceptions, including covenants that restrict (variously) the ability of each of EPE, each other borrower (if any), each SCFA Initial Guarantor and any additional Guarantor, and each Material Company (as defined in the Senior Credit Facility Agreement) to:

- create or permit to subsist any security interests over their assets;
- sell or dispose of their assets;
- substantially change the general nature of their business;
- merge with other companies;
- make or permit to subsist any loans or grant credit;
- engage in certain transactions on a non-arm's length basis;
- incur or have outstanding certain borrowings, financial indebtedness, guarantees, loans or treasury transactions;
- make certain acquisitions or investments, including certain joint ventures;
- declare or pay certain dividends or make certain other distributions to shareholders or share redemptions;
- exceed certain loss limits under electricity trading transactions;
- make investments in Project Companies (as defined in the Senior Credit Facility Agreement); and
- make variations to the Senior Credit Facility Agreement finance and certain related transaction documentation.

In each case these restrictions are subject to exceptions, some of which may be material.

The EPE Group's financial and operating performance is monitored by a financial covenant package that requires it to maintain certain ratios of (i) operating cashflow to debt service, (ii) total senior net debt to EBITDA (or in certain circumstances, adjusted EBITDA) and (iii) total net debt to EBITDA (or in certain circumstances, adjusted EBITDA) and to observe limitations on capital expenditure each year, each in accordance with formulae set out in the Senior Credit Facility Agreement.

The Senior Credit Facility Agreement contains customary events of default (in relation to (variously) EPE, each other borrower (if any), the SCFA Initial Guarantors and any additional Guarantors and each Material Company and (in certain cases) EP Holding), including, among other things, non-payment, breach of other obligations set forth in the Senior Credit Facility Agreement, misrepresentation in respect of a representation or statement made in the Senior Credit Facility Agreement finance documents, unlawfulness or repudiation of obligations, certain insolvency, winding-up and related events, and cross default in relation to certain indebtedness not being paid when due or becoming due and payable before its specified maturity, the occurrence of which (subject to certain grace periods, *de minimis* thresholds and other exceptions) would allow the lenders under the Senior Credit Facility to accelerate all outstanding loans and terminate their commitments under the Senior Credit Facility.

Powersun facility agreement

The following is a summary of the Facility Agreement dated January 12, 2011, originally between Powersun a.s., as borrower, and Investkredit Bank AG, as Arranger, original lender, agent and security agent (the "Powersun Facility Agreement"). This agreement has been transferred by way of novation to Československá obchodní banka, a.s. as the new lender.

The Powersun Facility Agreement provides for a term loan facility (the "Powersun Term Loan Facility") in the amount of CZK 213 million and a CZK 25 million VAT Facility (the "Powersun VAT Facility"). The proceeds of the Powersun Term Loan Facility were used for the purposes of (1) refinancing existing debt owed by the borrower to EP Energy a.s., (2) funding specified debt service accounts and (3) paying financing fees owed by the borrower to the lenders and certain legal fees. As of December 31, 2012, CZK 189 million of the Powersun Term Loan Facility had been drawn.

Interest

The interest rate under the Powersun Facility Agreement is PRIBOR plus a margin set at 2.85% per annum for loans outstanding under the Powersun Term Loan Facility (the "Powersun Term Loans") and PRIBOR plus a margin set at 2.00% on the Powersun VAT Facility. Interest is payable in arrears every three months.

Maturity

The Powersun Term Loan Facility matures on December 31, 2024.

Guarantees and security

Indebtedness arising under or in connection with the Powersun Facility Agreement is secured by (1) a first ranking mortgage over certain real property owned by the borrower, (2) a pledge of the borrower's monetary receivables under certain insurance policies relating to the construction, development and operation of a 2.03 MWp photovoltaic power plant (the "Kyjov Project"), (3) a pledge of the borrower's monetary receivables arising from agreements on administration of reserve and other accounts, (4) a pledge of the borrower's monetary receivables under certain sales contracts and contracts for work, (5) a pledge of selected material movable assets owned by the borrower forming part of the Kyjov Project and the project of construction, development and operation of a 1.15 MW_e photovoltaic power plant (the "Hustopeče Project") and (6) a pledge of shares in the borrower representing 100% of the registered capital in the borrower. The borrower's indebtedness to EPE is subordinated to its indebtedness to the lenders arising under or in connection with the Powersun Facility Agreement. The Powersun Facility Agreement is not guaranteed.

Prepayment

The Powersun Facility Agreement allows for voluntary prepayments and requires mandatory prepayments, in full or in part, in certain circumstances. Mandatory prepayment is required when, among other things, there is a change of ownership of the borrower, the borrower receives certain insurance proceeds exceeding CZK 1 million and, in certain circumstances, there is excess cash flow. The borrower may prepay the Powersun Term Loans in whole or in part. If the borrower makes a voluntary prepayment of the Powersun Term Loans within four years of the first utilization date, the borrower will pay the agent a prepayment fee in an amount equal to 1.00% of the prepaid amount, unless such prepayment occurs due to a refinancing of the Powersun Term Loans by the majority lenders or if the prepayment is made by the borrower from its own sources.

Covenants, representations and warranties and events of default

The Powersun Facility Agreement contains representations and warranties and undertakings common to facilities of this type and includes customary operating and financial covenants, subject to certain exceptions, including covenants that restrict the borrower's ability to:

- create any encumbrances;
- sell or dispose of its assets;
- undertake any business activity other than implementation of the Kyjov Project and the Hustopeče Project;
- merge with other companies;
- make any loans;
- incur indebtedness or give or issue any guarantee, indemnity, bond or letter of credit for the benefit of, or assume any liability of, another person;
- make certain acquisitions or investments; or
- make certain distributions.

In each case these restrictions are subject to exceptions, some of which may be material.

The borrower's financial and operating performance will be monitored by two financial covenants, which require the borrower to maintain a minimum debt service coverage ratio (not less than 1.05) and its equity is always a positive number (the first covenant test date with respect to this financial covenant was December 31, 2012).

The Powersun Facility Agreement contains customary events of default, including, among other things, non-payment, breach of other obligations set forth in the Powersun Facility Agreement, misrepresentation of a representation or warranty, cross default, unlawfulness, repudiation of a finance document and insolvency, the occurrence of which would allow the lenders under the Powersun Term Loan Facility to accelerate all outstanding loans and terminate their commitments under the Powersun Term Loan Facility

Greeninvest Energy bank loan agreement I

The following is a summary of the Loan Agreement dated December 21, 2009, between Greeninvest Energy, a.s., an associate of the EPE Group as borrower, and Komerční banka, a.s, an affiliate of the Société Générale, as lender (the "Greeninvest Bank Loan Agreement I").

The Greeninvest Bank Loan Agreement I provides for a loan (the "Greeninvest Bank Loan I") in the amount of CZK 86 million. The proceeds of the loan were made available for the purpose of the construction of the first phase of a solar power plant in Ladná, Czech Republic with an installed capacity of 1.150 MWe.

As of December 31, 2012, CZK 75 million was drawn.

Interest

The interest rate under the Greeninvest Bank Loan Agreement I accrues at a fixed rate of 7.10% per annum.

Maturity

The Greeninvest Bank Loan I matures on December 16, 2024.

Guarantees and security

The Greeninvest Bank Loan Agreement I is secured by the following (in each case relating to the first phase of the solar power plant in Ladná):

- a first ranking pledge of the borrower's receivables as specified in the separate agreement;
- a first ranking pledge over the shares in Greeninvest Energy held by our joint-venture partners as specified in a separate agreement;
- a first ranking pledge of the borrower's receivables as specified in a separate agreement;
- a first ranking pledge over the borrower's moveable assets as specified in a separate agreement; and
- the borrower's indebtedness to the minority shareholders of Greeninvest Energy is subordinated to its indebtedness to the lender arising under or in connection with the Greeninvest Bank Loan Agreement I.

The Greeninvest Bank Loan Agreement I is further secured by the provision of the promissory note issued by certain persons affiliated with our joint-venture partners and not affiliated with us.

Prepayment

The Greeninvest Bank Loan Agreement I allows for voluntary prepayment. The borrower may prepay the Greeninvest Bank Loan I in whole or in part and upon specifying the date of prepayment and the amount to be prepaid in a prepayment notice to be served upon the bank five business days before the prepayment day.

Covenants, representations and warranties and events of default

The Greeninvest Bank Loan Agreement I contains representations and warranties and undertakings common to loans of this type and includes customary operating and financial covenants, subject to certain exceptions, including covenants that restrict the borrower's ability, without prior written consent of the lender, to:

- create any encumbrances except those that have already been created in connection with the Greeninvest Bank Loan Agreement I, as well as those created pursuant to applicable law;
- sell, donate or dispose certain of its assets pertaining to the construction and operation of the solar power station in Ladná.

The Greeninvest Bank Loan Agreement I contains customary events of default, including, among other things, non-payment, breach of other obligations pertaining, in particular, to fulfillment of the borrower's obligations and compliance with licenses or approvals issued in connection with the solar power station in Ladná, misrepresentation of a representation or warranty, cross default, unlawfulness, repudiation of a finance document and insolvency as well as specific events of default pertaining to construction and operation of the solar power station in Ladná, the occurrence of which would allow the lender under the Greeninvest Bank Loan Agreement I to accelerate all outstanding loans, to block all accounts of the borrower in the amount of outstanding loans, temporarily terminate its commitments under the Greeninvest Bank Loan Agreement I, withdraw or terminate the Greeninvest Bank Loan Agreement I.

Greeninvest Bank Loan Agreement II

The following is a summary of the Loan Agreement dated January 15, 2013, between Greeninvest Energy, a.s., an associate of the EPE Group as borrower, and Komerční banka, a.s, an affiliate of the Société Générale, as lender (the "Greeninvest Bank Loan Agreement II").

The Greeninvest Bank Loan Agreement II provides for a loan (the "Greeninvest Bank Loan II") in the amount of CZK 150 million. The proceeds of the loan were made available for the purpose of repayment of a shareholder loan that was made for the construction of the second phase of a solar power plant in Ladná, Czech Republic with an installed capacity of 4.026 MW_e.

As of December 31, 2012, no amounts were drawn under the loan. As of March 31, 2013, an amount of CZK 148 million was drawn.

Interest

The interest rate under the Greeninvest Bank Loan Agreement II is 1M PRIBOR within the period from the day of the first drawing to one preceding day before the first day of the maturity of the Greeninvest Bank Loan II (or 3M PRIBOR after the expiration of the 1M PRIBOR interest rate) plus a margin of 2.87% per annum.

Maturity

The Greeninvest Bank Loan II matures on November 30, 2022.

Guarantees and security

The Greeninvest Bank Loan Agreement II is secured via the pledges of certain bank accounts, trade receivables and movables, as well as by a promissory note issued by the borrower. The Greeninvest Bank Loan Agreement II is guaranteed by a Letter of Comfort issued by EP Energy, a.s. The borrower's indebtedness to EP Renewables a.s. is subordinated to its indebtedness to the lender arising under or in connection with the Greeninvest Bank Loan Agreement II.

Prepayment

The Greeninvest Bank Loan Agreement II allows for voluntary prepayment. The borrower may prepay the Greeninvest Bank Loan II in whole or in part and upon specifying the date of prepayment and the amount to be prepaid in a prepayment notice to be served upon the bank five business days before the prepayment day.

Covenants, representations and warranties and events of default

The Greeninvest Bank Loan Agreement II contains representations and warranties and undertakings common to loans of this type and includes customary operating and financial covenants, subject to certain exceptions, including covenants that restrict the borrower's ability, without prior written consent of the lender, to:

- create any encumbrances except those that have already been created in connection with the Greeninvest Bank Loan Agreement II, as well as those created pursuant to applicable law;
- sell, donate or dispose certain of its assets pertaining to the construction and operation of the solar power station in Ladná.

The Greeninvest Bank Loan Agreement II contains customary events of default, including, among other things, non-payment, breach of other obligations pertaining, in particular, to fulfillment of the borrower's obligations and compliance with licenses or approvals issued in connection with the solar power station in Ladná, misrepresentation of a representation or warranty, cross default, unlawfulness, repudiation of a finance document and insolvency as well as specific events of default pertaining to construction and operation of the solar power station in Ladná, the occurrence of which would allow the lender under the Greeninvest Bank Loan Agreement II to accelerate all outstanding loans, to block all accounts of the borrower in the amount of outstanding loans, temporarily terminate its commitments under the Greeninvest Bank Loan Agreement II, withdraw or terminate the Greeninvest Bank Loan Agreement II.

Neue Energie Loan

The following is a summary of the MIBRAG Neue Energie GmbH ("Neue Energie") Loan Agreement dated October 20, 2010, and October 29, 2010 (the "Neue Energie Loan Agreement").

The Neue Energie Loan Agreement provides for a specific purpose loan (*zweckgebundenes Darlehen*) in the amount of €7.7 million (the "Neue Energie Loan") and is provided by UniCredit Bank AG München ("UniCredit"), which was refinanced by the German Development Bank (*Kreditanstalt für Wiederaufbau*) ("KfW"). As of December 31, 2012, €6.8 million was drawn under the Neue Energie Loan.

The proceeds of the Neue Energie Loan were made available for the purpose of construction and operation of a wind farm (the "Specific Purpose").

Interest

The interest rate under the Neue Energie Loan Agreement is 3.45% per annum and is fixed until December 30, 2020. Interest is payable quarterly in arrears, on March 31, June 30, September 30 and December 30 of every year. If the parties of the Neue Energie Loan cannot agree on a new interest rate prior to December 30, 2020 all amounts then outstanding under the Neue Energie Loan will become immediately due on December 30, 2020.

Maturity

Subject to an early repayment due to failure to agree a new interest rate as described above, the Neue Energie Loan is to be repaid in 56 quarterly installments in the amount of €135,088 each and one final installment in the amount of €135,072. Installments are payable on March 31, June 30, September 30 and December 30 of every year, with the first installment due and payable on December 30, 2011 and the last installment due and payable on December 30, 2025.

Security

The Neue Energie Loan is secured by the following assets of Neue Energie:

- certain wind turbines;
- certain conditional easements in real property owned by MIBRAG;
- certain contractual claims and rights, including claims for the delivery and maintenance of three wind turbines, claims arising under lease and concession agreements and planning and construction permits and for payment of consideration for electricity fed into the relevant network;
- claims and rights arising under certain insurance contracts; and
- bank accounts in an amount equal to 50% of the debt servicing costs of the following year (not exceeding €410,000).

The Neue Energie Loan is not guaranteed.

Prepayment

The Neue Energie Loan Agreement allows for voluntary prepayments. Voluntary prepayment is governed by the general terms and conditions for investment loans of KfW, which require that any prepaid amount is to be applied to the last scheduled installment first. Upon the prepayment of the Neue Energie Loan, a prepayment penalty (*Vorfälligkeitsentschädigung*) is due. The lender is entitled to terminate the Neue Energie Loan in whole or in part for serious cause (*wichtiger Grund*), including, but not limited to, if the loan proceeds are not used in accordance with the Specific Purpose, a breach of an obligation under the Neue Energie Loan occurs or if the financial conditions of Neue Energie materially deteriorate.

Covenants, representations and warranties and events of default

The Neue Energie Loan Agreement contains certain operating and financial covenants. Neue Energie is obliged to, among other things:

- inform UniCredit of the expiration of a certain maintenance contract concerning Neue Energie's wind turbines and, upon such expiration, enter into a replacement maintenance contract or provide a maintenance reserve;
- maintain a balance of at least €287,817 on an account solely dedicated to debt servicing;

- provide to UniCredit its annual financial statements, semi-annual operating reports and regular excerpts from the commercial register (*Handelsregisterauszug*); and
- inform UniCredit of any change in its shareholder structure.

VTE Pchery—UCB Loan Agreement

The following is a summary of the Loan Agreement dated October 5, 2007, between VTE Pchery, s.r.o. (formerly ČES s.r.o.), as borrower, and UniCredit Bank Czech Republic, a.s., as lender (formerly HVB Bank Czech Republic, a.s.) as subsequently amended (the "VTE Pchery—UCB Loan Agreement").

The VTE Pchery—UCB Loan Agreement provides for a loan (the "VTE Pchery—UCB Loan") in the maximum amount of CZK 160 million. The proceeds of VTE Pchery—UCB Loan were made available for the purpose of financing of up to 80% investment costs incurred in connection with a construction of a small wind farm located at Pchery—Rovina. As of December 31, 2012, CZK 114 million was drawn under the VTE Pchery-UCB Loan.

Interest

The interest rate under the VTE Pchery—UCB Loan Agreement is set as follows:

- for half of the principal amount: 3-month PRIBOR plus 1.90% per annum (on the roll-over basis); and
- fixed rate equal to the amount of current refinancing costs of the lender calculated on the Interest Rate Swap Basis for the appropriate interest rate fixation period plus 1.90% per annum. The current interest rate is 4.06% per annum until July 5, 2014.

Accrued interest is payable quarterly.

Maturity

The VTE Pchery—UCB Loan matures on October 5, 2021.

Guarantees and security

The receivables of the lender arising under the VTE Pchery—UCB Loan Agreement are secured by:

- borrower's blank promissory note;
- a pledge of the land plots located in cadastral area of Pchery owned by the borrower;
- a pledge of the movable technologic parts of the wind farm;
- pledges over ownership interests in the borrower i.e. pledges over the ownership interests of the borrower's shareholders;
- a security assignment of the insurance receivables from insurance agreements in respect of the land plots; and
- assignments of the borrower's receivables and rights arising under (i) agreements pertaining to maintenance of wind turbines and related technology (ii) agreements pertaining to supplying power to energy distributors and (iii) construction and maintenance agreements with the general contractor.

The VTE Pchery—UCB Loan Agreement is not guaranteed.

Prepayment

The VTE Pchery—UCB Loan may be prepaid in whole or in part (the minimum installment is CZK 10 million) at the end of any period upon 30 day's prior written notice.

Covenants, representations and warranties and events of default

The VTE Pchery—UCB Loan Agreement contains representations and warranties common to loans of this type, including, but not limited to, the due approval and execution of the VTE Pchery—UCB Loan. Furthermore, the borrower covenants that any rights in the collateral of the borrower and satisfaction of debt under a later anticipated loan agreement with J&T BANKA a.s. in an amount of CZK 120 million, would rank inferior to the rights of the borrower under the VTE Pchery—UCB Loan. The VTE Pchery—UCB Loan Agreement also contains customary events of default, the occurrence of which would allow the lender to accelerate the outstanding amount of the loan and terminate its obligations under the VTE Pchery—UCB Loan Agreement. The events of default include, among others:

- change of control (at least 10% of the voting rights) or any other change in the ownership structure of the borrower occurs that (in opinion of the lender) might have negative a impact on the obligations under the VTE Pchery—UCB Loan Agreement;

- breach of any obligations vis-a-vis third parties which (in opinion of the lender) might have negative impact on the fulfillment of the borrower's obligations under the agreement or decreases the value of the security, by the borrower, its controlling person or a person providing security under the VTE Pchery—UCB Loan Agreement; and
- non-payment of amounts due under the VTE Pchery—UCB Loan Agreement.

Any fact, circumstance or event occurs or threatens to occur that might have negative influence on the borrower's ability to repay the VTE Pchery—UCB Loan or fulfill any other obligations under the VTE Pchery—UCB Loan Agreement.

Security agreement relating to Kraftwerk Schkopau GbR

The following is a summary of the security agreement (Sicherungsvertrag) dated December 10, 1993, between VEBA Kraftwerke Ruhr AG ("VKR" as predecessor-in-interest to EON Kraftwerk GmbH), Saale Energie GmbH and C & L Treuarbeit Deutsche Revision Aktiengesellschaft, Wirtschaftsprüfungsgesellschaft, Steuerberatungsgesellschaft (the "Trustee") (the "Schkopau Security Agreement").

The Schkopau Security Agreement forms an attachment to shareholder financing agreement (Finanzierungsvertrag) dated December 10, 1993 (as amended on September 30, 1999), between VKR and Saale Energie GmbH (the "Schkopau Shareholder Financing Agreement"), under which certain shareholder loans were made on a strict pro rata basis.

Collateral for third-party financing

The parties agree that third-party financing incurred by Kraftwerk Schkopau GbR (the "GbR") shall be secured by the following trust assets (*Treugut*): land charges (*Grundschulden*) and ancillary rights in the leasehold interest (*Erbbaurecht*) of the GbR on the real property of the Schkopau power plant. Such trust assets shall be administered pursuant to the terms of the comprehensive trust agreement (see below "Comprehensive trust agreement relating to Kraftwerk Schkopau GbR—Summary"). In respect of any new loan under the Schkopau Shareholder Financing Agreement, an additional agreement shall be required with respect to extending the security arrangement under the Schkopau Security Agreement to such new loan on a pro rata basis between the relevant lender, the GbR and the Trustee.

Collateral for claims of VKR

Saale Energie GmbH further assigns to the Trustee (as collateral for certain claims of VKR as described below) its rights and claims arising from the following:

- an electricity supply agreement with Vereinigte Energiewerke AG (VEAG) of December 10, 1993 on the delivery of 400 MW_e of Saale Energie GmbH's portion in Kraftwerk Schkopau (the "Electricity Supply Agreement")
- an agreement on the use (*Nutzungsüberlassungsvertrag*) of Saale Energie GmbH's portion between Saale Energie GmbH and the GbR dated December 10, 1993
- a lignite conversion agreement (*Kohleumwandlungsvertrag*) dated December 10, 1993 between Saale Energie GmbH and Kraftwerk Schkopau Betriebsgesellschaft mbH
- all monetary individual claims against the GbR arising from Saale Energie GmbH's partnership interest in the GbR (except, for as long no enforcement event has occurred, Saale Energie GmbH's right to terminate the GbR).

The Trustee assigns the aforesaid rights and claims to VEBA, subject to the conditions precedent that (i) Saale Energie GmbH and VEBA have agreed in writing that an enforcement event has occurred or (ii) the occurrence of an enforcement event has been confirmed by a non-appealable judgment. In addition, as further security, on December 10, 1993 Saale Energie GmbH assigned to the Trustee its shares in Kraftwerk Schkopau Betriebsgesellschaft mbH. The Trustee further assigned such shares to VEBA subject to the condition precedent that Saale Energie GmbH and VEBA, have agreed in writing that an enforcement event has occurred.

The aforesaid collateral is also administered pursuant to the terms of the comprehensive trust agreement (see below "Comprehensive trust agreement relating to Kraftwerk Schkopau GbR—Summary") and serves to secure the following claims of VKR:

- recourse claims to the extent VKR becomes liable under the loan agreements of the GbR or under the lignite supply agreement with MIBRAG (in each case in respect of Saale Energie GmbH's portion)
- principal and interest payments under certain loans granted pursuant to the Schkopau Shareholder Financing Agreement
- VKR's claims for commission payments pursuant to the Schkopau Shareholder Financing Agreement
- recourse claims in the event that VEBA discharges any liabilities of Saale Energie GmbH arising from a lignite conversion agreement (*Kohleumwandlungvertrag*) with Kraftwerk Schkopau Betriebsgesellschaft mbH

Currently no such claims exist.

Pursuant to the Schkopau Security Agreement, an "enforcement event" occurs if either (i) VKR has an aggregate secured claim against Saale Energie GmbH exceeding DEM 20 million and Saale Energie GmbH is in default thereon for more than two months, *provided* that Saale Energie GmbH has received two payment notices (*Mahnungen*) within a period of at least one month between such notices and the amount of more than DEM 20 million is then still outstanding (and such enforcement event shall be deemed to have not occurred, if the relevant circumstances leading thereto have been caused by VKR or an affiliate of VKR or result from force majeure) or (ii) if Saale Energie GmbH will be excluded from the GbR pursuant to the partnership agreement. In addition, if Saale Energie GmbH is in default of the discharge of any secured claim against VKR in an amount of more than DEM 2.5 million for more than 30 days, *provided* that Saale Energie GmbH has received two payment notices (*Mahnungen*) within a period of at least ten business days between such notices, VKR is entitled (regardless of whether an enforcement event has occurred) to require the Trustee to claim payment under the Electricity Supply Agreement directly to the Trustee until the relevant claims of VKR are discharged and the Trustee on-pays such amounts to VKR. The amounts referred to in this paragraph are subject to certain adjustments depending on changes to a designated customer pricing index. For as long as the aforesaid events have not occurred Saale Energie GmbH remains entitled to collect the claims assigned to the Trustee.

Proceeds from the enforcement are to be applied first to interest and thereafter to principal.

Costs

Saale Energie GmbH and VKR will bear the costs for the administration of the real estate security pro rata in proportion to their shareholding in the GbR, whereas Saale Energie GmbH alone bears the costs for the administration of the other collateral.

Changes to the parties

As a result of a merger of C & L Treuarbeit Deutsche Revision Aktiengesellschaft, Wirtschaftsprüfungsgesellschaft, Steuerberatungsgesellschaft with PwC Deutsche Revision Aktiengesellschaft, Wirtschaftsprüfungsgesellschaft ("PwC"), PwC became the trustee under the Schkopau Security Agreement. By way of an agreement dated December 28, 2004, January 11, 2005 and February 9, 2005, PwC was replaced as the trustee by attorney-at-law Dr. Werner Schreiber (resident in Düsseldorf). The agreement provides that, in the case that the new trustee shall be unable to perform its obligations, attorney-at-law Andreas Pantlen (or, if such person is unable to act as trustee, another partner of the law firm Wellensiek Grub & Partner) shall become the successor trustee.

VKR has been replaced with E.ON Kraftwerke GmbH as a party (see above "Security agreement relating to Kraftwerk Schkopau GbR—Summary"—"Changes to the parties").

Comprehensive trust agreement relating to Kraftwerk Schkopau GbR

The following is a summary of the comprehensive trust agreement (Gesamttreuhandvertag) dated December 10, 1993 between VEBA Kraftwerke Ruhr AG ("VKR"), Saale Energie GmbH and C & L Treuarbeit Deutsche Revision Aktiengesellschaft, Wirtschaftsprüfungsgesellschaft, Steuerberatungsgesellschaft (the "Trustee") (the "Comprehensive Trust Agreement").

Trust arrangement

The Trustee agrees to hold certain land charges (*Grundschulden*) in the leasehold interest (*Erbbaurecht*) of the GbR on the real property of the Schkopau power plant to secure claims of all creditors (that are included in the scope of the Comprehensive Trust Agreement) against the GbR.

The Comprehensive Trust Agreement allows for the extension security of the arrangement under the Comprehensive Trust Agreement to claims against the GbR, by the execution of individual accession agreements.

If the claims secured by the Comprehensive Trust Agreement exceeds certain levels, either additional collateral is to be granted or secured claims must be discharged.

The GbR may grant charges on additional real property to the Trustee for inclusion as security under the Comprehensive Trust Agreement and is obligated to do so if material investments of the GbR will be made on additional real property of the GbR for the operation of two blocks of the Schkopau power plant.

Enforcement

The Trustee may enforce the trust collateral in consultation with the secured creditors if the GbR has defaulted on obligations secured by the collateral following written notice thereof.

Obligations of the GbR

The GbR is subject to various information reporting obligations. In particular, it must provide the Trustee annually with its annual financial statements and related auditors' reports, which discloses the status of the secured claims and certain other information regarding collateral value.

The GbR undertakes to maintained adequate insurance for the encumbered property.

Term and termination

The Comprehensive Trust Agreement was originally entered into for a period of ten years, subject to automatic extensions of one year each, unless the Trustee or the GbR terminates the Comprehensive Trust Agreement with six months' prior notice (in which case the GbR is obligated to nominate a new trustee and to transfer the trust assets to such new trustee and if the parties do not agree on such new trustee the Comprehensive Trust Agreement terminates). Creditors may only terminate the Comprehensive Trust Agreement for serious cause and with the effect that the relevant terminating creditor ceases to benefit from the Comprehensive Trust Agreement and is entitled to have a relevant portion of the trust assets transferred to it. The Comprehensive Trust Agreement further terminates if the GbR has provided evidence to the Trustee that all secured claims have been discharged.

Changes to the parties

Subsequent changes to the Trustee occurred (see above "Security Agreement relating to Kraftwerk Schkopau GbR—Summary"—"Changes to the Trustee").

Alternative Energy loan agreement

The following is a summary of the Loan Agreement dated September 8, 2011, between Alternative Energy, s.r.o., a subsidiary of the EPE Group, as borrower, and Energetický a průmyslový holding, a.s., an affiliate of the EPE Group as lender (the "Alternative Energy Loan Agreement").

The Alternative Energy Loan Agreement provides for a loan (the "Alternative Energy Loan") in the amount of €7.31 million. As of December 31, 2012, €5.39 million principal amount plus capitalized interest are outstanding.

Interest

The interest rate under the Alternative Energy Loan Agreement is 10% per annum. Accrued interest is capitalized on the last day of the relevant interest period and payable as part of the principal amount on the maturity date.

Maturity

The Alternative Energy Loan had an original maturity date of December 31, 2012, which has been extended to December 31, 2013.

Guarantees and security

The Alternative Energy Loan is not guaranteed nor secured. However, upon the occurrence of an event of default, the lender may require security to be provided by the borrower.

Prepayment

The Alternative Energy Loan may be prepaid in whole or in part without penalty or premium at any time prior to the maturity date.

Covenants, representations and warranties and events of default

The Alternative Energy Loan Agreement contains no representations or warranties. The Alternative Energy Loan Agreement contains customary events of default, the occurrence of which would allow the lender to accelerate the outstanding amount of the loan and terminate its obligations under the Alternative Energy Loan Agreement. The events of default include, among other things:

- non-payment of amounts due under the Alternative Energy Loan Agreement;
- the value of the business assets of the borrower is smaller than its obligations (including future obligations);
- legal act or other legal fact imminently leading to termination of any payments towards any creditor or the borrower;

- liquidation and
- insolvency.

Alternative Energy Bank loan agreement

The following is a summary of the Loan Agreement dated June 23, 2010, between Alternative Energy, s.r.o., a subsidiary of the EPE Group as borrower, and Tatra banka, akciová spoločnost, an affiliate of the Raifeissen Zentral Bank Group, as lender (the "Alternative Energy Bank Loan Agreement").

The Alternative Energy Bank Loan Agreement provides for a loan (the "Alternative Energy Bank Loan") in the amount of €8,120,000. The proceeds of Facility A (a principal amount of €630,000) were made available for the purpose of payment of VAT with regard to the invoices issued with regard to construction of the waste disposal biogas station in Bošany as specified in the Alternative Energy Bank Loan Agreement and were repaid on September 25, 2012 and the proceeds of Facility B (a principal amount of €6,920,000) for the purpose of a joint-financing of the project of the waste disposal biogas station and to pay interest payable under the Alternative Energy Bank Loan Agreement.

As of December 31, 2012, no amounts are drawn under Facility A and €6 million under Facility B have been drawn.

Interest

The interest rate under the Alternative Energy Bank Loan Agreement is EURIBOR plus a margin initially set at 3.75% per annum applicable for the period until the final project inspection report is submitted pursuant to the Alternative Energy Bank Loan Agreement for Facility A and Facility B.

Maturity

Facility B matures on October 31, 2016.

Guarantees and security

The Alternative Energy Bank Loan is secured by the following:

- a first ranking pledge over certain real property owned by the borrower as specified in the separate agreement;
- a first ranking pledge of the borrower's receivables as specified in the separate agreement;
- a first ranking pledge over the borrower's moveable assets as specified in the separate agreement;
- a first ranking pledge over the borrower's share in the company of the borrower as specified in the separate agreement;
- a future first ranking pledge over certain real property owned by the borrower as specified in the separate agreement;
- a future first ranking pledge over the borrower's moveable assets as specified in the separate agreement; and
- a pledge over the receivables of Chiffon Enterprise Limited, s.r.o. arising from the loan agreement. The borrower's indebtedness to Chiffon Enterprise Limited, s.r.o. is subordinated to its indebtedness to the lender arising under or in connection with the Alternative Energy Bank Loan Agreement.

The Alternative Energy Bank Loan is further guaranteed by (1) a specific notarial deed that provides for accelerated enforcement actions in case of default and (2) the provision of the promissory note as specified in the Alternative Energy Bank Loan Agreement. Certain notification obligations of the borrower pertaining to taxes or due obligations of the borrower are further secured by a contractual penalty in the amount of € 3,320 payable upon the breach of the secured obligation by Alternative Energy and the subsequent request of the lender for the payment of the contractual penalty.

Prepayment

The Alternative Energy Bank Loan Agreement allows for voluntary prepayment. The borrower may prepay the Alternative Energy Bank Loan in whole or in part and upon specifying the date of prepayment and the amount to be prepaid, whereas the day of prepayment shall be the day, when interests under the Alternative Energy Bank Loan Agreement are due and on such interest payment date, the minimum prepayment amount is €0.50 million. If the borrower makes a voluntary prepayment of the Alternative Energy Bank Loan within three years after the conclusion of the Alternative Energy Bank Loan Agreement, the borrower will pay the lender a prepayment fee in an amount equal to 2.00% of the prepaid amount. If the borrower makes a voluntary prepayment of the Alternative Energy Bank Loan more than three years after the conclusion of the Alternative Energy Bank Loan Agreement, the borrower will pay the lender a prepayment fee in an amount equal to 1.00% of the prepaid amount.

Covenants, representations and warranties and events of default

The Alternative Energy Bank Loan Agreement contains representations and warranties and undertakings common to loans of this type and includes customary operating and financial covenants, subject to certain exceptions, including covenants that restrict the borrower's ability, without prior written consent of the lender, to:

- create any encumbrances except those that have already been created in connection with the Alternative Energy Bank Loan, as well as those created pursuant to applicable law;
- sell, donate or dispose certain of its assets pertaining to the construction and operation of the biogas station in Bošany; or
- make any investment other than realization of the waste disposal biogas station in Bošany.

The Alternative Energy Bank Loan Agreement contains customary events of default, including, among other things, non-payment, breach of other obligations pertaining, in particular, to fulfillment of the borrower's obligations and compliance with licenses or approvals issued in connection with the biogas station in Bošany, misrepresentation of a representation or warranty, cross default, unlawfulness, repudiation of a finance document and insolvency as well as specific events of default pertaining to construction and operation of the waste disposal biogas station in Bošany, the occurrence of which would allow the lender under the Alternative Energy Bank Loan Agreement to accelerate all outstanding loans, to block all accounts of the borrower in the amount of outstanding loans, temporarily terminate its commitments under the Alternative Energy Bank Loan Agreement, withdraw or terminate the Alternative Energy Bank Loan Agreement.

Pursuant to the Alternative Energy Bank Loan Agreement the occurrence of a fact or number of facts leading, according to the opinion of the lender, to the substantial negative impact is also deemed an event of default. Substantial negative impact means a substantial negative impact on (1) the business or financial situation of the borrower, (2) borrower's ability to fulfill its obligations under any of the loan documents, or (3) validity or enforcement of any of the loan documents.

EPET Framework Agreement on the Issuance of Guarantees

The following is a summary of the Framework Agreement on the Issuance of Guarantees dated December 12, 2012 between EP ENERGY TRADING, a.s. as borrower and COMMERZBANK Aktiengesellschaft acting in the Czech Republic through its organizational branch COMMERZBANK Aktiengesellschaft, pobočka Praha as lender (the "EPET Framework Agreement on the Issuance of Guarantees").

The EPET Framework Agreement on the Issuance of Guarantees provides for a bank guarantee facility in the amount of CZK 200 million (the "EPET Guarantee Facility). The guarantee commission under the EPET Framework Agreement on the Issuance of Guarantees is in the amount of 1.20 % per annum of the guaranteed amount (0.60 % per annum of the issued guarantees by the execution of the EPET Framework Agreement on the Issuance of Guarantees, but not less than CZK 3,500 quarterly) and certain mandatory costs.

The EPET Framework Agreement on the Issuance of Guarantees is secured by a Guaranty Statement of the United Energy, a.s., a Blank Promissory Note issued by the borrower and a Guaranty Statement of EP Energy, a.s.

The EPET Framework Agreement on the Issuance of Guarantees contains certain covenants, including a limitation on guarantees and a prohibition on creating any encumbrances over any of the borrower´s assets, as well as certain events of default, including default on other outstanding debt in an amount exceeding CZK 20 million being at least fifteen days after the maturity.

The EPET Framework Agreement on the Issuance of Guarantees can be terminated at any time by either party and shall terminate after a period of four weeks commencing on the first day after the termination notice was delivered to the other party. Nevertheless, the right of termination does not relate to the issued guarantees.

UE Framework Agreement on Provision of Financial Services

The following is a summary of the Framework Agreement on Provision of Financial Services dated August 12, 2009, as amended, between United Energy, a.s. as borrower and Komerční banka, a.s. as lender (the "UE KB Framework Agreement").

The UE KB Framework Agreement provides for a facility up to the amount of CZK 120 million (the "UE KB Facility"). The proceeds of the UE KB Facility may be used in the form of overdraft loan, short-term loan and custom guarantee which may be utilized up to the amount of CZK 0.5 million. A fee of 1.5% p.a. of any amount drawn is payable. The UE KB Facility is secured by a letter of comfort issued by Czech Energy Holding, a.s.

The UE KB Framework Agreement contains certain covenants including a prohibition on creating any encumbrances over any of the borrower's assets in an amount exceeding CZK 20 million without prior written consent of the bank. The UE KB Framework Agreement has an indefinite term.

EPET Citibank Overdraft Facility Agreement

The following is a summary of the Overdraft Facility Agreement dated January 9, 2013 between EP ENERGY TRADING, a.s. as borrower and Citibank Europe plc acting in the Czech Republic through its organizational branch Citibank Europe plc, organizační složka, as lender (the "EPET Citibank Overdraft Facility Agreement").

The EPET Citibank Overdraft Facility Agreement provides for an overdraft facility in the amount of CZK 50 million (the "EPET Citibank Overdraft Facility"). The interest rate under the EPET Citibank Overdraft Facility Agreement is 1-day LIBOR plus a margin of 2.0 % per annum.

The EPET Citibank Overdraft Facility Agreement is secured by a Guaranty Statement of Energetický a průmyslový holding, a.s. and a Blank Promissory Note issued by the borrower.

The EPET Citibank Overdraft Facility Agreement contains certain covenants, including a limitation on guarantees over any of the borrower´s (and the guarantor´s) assets (including receivables), limitations on the transfer, lease or disposal of any substantial part of the borrower´s (and the guarantor´s) assets, limitation on the provision of loans, limitations on the assumption of any obligations of third persons, limitations on the conclusion of any agreement and entering into a transaction concerning financial or other derivatives without previous written consent of the lender, as well as certain events of default, including cross-defaults.

The borrower is entitled to cancel part of or the entire undrawn EPET Citibank Overdraft Facility upon delivering a 30-day notice to the lender. Pursuant to the EPET Overdraft Facility Agreement, the EPET Citibank Overdraft Facility shall be drawn by October 31, 2013.

EPET Citibank Facility Agreement

The following is a summary of the Facility Agreement dated August 9, 2011, as amended, between EP ENERGY TRADING, a.s., as borrower and Citibank Europe plc acting in the Czech Republic through its organizational branch Citibank Europe plc, organizacní složka as lender (the "EPET Citibank Facility Agreement").

The EPET Citibank Facility Agreement provides for a facility in the maximum amount of CZK 50 million (the "EPET Citibank Facility"). The proceeds of the EPET Citibank Facility may be used in the form of bank guarantees. The interest rate for the bank guarantees amounts to 0.75% per annum for guarantees staying in place for less than 12 months, and to 1.30% for guarantees staying in place for longer than 12 months.

The EPET Citibank Facility is secured by a promissory note issued by the borrower. The EPET Citibank Facility Agreement is guaranteed by Energetický a průmyslový holding, a.s. The EPET Citibank Facility Agreement provides for certain covenants, including a prohibition on the disposal of certain assets, as well as mergers of EPET with another company.

PEAS RBS Facility Agreement

The following is a summary of the Facility Agreement dated December 12, 2006, as amended, originally between První energetická a.s.as borrower and The Royal Bank of Scotland N.V. as lender (the "PEAS RBS Facility Agreement"). EPET became the borrower under this facility when PEAS was merged into EPET.

The PEAS RBS Facility Agreement provides for a facility in the maximum amount of €3,000,000 (the "PEAS RBS Facility"). The proceeds from the PEAS RBS Facility may be used in the form of bank guarantees in favor of electricity, energy and transmission services suppliers. The interest rate for the bank guarantees amounts to 2.0% per annum of the amount drawn, but no less than CZK 5,000 plus fees of CZK 10,000 per bank guarantee.

The PEAS RBS Facility is guaranteed by Energetický a průmyslový holding, a.s. The PEAS RBS Facility Agreement contains certain covenants including a prohibition on creating any security over any of the borrower's assets without prior written consent of the bank. No new guarantees can be issued under this facility. As of the date hereof, one guarantee remains outstanding for the amount of €0.30 million.

The maturity date of the PEAS RBS Facility is April 30, 2013, however, we are in negotiations to extend the term of the PEAS RBS Facility.

PEAS Citibank Facility Agreement

The following is a summary of the Agreement on Credit and Other Products dated December 7, 2006, as amended, originally between První energetická a.s. as borrower and Citibank a.s. as lender (the "PEAS Citibank Facility Agreement"). EPET became the borrower under this facility when PEAS was merged into EPET.

The PEAS Citibank Facility Agreement provides for a facility in an amount of up to CZK 70 million (the "PEAS Citibank Facility"). The proceeds of the PEAS Citibank Facility may be used in the form of bank guarantees. The PEAS Citibank Facility is secured by a promissory note issued by the borrower. The PEAS Citibank Facility is guaranteed by Energetický a průmyslový holding, a.s. The interest payable on bank guarantees amounts to 2.1% per annum, but no less than CZK 4,000.

The PEAS Citibank Facility Agreement contains certain covenants including a prohibition on creating any security without prior written consent of the bank, and provides for certain events of default, including cross-defaults.

Other loans

Certain non-Guarantor subsidiaries of the Company have entered into four additional loans with banks or other entities having aggregate principal amounts outstanding as of March 31, 2013 of approximately €1.8 million for euro-denominated loans and CZK 45.6 million for Czech crown-denominated loans. These loans have a maturity date ranging from April 9, 2015 to payable upon lender's demand.

EPH Shareholder Loans

From time to time we enter into shareholder loans with EPH. These loans are entered into on market terms and typically provide that EPH can call the loans prior to their maturity, subject to certain exceptions. As of March 31, 2013, we have loans with EPH representing €135 million in the aggregate outstanding.

Intercreditor Agreement

Overview

On November 29, 2012, we entered into an Intercreditor Agreement among the Company, the Guarantors, EP Holdings, the agent under the Senior Credit Facility, the Common Security Agent, the trustee under the Indenture (the "Notes Trustee") and the other parties thereto establishing certain intercreditor arrangements among certain secured and unsecured creditors of the EPE Group. In this section, references to "Senior Secured Notes" are references to the Notes, "Senior Secured Notes Trustee" are to the Notes Trustee, "Security Agent" are to the Common Security Agent and "Group" are to the EPE Group.

Unless the context otherwise requires, terms defined below in this description of the Intercreditor Agreement apply only to this section.

The Intercreditor Agreement is governed by English law, and sets out, by way of agreement between the parties to it, among other things, provisions relating to:

- the relative ranking of certain liabilities of the Debtors (as defined below);
- the relative ranking of certain security granted by the Debtors;
- when payments can be made in respect of certain liabilities of the Debtors;
- when enforcement action can be taken in respect of those liabilities;
- the terms pursuant to which certain of those liabilities will be subordinated;
- turnover provisions; and
- the application of proceeds of enforcement.

The following description is a summary of certain provisions contained in the Intercreditor Agreement. It does not restate the Intercreditor Agreement in its entirety and we urge you to read that document because it, and not the discussion that follows, will regulate and govern certain of the rights of the holders of the Notes and the Notes Trustee.

Ranking and Priority

Priority of liabilities

The Intercreditor Agreement provides that the liabilities owed by the Debtors to the creditors under the Senior Credit Facility, certain hedging obligations and the Senior Secured Notes (the "Primary Creditors") shall rank in right and priority of payment in the following order and are, with respect to the second and third bullets below, postponed and subordinated to any prior ranking liabilities (without prejudice to Permitted Payments (as defined below) thereof) as follows:

- first, the liabilities owed by the Debtors to the lenders and ancillary lenders under the Senior Finance Documents (as defined in the Senior Credit Facility Agreement) (each a "Senior Lender" and such liabilities the "Senior Lender Liabilities"), the liabilities with respect to the Senior Secured Notes and the Senior Secured Notes Finance Documents (as defined in the Intercreditor Agreement, and including, the Existing Notes Indenture, the Security Documents, the

Intercreditor Agreement, the Guarantees of the Existing Notes and any other document entered into and designated as such in connection with the Senior Secured Notes, although not any document to the extent it sets out rights of the initial purchasers of the Senior Secured Notes (in their capacities as initial purchasers) against any member of the Group) (the "Senior Secured Notes Liabilities"), liabilities (other than Senior Lender Liabilities, Senior Secured Notes Liabilities, Senior Hedging Liabilities (as defined below), Junior Hedging Liabilities (as defined below) and Intra-Group Liabilities (as defined below)) that are: (a) not subordinated in right of payment to any Senior Liabilities (as defined below) or Senior Secured Notes Liabilities; (b) owed by the Debtors in respect of any loan, credit or debt facility, notes, debenture or security which are not prohibited under the terms of the Senior Secured Notes Finance Documents or Senior Finance Documents; (c) permitted under the terms of the Senior Finance Documents to share in the security created or evidence or expressed to be created or evidenced under or pursuant to the security documents (the "Transaction Security"); and (d) owed to creditors which have acceded to the Intercreditor Agreement as Pari Passu Creditors (as defined in the Intercreditor Agreement) in accordance with the Intercreditor Agreement (the "Pari Passu Debt"), liabilities owed by the Debtors to Senior Hedge Counterparties (as defined in the Intercreditor Agreement) in relation to certain permitted hedging (the "Senior Hedging Liabilities" and together with the Senior Lender Liabilities, the "Senior Liabilities") and liabilities of any Debtor to any Agent (as defined in the Intercreditor Agreement) under any Debt Document (as defined below) (the "Agent Liabilities")), pari passu and without any preference between them;

- second, the liabilities owed by the Debtors to Junior Hedge Counterparties (as defined in the Intercreditor Agreement) in connection with certain permitted hedging (the "Junior Hedging Liabilities"), pari passu between themselves and without any preference between them;
- third, the amounts owed by any Debtor to any member of the Group (other than an Excluded Company (as defined in the Senior Credit Facility Agreement to include, among others, MIBRAG and its subsidiaries and Severočeská teplárenská, in each case until that company complies with the requirements become a guarantor under the Senior Credit Facility)) which has made a loan available to, granted credit to or made any other financial arrangement having similar effect to another member of the Group (other than an Excluded Company) and which becomes a party to the Intercreditor Agreement as an "Intra-Group Lender" (as defined in the Intercreditor Agreement) in accordance with the terms of the Intercreditor Agreement (the "Intra-Group Lenders") (the "Intra-Group Liabilities") pari passu between themselves and without any preference between them; and
- fourth, the amounts owed by one member of the Group to EPH (the "Parent") (the "Parent Liabilities") pari passu between themselves and without any preference between them.

The Company and the obligors/guarantors (and other EPE Group members which accede to the Intercreditor Agreement as such) are referred to herein as the "Debtors." The Senior Credit Facility Agreement, the indenture governing the Senior Secured Notes (the "Senior Secured Notes Indenture"), the Intercreditor Agreement any agreement evidencing the terms of the Pari Passu Debt, the Senior Hedging Liabilities, the Junior Hedging Liabilities, Parent Liabilities or the Intra-Group Liabilities, the related ancillary and security documents and any other document designated as such by the Security Agent and the Company are referred to herein as "Debt Documents."

In addition, the Intercreditor Agreement provides (to the extent not prohibited by the Senior Secured Notes Indenture and permitted by the Senior Credit Facility Agreement) that additional creditors may accede to the Intercreditor Agreement as Pari Passu Creditors subject to receiving the prior written consent of the Security Agent to act as security trustee for the holders of the Pari Passu Debt thereunder, and compliance with the conditions of the Intercreditor Agreement (including the accession of any trustee to the Intercreditor Agreement if the indebtedness is in respect of any issuance of notes or other debt securities and the accession of the arrangers, creditors and facility agent to the Intercreditor Agreement if the indebtedness is in respect of any loan, credit or debt facility), and the Pari Passu Debt will rank equally in right of payment with the Senior Liabilities, Senior Secured Notes Liabilities and Agent Liabilities.

Priority of Security

The liens and other security provided by the Debtors rank in the following order:

- first, the Senior Lender Liabilities, the Senior Secured Notes Liabilities, the Agent Liabilities, the Pari Passu Debt and the Senior Hedging Liabilities pari passu between themselves and without any preference between them; and
- second, the Junior Hedging Liabilities pari passu between themselves and without any preference between them.

Subordinated Intra-Group Liabilities and Parent Liabilities

The Intercreditor Agreement provides that:

- Intra-Group Liabilities are postponed and subordinated to the liabilities owed by the Debtors to the Senior Secured Creditors (which is defined as the Senior Secured Noteholders (the registered holders from time to time of the Senior Secured Notes, as determined in accordance with the relevant Senior Secured Notes Indenture), each Senior Secured Notes Trustee and (in its capacity as creditor of the Parallel Debt Obligations (as defined in the Intercreditor Agreement) corresponding to the Senior Secured Notes Liabilities) the Security Agent (together, the "Senior Secured Note Creditors"), the Senior Creditors (as defined below under "-Enforcement Instructions"), the Pari Passu Creditors and the Junior Hedge Counterparties); and
- the Parent Liabilities are postponed and subordinated to Senior Secured Creditors and to the Intra-Group Liabilities.

The Intercreditor Agreement does not purport to rank any elements of the Intra-Group Liabilities and the Parent Liabilities as between themselves.

Permitted Payments

The Intercreditor Agreement permits, inter alia, Permitted Senior Secured Credit Payments, Permitted Hedge Payments, a Permitted Intra-Group Payments and Permitted Parent Payments (each, a "Permitted Payment").

Permitted Senior Secured Credit Payments: The Debtors may make payments in respect of the Senior Lender Liabilities and the Senior Secured Notes Liabilities (other than Hedging Liabilities) at any time unless that payment is prohibited by the Senior Credit Facility Agreement or the Senior Secured Notes Finance Documents provided that, following the occurrence of a Senior Acceleration Event (an acceleration event under the Senior Credit Facility Agreement), a Senior Secured Notes Acceleration Event (an acceleration event under a Senior Secured Notes Indenture) or an Insolvency Event (as defined in the Intercreditor Agreement), no Debtor (in case of an Insolvency Event, the Debtor affected by such Insolvency Event only) may make (and no Senior Secured Creditor may receive) payments of the Senior Lender Liabilities or Senior Secured Notes Liabilities except from Group Recoveries (as defined in the Intercreditor Agreement) distributed in accordance with the Intercreditor Agreement.

Permitted Hedge Payments: Debtors may make payments to any Hedge Counterparty (defined as both Junior Hedge Counterparties and Senior Hedge Counterparties) in respect of the Hedging Liabilities (defined as both Junior Hedging Liabilities and Senior Hedging Liabilities) then due to that Hedge Counterparty under any Hedging Agreement (defined as both Junior Hedging Agreements and Senior Hedging Agreements) in accordance with the terms of that Hedging Agreement, if, inter alia, (i) the payment is a scheduled payment arising under the relevant Hedging Agreement or (ii) to the extent that the relevant Debtor's obligation to make the payment arises as a result of the operation of certain sections of the ISDA 1992 or 2002 Master Agreements or any provision of a Hedging Agreement which is similar in meaning. No payment may be made if any scheduled payment due from that Hedge Counterparty to a Debtor under a Hedging Agreement to which they are both party is due and unpaid.

Permitted Intra-Group Payments: members of the Group (other than an Excluded Company) may make payments in respect of the Intra-Group Liabilities (whether of principal, interest or otherwise) from time to time, except such payments may not be made if, at the time of the payment, an acceleration or payment default in respect of the Senior Lender Liabilities (and, in the case of a payment default, the Senior Hedging Liabilities), the Senior Secured Notes Liabilities or the Pari Passu Debt (an "Acceleration Event" or a "Payment Default", respectively) has occurred and is continuing unless (i) prior to the Senior Secured Discharge Date (the first date on which (amongst other liabilities) all Senior Secured Note Liabilities have been fully and finally discharged to the satisfaction of each Senior Secured Notes Trustee), the Majority Senior Creditors (as defined below), the Senior Secured Notes Trustees and the relevant representatives under the documents governing the relevant Pari Passu Debt (the "Pari Passu Creditor Representative") consent to that payment being made; or (ii) that Payment is made to facilitate Payment of the Senior Secured Liabilities (defined to mean the Senior Secured Notes Liabilities, the Senior Liabilities and the Pari Passu Debt) or Senior Secured Notes Trustee Amounts (as defined in the Intercreditor Agreement) or Pari Passu Debt; or (iii) at the time of that payment a Payment Default (but no Acceleration Event) has occurred and such payment is required by mandatory law.

Permitted Parent Payments: Prior to the Senior Secured Discharge Date, the Debtors may not, and must procure that no other member of the Group will, make any payment of the Parent Liabilities at any time unless that payment is permitted under the Intercreditor Agreement or the taking or receipt of that payment occurs in the context of a permitted enforcement under the Intercreditor Agreement by the Parent. The Intercreditor Agreement allows payments in respect of the Parent Liabilities (whether of principal, interest or otherwise) if prior to the relevant discharge date, the payment is not prohibited by (or relevant consents or waivers are obtained under) the Senior Credit Facility Agreement, the Senior Secured Notes Indenture (or the relevant Senior Secured Notes Trustee has consented to the payment being made) and (if applicable) the documents governing the Pari Passu Debt (or the Pari Passu Creditor Representative has consented to the payment being made). However, payments in respect of the Parent Liabilities may not be made if an Acceleration Event or a Payment Default has occurred and is continuing unless, prior to the Senior Secured Discharge Date, the Majority Senior Creditors, the Senior Secured Notes Trustees and the Pari Passu Creditor Representative(s) consent to the payment being made.

Enforcement Instructions

The Intercreditor Agreement provides that the Security Agent may not take any Enforcement Action (as defined in the Intercreditor Agreement) with respect to the Transaction Security unless instructed to do so by the Instructing Group (as defined below) and may refrain from enforcing the Transaction Security unless instructed otherwise by the Instructing Group.

If requested by the facility agent under the Senior Credit Facility (the "Senior Agent"), the Senior Secured Notes Trustees, the Pari Passu Creditor Representative(s) or the Instructing Group (the "Instructing Entity"), the Security Agent shall notify the Debtors, the Parent and the other Secured Parties (as defined in the Intercreditor Agreement) of the occurrence of any acceleration (howsoever described) under any of the Secured Debt Documents (defined as the Senior Finance Documents, the Senior Secured Notes Finance Documents, the Pari Passu Debt Documents and the Hedging Agreements) (such notice an "Acceleration Notice"), provided that an instruction directing the Security Agent to enforce the relevant Transaction Security (or any part thereof) may only be made by the Instructing Group (acting through the Senior Agent and/or Senior Secured Notes Trustee, as applicable). Under the Intercreditor Agreement, no Secured Party may enforce against the Transaction Security unless authorized to take such action under the terms of the relevant Secured Debt Documents following an acceleration thereunder (or any amounts thereunder having otherwise become due and payable) and in accordance with the relevant enforcement mechanisms set forth therein. If requested by the relevant Instructing Entity, the Security Agent shall revoke the Acceleration Notice specified in such request vis-a-vis the Parent and the Debtors which had previously received such Acceleration Notice.

No Secured Party has any independent power to enforce, or to have recourse to, any Transaction Security, or to exercise any rights or powers arising under the Transaction Security Documents (as defined in the Intercreditor Agreement) except through the Security Agent.

An "Instructing Group" means,

(a) while any Senior Lender Liabilities are outstanding, at any time prior to the discharge date for the Senior Lender Liabilities (the "Senior Lender Discharge Date"):

(i) prior to and during the Senior Creditors Instructing Period (as defined below):

(A) (where the outstanding principal amount of the Senior Lender Liabilities and the undrawn uncanceled commitments of the Senior Lenders under the Senior Finance Documents are in aggregate greater than or equal to 40% of the total aggregate principal amount of the Senior Lender Liabilities, the Senior Secured Note Liabilities, the Pari Passu Debt and the undrawn uncanceled commitments of (1) the Senior Lenders under the Senior Credit Facility Agreement and (2) to the extent applicable, the Pari Passu Creditors under the relevant Pari Passu Debt Documents) the Majority Senior Creditors; and

(B) otherwise, the Majority Senior Secured Creditors; and

(ii) on or after expiry of the Senior Creditor Instructing Period, the Majority Senior Secured Creditors; and

(b) if no Senior Lender Liabilities are outstanding or if the Senior Lender Discharge Date has occurred, the Majority Senior Secured Creditors.

"Majority Senior Creditors" means, at any time, Senior Lenders, Senior Hedge Counterparties, the Senior Agent and the Security Agent (in its capacity as creditor of the parallel debt corresponding to the Senior Liabilities) (the "Senior Creditors") whose senior credit participations in the Senior Credit Facility and exposures under Senior Hedging Agreements (the "Senior Creditor Participations") at the time of calculation aggregate more than 66 2/3% of the total senior credit participations at that time.

"Majority Senior Secured Creditors" means, at any time, Senior Secured Creditors (as defined below) whose participations in the Senior Secured Credit Participations (as defined below) at any time aggregate more than 50% of the Senior Secured Credit Participations at that time.

"Senior Creditor Instructing Period" means each period prior to the date falling 120 days after an Acceleration Event, provided that if within the above period, an Instructing Group comprising the Majority Senior Creditors (acting through the Senior Agent) issues instructions to the Security Agent (a "Senior Creditors Enforcement Decision") to take an Enforcement Action in respect of any Transaction Security (in each case in accordance with the terms of the Intercreditor Agreement) (which the Security Agent shall promptly notify to the Senior Secured Notes Trustee and Pari Passu Creditor Representative), then such period shall be extended until the first to occur of:

(a) the date on which the Senior Agent (acting on the instructions of the Majority Senior Creditors) cancels that Senior Creditors Enforcement Decision by notice to the Security Agent (which the Security Agent shall promptly notify to the Senior Secured Notes Trustee and Pari Passu Creditor Representative); and

(b) the date on which the Senior Agent (acting on the instructions of the Majority Senior Creditors) notifies the Security Agent (which the Security Agent shall promptly notify to the Senior Secured Notes Trustee and Pari Passu Creditor Representative) that such Enforcement Action is no longer being taken or is no longer to be taken (as applicable).

"Senior Secured Credit Participation" means:

(a) in relation to a Senior Creditor, its Senior Creditor Participation;

(b) in relation to a Senior Secured Noteholder, the principal amount of outstanding Senior Secured Notes held by that Senior Secured Noteholder; and

(c) in relation to a Pari Passu Creditor, the principal amount of outstanding Pari Passu Debt owed to that Pari Passu Creditor and, to the extent applicable but without duplication, its aggregate undrawn Pari Passu Debt Commitment (as defined in the Intercreditor Agreement).

"Senior Secured Creditors" means, the Senior Secured Note Creditors, the Senior Creditors and the Pari Passu Creditors.

Acceleration

On the occurrence of an Acceleration Event or certain specified insolvency events (an "Insolvency Event"), no Debtor (in case of an Insolvency Event the Debtor affected by such Insolvency Event only) may make payments to Senior Secured Creditors and no Senior Secured Creditor may receive payments of any Senior Secured Liabilities save from Group Recoveries (as defined below).

Manner of Enforcement

If the Transaction Security is being enforced as set forth above under the caption "—Enforcement Instructions," the Security Agent shall enforce the Transaction Security in such manner (including, without limitation, the selection of any administrator of any Debtor to be appointed by the Security Agent) as the Instructing Group shall instruct or, in the absence of any such instructions, as the Security Agent sees fit, in each case in accordance with applicable law and the terms of the relevant Transaction Security Documents.

Exercise of Voting Rights

Each Creditor (as defined in the Intercreditor Agreement) (including the Senior Secured Notes Trustees and holders of the Senior Secured Notes) agrees (to the fullest extent permitted by law at the relevant time) with the Security Agent that it will cast its vote in any proposal put to the vote by, or under the supervision of, any judicial or supervisory authority in respect of any insolvency, pre-insolvency or rehabilitation or similar proceedings relating to any member of the Group as instructed by the Security Agent. The Security Agent shall give instructions for the purposes of this paragraph as directed by an Instructing Group.

No party is entitled to exercise or require any Senior Secured Creditor or Junior Hedge Counterparty to exercise such power of voting or representation to waive, reduce, discharge, extend the due date for payment of or reschedule any of the liabilities owed to that Senior Secured Creditor or Junior Hedge Counterparty.

Waiver of Rights

To the extent permitted under applicable law and subject to certain provisions of the Intercreditor Agreement and the terms of the relevant Transaction Security Documents, each of the Secured Parties and the Debtors waives all rights it may otherwise have to require that the Transaction Security be enforced in any particular order or manner or at any particular time, or that any sum received or recovered from any person, or by virtue of the enforcement of any of the Transaction Security or of any other security interest, which is capable of being applied in or towards discharge of any of the Secured Obligations (defined to include all liabilities owed by any member of the Group and by each Debtor (other than the Parent) to any Secured Party under, or in connection with, the Secured Debt Documents), is so applied.

Security Held by Other Creditors

If any Transaction Security is held by a Creditor other than the Security Agent, then Creditors may only enforce that Transaction Security in accordance with instructions given by an Instructing Group in accordance with the Intercreditor Agreement (and for this purpose references to the Security Agent shall be construed as references to that Creditor).

Turnover of Receipts

Subject to certain clauses of the Intercreditor Agreement, and subject to certain exclusions in the Intercreditor Agreement, if at any time prior to the Senior Secured Discharge Date, any Creditor or Agent (other than the Security Agent) receives or recovers from any member of the Group:

(a) any payment or distribution of, or on account of or in relation to, any of the liabilities which is not either:

(i) a Permitted Payment; or

(ii) made in accordance with the Intercreditor Agreement;

(b) other than as provided in the Intercreditor Agreement, any amount by way of set-off in respect of any of the liabilities owed to it which does not give effect to a Permitted Payment;

(c) notwithstanding paragraphs (a) and (b) above, and other than as provided in the Intercreditor Agreement, any amount:

(i) on account of, or in relation to, any of the liabilities:

(A) after the occurrence of an Acceleration Event or the enforcement of any Transaction Security (a "Distress Event"); or

(B) as a result of any other litigation or proceedings against a member of the Group (other than after the occurrence of an Insolvency Event in respect of that member of the Group); or

(ii) by way of set-off in respect of any of the liabilities owed to it after the occurrence of a Distress Event,

other than, in each case, any amount received or recovered in accordance with the Intercreditor Agreement;

(d) the proceeds of any enforcement of any Transaction Security except in accordance with the Intercreditor Agreement; or

(e) other than as provided in the Intercreditor Agreement, any distribution in cash or in kind or payment of, or on account of or in relation to, any of the liabilities owed by any member of the Group which is not in accordance with the Intercreditor Agreement and which is made as a result of, or after, the occurrence of an Insolvency Event in respect of that member of the Group,

that Creditor will:

(i) in relation to receipts and recoveries not received or recovered by way of set-off:

(A) hold an amount of that receipt or recovery equal to the Relevant Liabilities (as defined in the Intercreditor Agreement, including all liabilities ranking pari passu with or in priority to the liabilities owed to such Creditor and other liabilities owed to the Security Agent) (or if less, the amount received or recovered) on trust for the Security Agent and promptly pay or distribute that amount to the Security Agent for application in accordance with the terms of the Intercreditor Agreement; and

(B) promptly pay or distribute an amount equal to the amount (if any) by which the receipt or recovery exceeds the Relevant Liabilities to the Security Agent for application in accordance with the terms of the Intercreditor Agreement; and

(ii) in relation to receipts and recoveries received or recovered by way of set-off, promptly pay an amount equal to that recovery to the Security Agent for application in accordance with the terms of the Intercreditor Agreement.

Turnover of enforcement proceeds

If:

- the Security Agent, the Senior Agent or the relevant Senior Secured Notes Trustee is not entitled, for reasons of applicable law, to pay amounts received pursuant to the making of a demand under any guarantee, indemnity or other assurance against loss or the enforcement of the Transaction Security to the Senior Secured Creditors but is entitled to distribute those amounts to Creditors (such Creditors, the "Receiving Creditors") who, in accordance with the terms of the Intercreditor Agreement, are subordinated in right and priority of payment to the Senior Secured Creditors; and
- the Senior Secured Discharge Date has not yet occurred (nor would occur after taking into account such payments),

then the Receiving Creditors shall make such payments to the Senior Secured Creditors as the Security Agent shall require to place the Senior Secured Creditors in the position they would have been in had such amounts been available for application against the Senior Secured Liabilities.

Proceeds of Disposals: Non-Distressed Disposals

In this section, “Disposal Proceeds” means the proceeds of a Non-Distressed Disposal (as defined below).

A “Non-Distressed Disposal” means a disposal of (a) an asset by a Debtor or (b) an asset which is subject to the Transaction Security, to a person or persons outside the Group where:

(i) (prior to the Senior Lender Discharge Date) the Senior Agent notifies the Security Agent that that disposal is permitted under the Senior Finance Documents (which it shall do as soon as practicable on request by the Company);

(ii) (prior to the Senior Secured Notes Discharge Date) two directors of the Company certify for the benefit of the Security Agent that that disposal is permitted under or is not prohibited by the Senior Secured Notes Finance Documents (provided that such certificate has been provided to the relevant Senior Secured Notes Trustees) or the Senior Secured Notes Trustees authorize the release in accordance with the terms of the Senior Secured Notes Finance Documents; and

(iii) (prior to the Pari Passu Debt Discharge Date (as defined in the Intercreditor Agreement)) two directors of the Company certify for the benefit of the Security Agent that that disposal is permitted under or is not prohibited by the Pari Passu Debt Documents (provided that such certificate has been provided to the relevant Pari Passu Creditor Representative(s)), or the relevant Pari Passu Creditor Representative(s) authorizes the release in accordance with the terms of the Pari Passu Debt Documents; and

(iv) that disposal is not a Distressed Disposal (as defined below).

If the disposal of an asset is a Non-Distressed Disposal, the Security Agent is irrevocably authorized (at the reasonable cost of the relevant Debtor or the Company and without any consent, sanction, authority or further confirmation from any creditor or Debtor) but subject to the following paragraph:

- to release the Transaction Security and any other claim (relating to a Debt Document) over that asset;
- where that asset consists of shares in the capital of a Debtor, to release the Transaction Security and any other claim, including without limitation any guarantee liabilities or other liabilities (relating to a Debt Document) over that Debtor or its assets and (if any) the subsidiaries of that Debtor and their respective assets; and
- to execute and deliver or enter into any release of the Transaction Security or any claim described in the two bullet points above and issue any certificates of non-crystallization of any floating charge or any consent to dealing that may be reasonably requested by the Company.

If the relevant Non-Distressed Disposal is not made, each release of Transaction Security or any claim described in the paragraph above shall have no effect and the Transaction Security or claim subject to that release shall continue in such force and effect as if that release had not been effected.

If any disposal proceeds, insurance proceeds or proceeds of any flotation or other proceeds or amounts are required to be applied in mandatory prepayment of the Senior Lender Liabilities, the Senior Secured Notes Liabilities and/or the Pari Passu Debt (as applicable) then, subject to the terms of the Intercreditor Agreement, such proceeds shall be applied in or towards payment of:

(i) first, the Senior Lender Liabilities in accordance with the terms of the Senior Credit Facility Agreement to the extent required; and

(ii) second, the Senior Secured Notes Liabilities in accordance with the terms of the Senior Secured Notes Indenture and the Pari Passu Debt in accordance with the terms of the Pari Passu Debt Documents, in each case to the extent required thereby and on a pro rata basis between the Senior Secured Notes Liabilities and the Pari Passu Debt,

provided that when making a pro rata determination, (A) only those liabilities which are required to be prepaid in accordance with the terms of the relevant Senior Secured Finance Document (defined as the Senior Secured Notes Finance Documents, the Senior Finance Documents, the Pari Passu Debt Documents and the Senior Hedging Agreements) will be taken into account and

(B) undrawn commitments in respect of a liability will only be taken into account once all outstanding amounts in respect of that liability has been or would be repaid following the application of the proceeds thereunder and no consent of any other party shall be required for any application thereunder.

Distressed Disposals

A “Distressed Disposal” is a disposal of an asset or shares of a member of the Group or (to the extent subject to Transaction Security) the assets of the Parent which is:

(a) being effected at the request of an Instructing Group in circumstances where the Transaction Security has become enforceable,

(b) being effected by enforcement of the Transaction Security; or

(c) being effected, after the occurrence of a Distress Event, by a Debtor to a person or persons which is not a member of the Group.

If a Distressed Disposal or Appropriation (as defined in the Intercreditor Agreement, including the appropriation of shares in a member of the Group by the Security Agent by enforcement of Transaction Security) of any asset is being effected, the Security Agent is irrevocably authorised (at the cost of the relevant Debtor (or the Parent only with regard to Transaction Security provided by the Parent) and without any consent, sanction, authority or further confirmation from any Creditor or Debtor):

(i) to release the Transaction Security or any other claim over the relevant asset and execute and deliver or enter into any release of that Transaction Security or claim and issue any letters of non-crystallization of any floating charge or any consent to dealing that may, in the discretion of the Security Agent, be considered necessary or desirable;

(ii) if the asset consists of shares in the capital of a Debtor to release:

(A) that Debtor and any subsidiary of that Debtor from all or any part of its borrowing liabilities, its guarantee liabilities and its other liabilities;

(B) any Transaction Security granted by that Debtor or any subsidiary of that Debtor over any of its assets; and

(C) any other claim of an Intra-Group Lender, the Parent in respect of the Parent Liabilities, or another Debtor over that Debtor’s assets or over the assets of any subsidiary of that Debtor,

on behalf of the relevant Creditors, Senior Agent, senior arrangers, Debtors, Senior Secured Notes Trustee(s) and the Pari Passu Creditor Representative(s);

(iii) if the asset consists of shares in the capital of any holding company of a Debtor to release:

(A) that holding company and any subsidiary of that holding company from all or any part of its borrowing liabilities, its guarantees liabilities and its other liabilities;

(B) any Transaction Security granted by any subsidiary of that holding company over any of its assets; and

(C) any other claim of an Intra-Group Lender, the Parent in respect of the Parent Liabilities or another Debtor over the assets of that holding company and any subsidiary of that holding company,

on behalf of the relevant Creditors, Senior Agent, senior arrangers, Debtors, the Senior Secured Notes Trustees and the Pari Passu Creditor Representative(s);

(iv) if the asset consists of shares in the capital of a Debtor or the holding company of a Debtor and the Security Agent (acting in accordance with the Intercreditor Agreement) decides to dispose of all or any part of the liabilities (other than liabilities due to the Senior Agent or senior arranger) or in relation to a Debtor, any liabilities and obligations owed to any other Debtor or any other member of the Group (other than Excluded Companies) (whether actual or contingent and whether incurred solely or jointly) by that Debtor (the “Debtors’ Intra-Group Receivables”) owed by that Debtor or holding company or any subsidiary of that Debtor or Holding Company on the basis that any transferee of those Liabilities or Debtors’ Intra-Group Receivables (the “Transferee”) will not be treated as a Senior Secured Creditor or a Secured Party for the purposes of the Intercreditor Agreement, to execute and deliver or enter into any agreement to dispose of all or part of those liabilities or Debtors’ Intra-Group Receivables on behalf of the relevant Creditors and Debtors provided that notwithstanding any other provision of any Debt Document the Transferee shall not be treated as a Senior Secured Creditor or a Secured Party for the purposes of the Intercreditor Agreement;

(v) if the asset consists of shares in the capital of a Debtor or the holding company of a Debtor and the Security Agent (acting in accordance with the Intercreditor Agreement) decides to dispose of all or any part of the liabilities (other than liabilities due to the Senior Agent or senior arranger) or Debtors' Intra-Group Receivables owed by that Debtor or holding company or any subsidiary of that Debtor or holding company on the basis that any transferee of those liabilities or Debtors' Intra-Group Receivables will be treated as a Senior Secured Creditor or a Secured Party for the purposes of the Intercreditor Agreement, to execute and deliver or enter into any agreement to dispose of all (and not part only) of the liabilities owed to the Senior Secured Creditors (other than to the Senior Agent or any senior arranger); and all or part of any other liabilities (other than liabilities owed to the Senior Agent or any senior arranger) and the Debtors' Intra-Group Receivables on behalf of, in each case, the relevant creditors and Debtors;

(vi) if the asset consists of shares in the capital of a Debtor or the holding company of a Debtor (the "Disposed Entity") and the Security Agent decides to transfer to another Debtor (the "Receiving Entity") all or any part of the Disposed Entity's obligations or any obligations of any subsidiary of that Disposed Entity in respect of: the Intra-Group Liabilities, any Parent Liabilities or the Debtors' Intra-Group Receivables, to execute and deliver or enter into any agreement to:

(A) agree to the transfer of all or part of the obligations in respect of those Intra-Group Liabilities, Parent Liabilities or Debtor Intra-Group Receivables on behalf of the relevant Intra-Group Lenders and Debtors to which those obligations are owed and on behalf of the Debtors which owe those obligations; and

(B) (provided the Receiving Entity is a holding company of the Disposed Entity which holding company is also a guarantor of Senior Secured Liabilities) to accept the transfer of all or part of the obligations in respect of those Intra-Group Liabilities, Parent Liabilities or Debtors' Intra-Group Receivables on behalf of the Receiving Entity or Receiving Entities to which the obligations in respect of those Intra-Group Liabilities or Debtors' Intra-Group Receivables are to be transferred.

The net proceeds of each Distressed Disposal (and the net proceeds of any disposal of liabilities or Debtors' Intra-Group Receivables pursuant to (iv) or (v) above (a "Debt Disposal")) shall be paid to the Security Agent for application in accordance with the provisions set out under the caption "—Application of Proceeds" and, to the extent that any disposal of liabilities or Debtors' Intra-Group Receivables or Appropriation has occurred, as if that disposal of liabilities or Debtors' Intra-Group Receivables or any reduction in the Secured Obligations resulting from that Appropriation had not occurred.

In the case of a Distressed Disposal (or a Debt Disposal) effected by, or at the request of, the Security Agent, the Security Agent shall take reasonable care to obtain a fair market price in the prevailing market conditions (though the Security Agent shall not have any obligation to postpone (or request postponement of) any such Distressed Disposal or Debt Disposal in order to achieve a higher price).

Effect of Insolvency Event; Filing of Claims

The Intercreditor Agreement provides that, after the occurrence of an Insolvency Event in relation to any Debtor (or any other member of the Group (other than an Excluded Company)), any party entitled to receive a distribution out of the assets of that Debtor or that member of the Group in respect of liabilities owed to that party shall, to the extent it is able to do so, direct the person responsible for the distribution of the assets of that Debtor or that member of the Group to pay that distribution to the Security Agent until the liabilities owing to the Secured Parties have been paid in full. In this respect, the Security Agent shall apply distributions paid to it in accordance with the provisions set out under the caption "—Application of Proceeds" below.

Generally (subject to certain exceptions), to the extent that any liabilities of a member of the Group are discharged by way of set-off (mandatory or otherwise) after the occurrence of an Insolvency Event in relation to that member of the Group, any Creditor which benefited from that set-off shall pay an amount equal to the amount of the liabilities owed to it which are discharged by that set-off to the Security Agent for application in accordance with the provisions set out in the caption "—Application of Proceeds" below.

If the Security Agent or any other Secured Party receives a distribution in a form other than in cash in respect of any of the liabilities, the liabilities will not be reduced by that distribution until and except to the extent that the realization proceeds are actually applied towards the liabilities.

After the occurrence of an Insolvency Event in relation to any Debtor or other member of the Group (other than an Excluded Company), each Creditor irrevocably authorizes the Security Agent, on its behalf, to:

(i) take any Enforcement Action (in accordance with the terms of the Intercreditor Agreement) against that Debtor or that member of the Group;

(ii) demand, sue, prove and give receipt for any or all of the liabilities of that Debtor or that member of the Group;

(iii) collect and receive all distributions on, or on account of, any or all of the liabilities of that Debtor or that member of the Group; and

(iv) file claims, take proceedings and do all other things the Security Agent considers reasonably necessary to recover the liabilities of that Debtor or that member of the Group.

Each Creditor will (i) do all things that the Security Agent (acting in accordance with the Intercreditor Agreement) reasonably requests in order to give effect to the matters disclosed under this section and (ii) if the Security Agent is not entitled to take any of the actions contemplated by this section or if the Security Agent requests that a Creditor take that action, undertake that action itself in accordance with the instructions of the Security Agent (acting in accordance with the Intercreditor Agreement) or grant a power of attorney to the Security Agent (on such terms as the Security Agent (acting in accordance with the Intercreditor Agreement) may reasonably require, although no Senior Secured Notes Trustee shall be under any obligation to grant such powers of attorney) to enable the Security Agent to take such action.

Application of Proceeds: Order of application

Subject to the Intercreditor Agreement, the above proceeds and recoveries from time to time received or recovered by the Security Agent pursuant to the terms of any Debt Document or in connection with the realization or enforcement of all or any part of the Transaction Security (any such proceeds and recoveries "Group Recoveries") shall be held by the Security Agent on trust and, to the extent permitted by applicable law, be applied at any time as the Security Agent (in its discretion) sees fit towards discharging the claims of the relevant Creditors in the following order of priority:

- first, in or towards discharging any sums owing to and all expenses incurred by the Senior Agent (in respect of the Senior Agent Liabilities), the Security Agent (subject to certain exceptions), any receiver or any delegate, each Senior Secured Notes Trustee (in respect of any Senior Secured Notes Trustee Amounts) and each Pari Passu Creditor Representative (in respect of any Pari Passu Creditor Representative Liabilities) on a pari passu basis;
- second, in payment or distribution to:

  (i) the Senior Agent on its own behalf and on behalf of the senior arrangers and the Senior Lenders;

  (ii) each Senior Secured Notes Trustee on its own behalf and on behalf of the Senior Secured Note Creditors;

  (iii) each Pari Passu Creditor Representative on its own behalf and on behalf of the Pari Passu Creditors; and

  (iv) the Senior Hedge Counterparties,

  for application towards the discharge of:

  (A) the senior arranger liabilities and the Senior Lender Liabilities (in accordance with the terms of the Senior Finance Documents);

  (B) the Senior Secured Notes Liabilities (in accordance with the terms of the Senior Secured Notes Finance Documents);

  (C) the Pari Passu Debt (in accordance with the terms of the Pari Passu Debt Documents); and

  (D) the Senior Hedging Liabilities (on a pro rata basis between the Senior Hedging Liabilities of each Senior Hedge Counterparty),

  on a pro rata basis and ranking pari passu between paragraph (A) above, paragraph (B) above, paragraph (C) above and paragraph (D) above;
- third, in payment or distribution to the Junior Hedge Counterparties for application towards the discharge of the Junior Hedging Liabilities on a pro rata basis;
- fourth, in payment to the relevant Intra-Group Lenders for application towards the discharge to the Intra-Group Liabilities on a pro rata basis;
- fifth, if none of the Debtors is under any further actual or contingent liability under any Secured Debt Document and no Intra-Group Liabilities are outstanding, in payment to the Parent for application towards the discharge of the Parent Liabilities; and
- sixth, the balance, if any, in payment to the relevant Debtor.

Equalization of the Senior Secured Creditors

The Intercreditor Agreement provides that if, for any reason, any Senior Secured Liabilities remain unpaid after the enforcement date and the resulting losses are not borne by the Senior Secured Creditors in the proportions which their respective exposures at the enforcement date bore to the aggregate exposures of all the Senior Secured Creditors at the enforcement date, the Senior Secured Creditors (subject, in the case of the Senior Secured Notes Trustee, to the terms of the Intercreditor Agreement) will make such payments amongst themselves as the Security Agent shall require to put the Senior Secured Creditors in such a position that (after taking into account such payments) those losses are borne in those proportions.

Option to purchase: Senior Secured Note Creditors

A Senior Secured Note Creditor (a "Purchasing Senior Secured Notes Creditor") may, after a Distress Event, by giving not less than ten days' notice to the Security Agent, require the transfer to it (or to a nominee or nominees), in accordance with the Senior Credit Facility Agreement and subject to certain conditions, of all, but not part, of the rights, benefits and obligations in respect of the Senior Lender Liabilities, at a price equal to the aggregate of: (A) all of the Senior Lender Liabilities at that time (whether or not due), including all amounts that would have been payable under the Senior Credit Facility Agreement if the Senior Credit Facility were being prepaid by the relevant Debtors on the date of that payment; and (B) all costs and expenses (including legal fees) incurred by the Senior Agent and/or the Senior Lenders and/or the Security Agent as a consequence of giving effect to that transfer (a "Senior Lender Liabilities Transfer"). Subject to "—Senior Hedge Transfer: Senior Secured Note Creditors" below, the Purchasing Senior Secured Notes Creditor may only require a Senior Lender Liabilities Transfer if, at the same time, it requires a Hedge Transfer (as defined below) in accordance with "—Senior Hedge Transfer: Senior Secured Note Creditors" below and if, for any reason, a Hedge Transfer cannot be made in accordance with "—Senior Hedge Transfer: Senior Secured Note Creditors" below, no Senior Lender Liabilities Transfer may be required to be made.

Senior Hedge Transfer: Senior Secured Note Creditors

A Senior Secured Notes Trustee (on behalf of the relevant Senior Secured Note Creditors) may, by giving not less than ten days' notice to the Security Agent, require a transfer to the Senior Secured Note Creditors or the Pari Passu Creditors (or a nominee or nominees of the Senior Secured Note Creditors or the Pari Passu Creditors) of each Senior Hedging Agreement, together with all rights and benefits in respect of the Senior Hedging Liabilities owed by the Debtors to each Senior Hedge Counterparty and all the Senior Hedge Counterparty Obligations (defined as the obligations owed by any Senior Hedge Counterparty to the Debtors under or in connection with the Senior Hedging Agreements) owed by each Senior Hedge Counterparty to the Debtors (a "Senior Hedge Transfer"), subject to certain conditions, at a price equal to the aggregate of (A) the Senior Hedging Purchase Amount (as defined in the Intercreditor Agreement) in respect of the hedging transactions under the relevant Senior Hedging Agreement at that time and (B) all costs and expenses (including legal fees) incurred as a consequence of giving effect to that transfer. A Senior Secured Notes Trustee, in accordance with the Intercreditor Agreement, and any Senior Hedge Counterparty may agree (in respect of the Senior Hedging Agreements (or one or more of them) to which that Senior Hedge Counterparty is a party) that a Senior Hedge Transfer required pursuant to the Intercreditor Agreement above shall not apply to such Senior Hedging Agreement or to the Senior Hedging Liabilities and Senior Hedge Counterparty Obligations under such Senior Hedging Agreement.

Further Cooperation

The Secured Parties have agreed in the Intercreditor Agreement that Senior Secured Liabilities may be refinanced, replaced or increased or otherwise restructured in whole or in part on terms that do not breach the terms of the Intercreditor Agreement, the Senior Credit Facility Agreement and the Senior Secured Notes Finance Documents without the consent of any other Creditors and that:

(a) any obligations incurred by any Debtor or other member of the Group on such refinancing, restructuring or replacement of the Senior Lender Liabilities ("Refinanced Senior Lender Liabilities"), the Senior Secured Notes Liabilities ("Refinanced Senior Secured Notes Liabilities") or the Pari Passu Debt ("Refinanced Pari Passu Debt" and, together with any Refinanced Senior Lender Liabilities and Refinance Senior Secured Notes Liabilities, the "Refinanced Senior Secured Liabilities") will, to the extent so designated by the Company, rank pari passu with or second to the Senior Lender Liabilities, the Senior Secured Notes Liabilities and Pari Passu Debt and Senior Hedging Liabilities on, mutatis mutandis, the terms set out therein and in relation to any other liabilities will rank as provided in the Intercreditor Agreement; and

(b) subject to the Intercreditor Agreement, the Transaction Security Documents will secure such Refinanced Senior Secured Liabilities and it and any new security granted by any member of the Group in relation to such Refinanced Senior Secured Liabilities will rank pari passu with or second to the Senior Lender Liabilities, the Senior Secured Notes Liabilities, the Pari Passu Debt and the Senior Hedging Liabilities as provided for in the Intercreditor Agreement; and

(c) the Intercreditor Agreement will be construed to permit the assumption of any Refinanced Senior Secured Liabilities and to give effect to the ranking set out in paragraphs (a) and (b) above, and so that the Refinanced Senior Secured Liabilities will, except where expressly indicated otherwise in the Intercreditor Agreement, be treated as Senior Secured Liabilities for all purposes of the Intercreditor Agreement,

provided that:

(i) any trustee or representative of the creditors of such Refinanced Senior Secured Liabilities (a "Senior Refinancing Agent"), accedes to the Intercreditor Agreement in accordance with the Intercreditor Agreement on the same terms as a Senior Agent; and

(ii) each creditor in relation to such Refinanced Senior Secured Liabilities (that is not a Senior Refinancing Agent) accedes to the Intercreditor Agreement in accordance with the Intercreditor Agreement or is deemed to accede to the Intercreditor Agreement pursuant to the terms of its relevant finance documents, in each case on the same terms as a Senior Creditor.

Amendments and Waivers

Each Senior Secured Creditor shall be entitled to amend, restate, extend, supplement, modify or waive any term of their respective Debt Documents in accordance with the terms of such Debt Documents, provided that:

(i) the terms of the Secured Debt Documents may not be amended, waived or so designated as a Secured Debt Document so as to (i) conflict with the provisions of the Intercreditor Agreement, (ii) create a Default or Event of Default under a Senior Finance Document, a Senior Secured Notes Finance Document or a Pari Passu Debt Document with respect to any action or event or circumstance expressly permitted or required under the Intercreditor Agreement, or (iii) reduce or limit or adversely affect or prejudice the nature or scope of the Charged Property (as defined in the Intercreditor Agreement) or any guarantee under any Secured Debt Document or Security Document, the enforceability of the Transaction Security or the manner in which the proceeds of enforcement of the Transaction Security or of any guarantee under any Secured Debt Document or Security Document are distributed without the prior consent of the Senior Secured Creditors (or, in respect of the Senior Secured Noteholders, the relevant Senior Secured Notes Trustee); and

(ii) no Senior Lender may amend or waive the terms of any Senior Finance Document if such amendment or waiver would have the effect of changing, or relates to, the nature or scope of any guarantee or indemnity granted under the Senior Credit Facility Agreement; or relates to the release of any guarantee and indemnity granted under the Senior Credit Facility Agreement unless expressly envisaged by the original form of a Senior Finance Document or relating to a sale or disposal of an asset which is a Non-Distressed Disposal.

Subject to certain exceptions, the Intercreditor Agreement may be amended or waived only with the consent of the Senior Agent and the Majority Senior Lenders (as defined in the Senior Credit Facility Agreement), the relevant Senior Secured Notes Trustees, the Security Agent, the relevant Pari Passu Creditor Representative(s), the Parent and the Company, provided that any such amendment or waiver concerning certain provisions under the Intercreditor Agreement for redistribution, application of proceeds, waivers and consents, instructions to the Security Agent, the definition of "Instructing Group" or any order of priorities or subordination shall require the consent of all Agents, the Senior Lenders, the Senior Secured Notes Trustee, the Pari Passu Creditor, the Security Agent and each Hedge Counterparty.

Snooze/Lose

Subject to certain exceptions, if in relation to:

(i) a request for a consent in relation to any of the terms of the Intercreditor Agreement;

(ii) a request to participate in any other vote of Senior Secured Creditors, Senior Creditors or Senior Secured Note Creditors or Pari Passu Creditors under the terms of the Intercreditor Agreement;

(iii) a request to approve any other action under the Intercreditor Agreement; or

(iv) a request to provide any confirmation or notification under the Intercreditor Agreement,

any Senior Secured Creditor:

(A) fails to respond to that request within 30 Business Days of that request being made by the relevant Agents of the Senior Secured Creditors in a properly documented form; or

(B) (in the case of paragraphs (i) to (iii) above), fails to provide details of its Senior Secured Credit Participation to the Security Agent within the timescale specified by the Security Agent:

(1) in the case of paragraphs (i) to (iii) above, that Senior Secured Creditor's Senior Secured Credit Participation will be deemed to be zero for the purpose of calculating the Senior Secured Credit Participations when ascertaining whether any relevant percentage (including, for the avoidance of doubt, unanimity) of Senior Credit Participations has been obtained to give that consent, carry that vote or approve that action;

(2) in the case of paragraphs (i) to (iii) above, that Senior Secured Creditor's status as a Senior Secured Creditor will be disregarded for the purposes of ascertaining whether the agreement of any specified group of Senior Secured Creditors has been obtained to give that consent, carry that vote or approve that action; and

(3) in the case of paragraph (iv) above, that confirmation or notification will be deemed to have been given.

Glossary

Unless otherwise indicated or where the context otherwise requires, references to:

"*brown coal*" are to lignite, or a coal with a higher water content and lower calorific value than hard coal, which is mined by MIBRAG and is the type of fuel used to power our CHP plants (other than those operated by PT);

"*Calorific value*" are to a measure of heating power or energy content;

"*Cogeneration*" are to the process by which CHP plants produce both power and heat;

"*Collateral*" are to the rights, property and assets securing the Notes and the Note Guarantees and any rights, property or assets over which a lien has been granted to secure the obligations of the Company and the Guarantors under the Notes, the Note Guarantees and the Indenture;

"*Combined Heat and Power plants*" or "*CHP plants*" are to plants that capture some or all of the heat generated during the power generation process and convert it into thermal energy, usually in the form of hot water or steam;

"*Common Security Agent*" are to UniCredit Bank AG, London Branch, as security agent under the Security Documents and the Intercreditor Agreement, or any successor or replacement security agent acting in such capacity;

"*District heating*" are to the supply of buildings and homes with heat (by using hot water or steam as a carrier) within a heat transmission network of pipes from a central heat source;

"*EEA*" are to the European Economic Area;

"*EEX*" are to the European Energy Exchange;

"*EIA*" are to Environmental Impact Assessment;

"*EOP*" are to Elektrárny Opatovice, a.s.;

"EP Energy," "EPE," "EPE Group," "Group," "we," "us" and *"our"* are to EP Energy, a.s. and its direct and indirect subsidiaries, unless otherwise indicated or where the context otherwise requires;

"*EPET*" are to EP ENERGY TRADING, a.s. (formerly known as United Energy Trading, a.s.);

"*ERO*" are to the Czech Energy Regulatory Office;

"*EU*" are to the European Union;

"*EU ETS*" are to the European Trading System for CO2 emission allowances;

"*EPH"* or *"EP Holding*" are to Energetický a pru° myslový holding, a.s.;

"*Euroclear*" are to Euroclear Bank SA/NV;

"*Eurozone"* are to the 17 EU Member States that have adopted and retained the euro as their common currency and sole legal tender;

"*GAAP*" are to generally accepted accounting principles;

"*GDP*" are to Gross Domestic Product;

"GJ" are to gigajoules, a measure of heat equal to 10^9 joules (3.6 GJ = 1 MWh);

"*GWh*" are to gigawatt hours, a measurement of electricity volume equal to one billion watt hours;

"*Guarantors*" are to Plzeňská Energetika, a.s., United Energy, a.s., EP ENERGY TRADING, a.s. , Elektrárny Opatovice, a.s., Czech Energy Holdings, a.s., P-T Holdings Investment B.V, Honor Invest, a.s., NPTH, a.s., EAST BOHEMIA ENERGY HOLDING LIMITED, JTSD Braunkohlebergbau GmbH, LIGNITE INVESTMENTS 1 LIMITED, HC Fin3 N.V.

"*IFRS*" means the International Financial Reporting Standards promulgated by the International Accounting Standards Board or any successor board or agency as endorsed by the European Union;

"*IMF*" are to the International Monetary Fund;

"Indenture" are to the indenture dated October 31, 2012 among the Company, certain subsidiaries of the Company as guarantors and the Notes Trustee, pursuant to which the Notes were issued;

"*Intercreditor Agreement*" are to the intercreditor agreement dated as of November 29, 2012, between, among others, the Company, the Guarantors, the Common Security Agent, the Notes Trustee, the agent under the Senior Credit Facility and the other parties named therein, as amended, restated or otherwise modified or varied from time to time;

"*Company*" are to EP Energy, a.s., incorporated as a joint-stock company under the laws of the Czech Republic;

"*J&T Group*" are to J&T Finance Group a.s. and its subsidiaries;

"*Kt*" are to kiloton, a measure of volume of brown coal equal to one thousand metric tons;

"*Member States*" are to the countries that are members of the EU;

"*Merit order*" are to a system of ranking different sources of power generation, in ascending order of their short-run marginal costs of production, so that those with the lowest marginal costs are the first sources of power generation to be brought online to meet demand for power, and the sources with the highest marginal costs are the last to be brought online;

"*MIBRAG*" are to Mitteldeutsche Braunkohlengesellschaft mbH;

"*MIBRAG Group*" are to MIBRAG, MIBRAG Consulting International GmbH, GALA-MIBRAG-Service GmbH, Bohr & Brunnenbau GmbH Stedten (which is not a part of the consolidated EPE Group), Mitteldeutsche Umwelt- und Entsorgung GmbH, Fernwärme GmbH Hohenmölsen—Webau, Ingenieurbüro für Grundwasser GmbH and MIBRAG Neue Energie GmbH;

"*Mining Authority*" are to the relevant state governmental mining authority in Germany;

"*MJ*" are to megajoules, a measure of energy equal to one million joules;

"*MWe*" or "*MW*" are to megawatt electrical, a measure of installed power capacity;

"*MWh*" are to megawatt hours, a measure of power volume equal to one million watts hours;

"*MWt*" or "*MWth*" are to megawatt thermal, a measure of thermal power capacity equal to one million thermal watts;

"*Mt*" are to million tons, a measure of brown coal volume equal to one million metric tons;

"Notes" are to the €500,000,000 aggregate principal amount of 5.875% senior secured notes due 2019 issued under the Indenture;

"*Note Guarantees*" are to the senior secured guarantees of the Notes provided by all the Guarantors pursuant to the Indenture;

"Notes Trustee" are to Citibank, N.A., London Branch in its capacity as trustee under the Indenture;

"*On boilers*" are to maximum installed thermal capacity;

"*Open-pit mining*" are to method of extracting coal from the earth by its removal from an open pit as opposed to extracting coal from underground mines;

"*Overburden*" are to the excess geological material that lies above a coal seam, and which needs to be removed in order to mine coal;

"*PE*" are to Plzenšká energetika a.s;

"*PEAS*" are to První energetická a.s., which merged with EPET on January 1, 2013;

"Process steam" are to high pressure steam;

"*PJ*" are to petajoules, a measure of heat equal to 10^{15} joules (3.6 PJ = 1 TWh);

"*PT*" are to Prašzká teplárenská a.s.;

"*PXE*" are to the Power Exchange Central Europe, a.s.;

"*Saale Energie*" are to Saale Energie GmbH;

"*SEC*" are to the United States Securities and Exchange Commission;

"*Security Documents*" are to the agreements creating security interests over the Collateral;

"Senior Credit Facility" are to the term loans and revolving facilities under the Senior Credit Facility Agreement;

"*Senior Credit Facility Agreement*" are to the agreement entered into on October 18, 2012 among the Company, the Guarantors and lenders and the other parties named therein, governing the Senior Credit Facility, as amended from time to time;

"*Stripping Ratio*" are to the ratio of volume of overburden required to be handled in order to extract a volume of coal;

"*Ton*," "*ton*," "*T*" or "*t*" are to metric ton, a measure of volume of brown coal;

"*TJ*" are to terajoules, a measure of heat equal to 10^{12} joules (3.6 TJ = 1 GWh);

"*TWh*" are to terawatt hour, a measure of power volume equal to 10^{12} watt hours;

"*UE*" are to United Energy, a.s.;

"*U.S. Exchange Act*" are to the U.S. Securities Exchange Act of 1934, as amended;

"*U.S. Securities Act*" are to the U.S. Securities Act of 1933, as amended; and

"*VTEs*" are to wind parks.