

# Report on the first quarter of the year 2017 for EP Energy, a.s.

- ✓ Consolidated sales reached EUR 543 million
- ✓ Consolidated EBITDA totaled EUR 141 million
- ✓ Consolidated pro forma adjusted EBITDA for last twelve months amounted to EUR 310 million
- ✓ Indicative Net Consolidated Leverage Ratio amounted to 1.9x



EP Energy, a.s. ("group" or "Group" or "EPE" or "EPE Group") is a vertically integrated energy utility that include 58<sup>1</sup> companies. In 2017 the Group was the leading heat supplier in the Czech Republic, one of major power generators in the Czech Republic and the second largest electricity distributor in Slovakia. The Group benefits from relatively low exposure to market developments, as a significant majority of EBITDA is generated by regulated assets or assets with long term off take contracts. The Group's key operations are located in the Czech Republic, Slovak Republic and Hungary.

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<sup>1</sup> Number as at date of the report

## KEY FIGURES AT A GLANCE

### Consolidated financial results in EUR millions

	1-3 2016	1-3 2017
Sales	555	543
EBITDA <sup>1</sup>	122	141
Pro forma Adjusted EBITDA (last twelve months) <sup>2</sup>		310
Total net debt per financial statements <sup>3</sup>		630
Indicative EP Energy Net Consolidated Leverage Ratio <sup>4</sup>		1.9x
Profit from operations	82	106
Profit before tax	71	93
Net profit /(loss) attrib. to EP Energy owners	39	49
Total assets		2,630
CAPEX <sup>5</sup>	14	8

### Operating highlights (EPE excluding SSE)<sup>6</sup>

	1-3 2016	1-3 2017
Installed <i>cogeneration</i> Capacity..... MW <sub>e</sub>	896	894
Installed <i>condensation</i> Capacity .... MW <sub>e</sub>	360	360
Installed heat capacity <sup>7</sup> ..... MW <sub>th</sub>	3,856	3,276
Heat supplied ..... TJ <sup>8</sup>	9,867	9,837
Power produced..... GWh	1,032	1,558
Power traded <sup>9</sup> ..... GWh	4,337	4,610
Power supplied <sup>9</sup> ..... GWh	599	532
Natural gas supplied <sup>9</sup> ..... GWh	696	848

### Operating highlights SSE<sup>6,9</sup>

	1-3 2016	1-3 2017
Power distributed ..... GWh	1,635	1,742
Power traded ..... GWh	1,949	1,689
Power supplied ..... GWh	1,108	1,105
Natural gas supplied ..... GWh	118	150
Power produced ..... GWh	4	4
Installed capacity ..... MW <sub>e</sub>	63	63

(1) EBITDA represents profit from operations plus depreciation of property, plant and equipment and amortization of intangible assets minus negative goodwill (if applicable). The EBITDA included in this report does not represent the term EBITDA as may be defined by any documentation for any financial liabilities of the EP Energy Group (also "EPE Group"). For further discussion over the EPE Group performance refer to the following pages.

(2) Pro forma Adjusted EBITDA (last twelve months) calculation in EUR millions:

	4/2016 – 3/2017
Actual IFRS EBITDA for the period January – March 2017	141
Actual IFRS EBITDA for the period January – December 2016	293
Actual IFRS EBITDA for the period January – March 2016	(122)
<b>Simple EBITDA (last twelve months)</b>	<b>312</b>
Disposal of LPZ Pro Forma adjustment	(2)
<b>Pro forma Adjusted EBITDA (last twelve months)</b>	<b>310</b>

\*Amounts might not sum up due to rounding

To derive Pro forma Adjusted EBITDA for the period from April 1, 2016 to March 31, 2017, EPE utilized EPE Group IFRS consolidated financial statements as of and for the year ended December 31, 2016 (EBITDA of EUR 293 million) and EPE Group IFRS condensed consolidated interim financial statements as of and for the three-month period ended March 31, 2017 (EBITDA of EUR 141 million) with the three-month period ended March 31, 2016 (EBITDA of EUR 122 million) as comparatives.

Pro forma Adjusted EBITDA represents pro forma profit from operations plus pro forma depreciation of property, plant and equipment and pro forma amortization of intangible assets minus pro forma negative goodwill (if applicable) further adjusted to reflect a disposal of Pražská teplárenská LPZ, a.s. ("LPZ") on June 1, 2016. Adjusting the EBITDA for LPZ result related to period April 1, 2016 to May 31, 2016 (EUR 2 million).

The Pro forma Adjusted EBITDA included in this report does not represent the term EBITDA as may be defined by any documentation for any financial liabilities of the EP Energy Group. For further discussion over the EPE Group performance refer to the following pages.

(3) Total net debt balance is based on the consolidated financial statements (Total Loans and borrowings plus Total Financial instruments and financial liabilities less Cash and cash equivalents), but excludes the liabilities (representing a prepayment for a dividend) towards an affiliate Pražská teplárenská Holding a.s. (also "PTH") of EUR 14 million (December 31, 2016: EUR 14 million). The Total net debt included in this report does not represent the term Indebtedness as may be defined by any documentation for any financial liabilities of the EPE Group.

**Net Debt calculation (in million EUR):**

		31.3.2017
Loans and borrowings (non-current)	<i>add</i>	1,130
Financial instruments and financial liabilities (non-current)	<i>add</i>	9
Loans and borrowings (current)	<i>add</i>	33
Financial instruments and financial liabilities (current)	<i>add</i>	2
PTH liability	<i>less</i>	14
Cash and cash equivalents	<i>less</i>	530
<b>Net Debt</b>		<b>630</b>

(4) We include in this report the calculation as of March 31, 2017 of our "Indicative Net Consolidated Leverage Ratio", as defined in the EP Energy Indentures. The calculation of our Net Consolidated Leverage Ratio differs from any leverage ratio included in the offering memoranda for the senior secured notes or otherwise included herein, and consistent with the definition, is made on the basis of certain good faith judgments made by us.

(5) Excluding emission allowances and disregarding actual cash flows.

(6) The operating data is based on the results of the respective entities on a 100% basis for the full period, regardless of the date when each entity joined the EPE Group or the ownership share of the EPE Group in each entity, however the data excludes SSE which is presented separately. Furthermore, the operating data do not include results of the German assets that are presented within discontinued operations. Specifically, the three-month period ended March 31, 2016 includes operations of Pražská teplotárenská LPZ, a.s. ("LPZ") for three months totaling EUR 5 million, while period ended March 31, 2017 does not include operations of LPZ as it was disposed on June 1, 2016.

(7) Installed heat capacity on heat exchangers.

(8) 1 TJ = 0.2778 GWh.

(9) Figures relate to the Power Distribution and Supply segment only.

Difference between consolidation scope for 1Q 2016 and 1Q 2017 is described later in section: "Key factors affecting comparability of the results of operations of the EPE Group".

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**Attachments:**

EP Energy, a.s. - Unaudited condensed consolidated interim financial statements as of and for the three-month period ended March 31, 2017 are presented in a separate file as an attachment to this report

>> *We remain focused on solid business performance, exploiting group synergies and financial performance of the Group*<<

Dear investors, customers and partners,

Our **first quarter 2017 IFRS EBITDA reached EUR 141 million**, which is EUR 19 million, or 16%, higher compared to the corresponding period of the last year. The Pro forma Adjusted EBITDA for the last twelve-month period ended March 31, 2017, reflecting full consolidation of SSE reached EUR 310 million compared to EUR 286<sup>2</sup> million for the fiscal year ended December 31, 2016.

The **Heat Infra** segment's results, with EBITDA of EUR 76 million - up by EUR 3 million period-on-period-remain solid. Results of the segment were positively influenced by colder weather pattern triggering higher heat offtake, which almost fully balanced out low-margin heat deliveries lost due to disposal of LPZ in June 2016. LPZ comprised of several non-strategic assets including a set of smaller scale local heat sources and related distribution network islands located predominantly on the left bank of Vltava river in Prague. Results of the segment were also positively influenced by EUR 6 million profit on disposal of non-core assets such as land plots and not-utilized real estate.

The results achieved by the **Power Distribution and Supply** segment, with EBITDA of EUR 64 million - up by EUR 15 million year-on-year- were positively affected by accounting for compensation of losses reported by the SSE Group as a result of subsidies paid to green energy producers based on a regulated tariff, which are compensated to the SSE Group with a delay. On the other hand, the segment was impacted by negative margin realised on power supply portfolio caused primarily by spiking power and gas spot prices and low liquidity of Slovak power market, esp. in peak hours in January and partially in February 2017 during extremely cold weather conditions in conjunction with problems of a considerable part of French nuclear fleet.

The **Renewables segment** is significantly smaller compared to the previous two segments in terms of installed capacity and, consequently, resulting economic performance. However, it remains an important part of our diversified portfolio.

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 continue creating the shareholder value while keeping our low risk-profile.

Yours faithfully



Tomáš David

*Chairman of the Board and CEO*

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<sup>2</sup> Includes adjustment reflecting the disposal of LPZ totalling EUR 7 million

## Economy and Market developments

### Economy development:

According to the preliminary estimates of the Czech Statistical Office, the Czech gross domestic product adjusted for price, seasonal, and calendar effects increased by 2.9%, year-on-year, in the first quarter 2017 and rose by 1.3% in the first quarter 2017 compared to the previous quarter. The development was attributable primarily to external demand supported by growing consumption of households. According to the preliminary estimate, performance of most of industries of the Czech economy was growing, i.e. not only that of manufacturing, but also performance of majority of economic activities (industries) of services.

According to preliminary estimates of the Slovak Statistical Office, the Slovak gross domestic product adjusted for price, seasonal, and calendar effects rose by 3.1%, year-on-year, in the first quarter 2017 and increased by 0.8% in the first quarter 2017 compared to the previous quarter.

According to preliminary estimates of the Hungarian Central Statistical Office, the Hungarian gross domestic product adjusted for price, seasonal, and calendar effects rose by 3.7%, year-on-year, in the first quarter 2017 and increased by 1.3% in the first quarter 2017 compared to the previous quarter.

The outlook for the economy development remains rather positive - according to the Czech National Bank<sup>3</sup>, the Czech GDP should increase by 2.9% in 2017 and the International Monetary Fund (also "IMF") expects<sup>4</sup> the Slovak GDP by 3.3% and Hungarian GDP should increase by 2.9% in 2017.

### Weather:

Heat and renewable segment performance and electricity production in cogeneration mode are correlated to weather development. Seasonality is natural in the group performance (e.g. heat sales are strongest in 1Q and 4Q, accompanied by higher power production in cogeneration mode).

From the heating business perspective, the first quarter of the year 2017 was colder than the comparative period that, however, was unusually warm. Day-degrees, the metrics representing space heating needs during the given period<sup>5</sup>, were in the areas in the Czech Republic and Hungary where we deliver the heat year-to-year 5.9% higher, which translated into higher heat consumption.

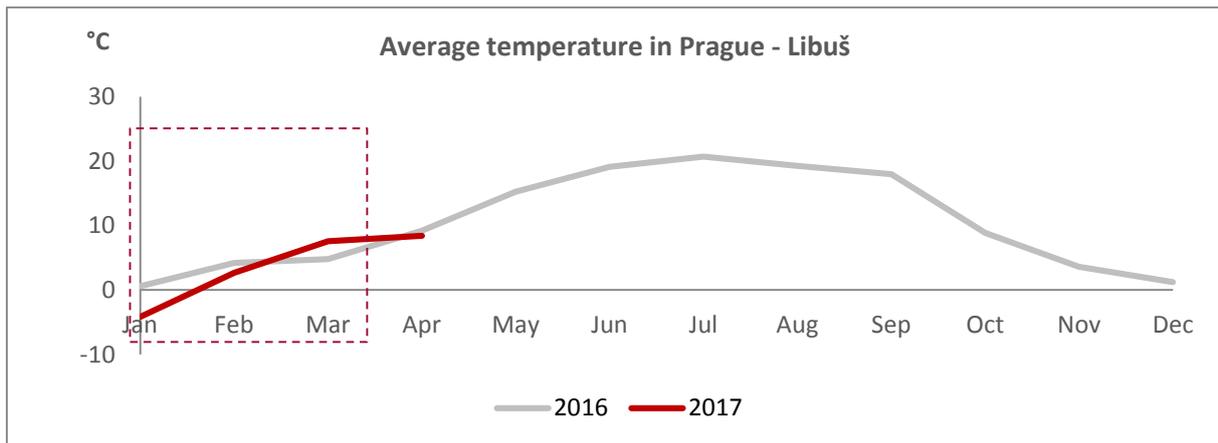
For illustration, in Prague, where we deliver heat through our subsidiary PT, average temperature in the first quarter 2017 was at 2.0 °C, which is lower than 3.2 °C in the first quarter 2016.

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<sup>3</sup> the most recent forecast published on May 4, 2017

<sup>4</sup> the most recent forecast published on April 4, 2017

<sup>5</sup> Day-degrees measure integrates the difference between reference indoor temperature and outdoor temperature over the given period of time. A higher value indicates that the temperature in the given period was below the reference temperature for a longer period of time. Day-degrees relate to all areas where we deliver heat



Source: ČHMU Prague (Czech Hydrometeorological Institute) - monthly average temperature calculated from daily averages

### Heat market:

Our heat business is concentrated in the Czech Republic and in Hungary, where the market remains solid and stable. The market is regionally diversified with local natural “monopolies”, as the infrastructure for heat transportation creates substantial barriers to entry. The fuel basis varies, although the most commonly used ones in the Czech Republic are brown coal, hard coal and natural gas.

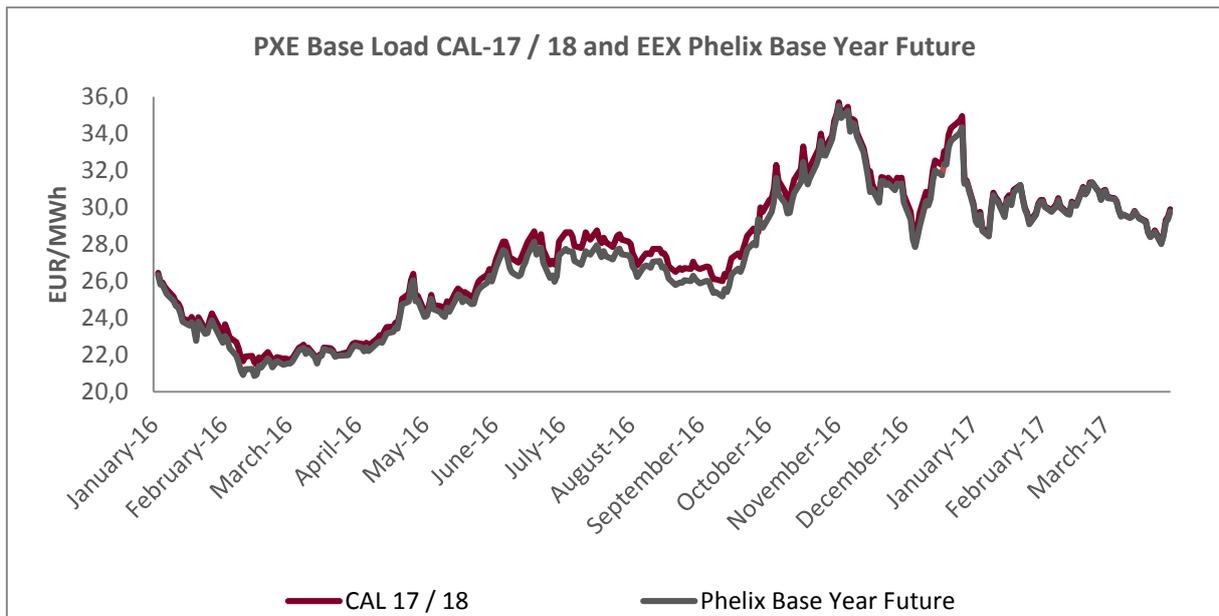
Due to our favourable cost structure (given predominantly by the fact that we produce heat in an efficient cogeneration mode and based primarily on brown coal, the most cost efficient source of primary energy), we are able to offer our customers highly competitive prices.

Heat prices in the Czech Republic are based on a “costs plus reasonable profit” mechanism, required by the legislation and regulation by the independent Energy Regulatory Office (“ERO”), which we comply with. This mechanism supports the stability of the heat segment for market participants and allows us to benefit from our favourable cost position. Given the low price levels we charge compared to market average, we are allowed to set prices (i.e. there is no tariff imposed to us) and we are only monitored by the ERO. Hungarian operations are regulated using the standard Regulated Asset Base (“RAB”) multiplied by WACC plus eligible operating expenditures and allowed depreciation formula.

### Electricity and CO2 market:

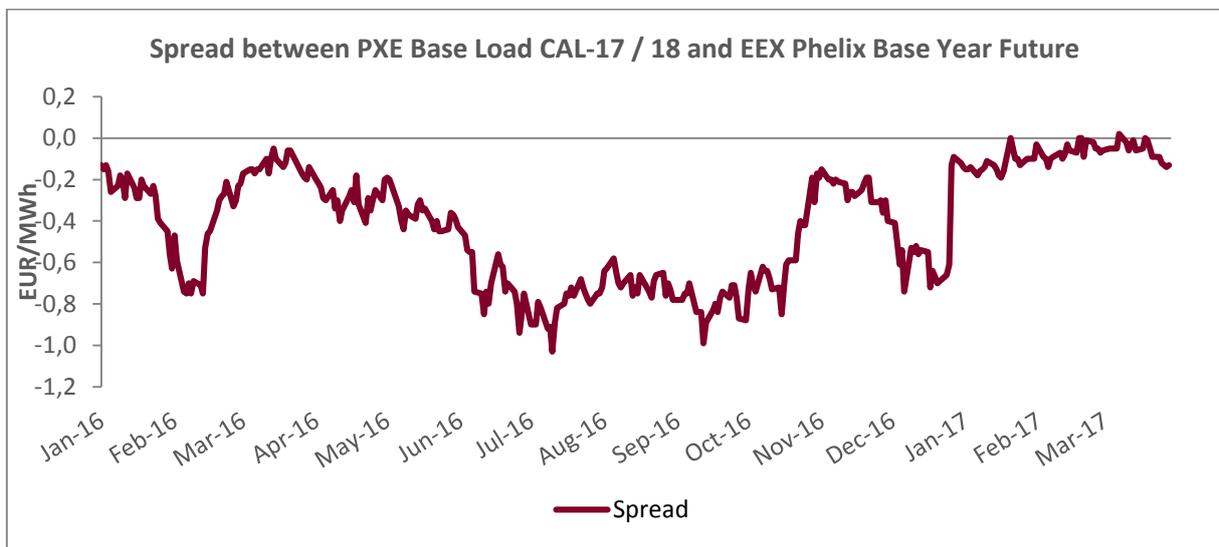
During the entire year 2016 power and EU Allowance (“EUA”) prices remained under pressure due to low prices of hard coal driven by volume of Chinese imports and increasing subsidised renewable energy production, while power demand is rather stagnating. Recent positive development in power prices is attributable to temporary extensive closure of French nuclear reactors over safety and routine maintenance. In the first quarter 2017 the 1-year forward electricity prices on the European Energy Exchange (also “EEX”) increased in base load to EUR 29.9 per MWh (compared to EUR 22.6 per MWh year ago) and peak load increased to EUR 37.9 per MWh (compared to EUR 28.9 per MWh year ago), representing an increase for the base load and peak load prices of 32.0% and 30.9% respectively.<sup>6</sup>

<sup>6</sup> Source: Thomson Reuters: EEX Base Year Future and Peak Year Future (simple average of the daily price for 1 year forward prices calculated for the respective year)



EUA with spot delivery was traded at average around EUR 5.2 per ton in the first quarter 2017<sup>7</sup>, which represents decrease of the y-t-y prices by 8.2%.

As for the Czech market, the power prices follow the German market, as the two markets are physically well interconnected. The spread between German and Czech power prices was oscillating between negative 1.0 and 0.0 EUR/MWh during 2016 and the first quarter 2017 reaching some positive values at the end of the period. Negative spread (i.e. relative drop in German power prices compared to Czech power price), which can be observed recently after years of rather positive spread, is a consequence of intensified production in German offshore wind farms. The low spreads encourage cross border trading and, vice versa, the liquidity of the Czech market increases.

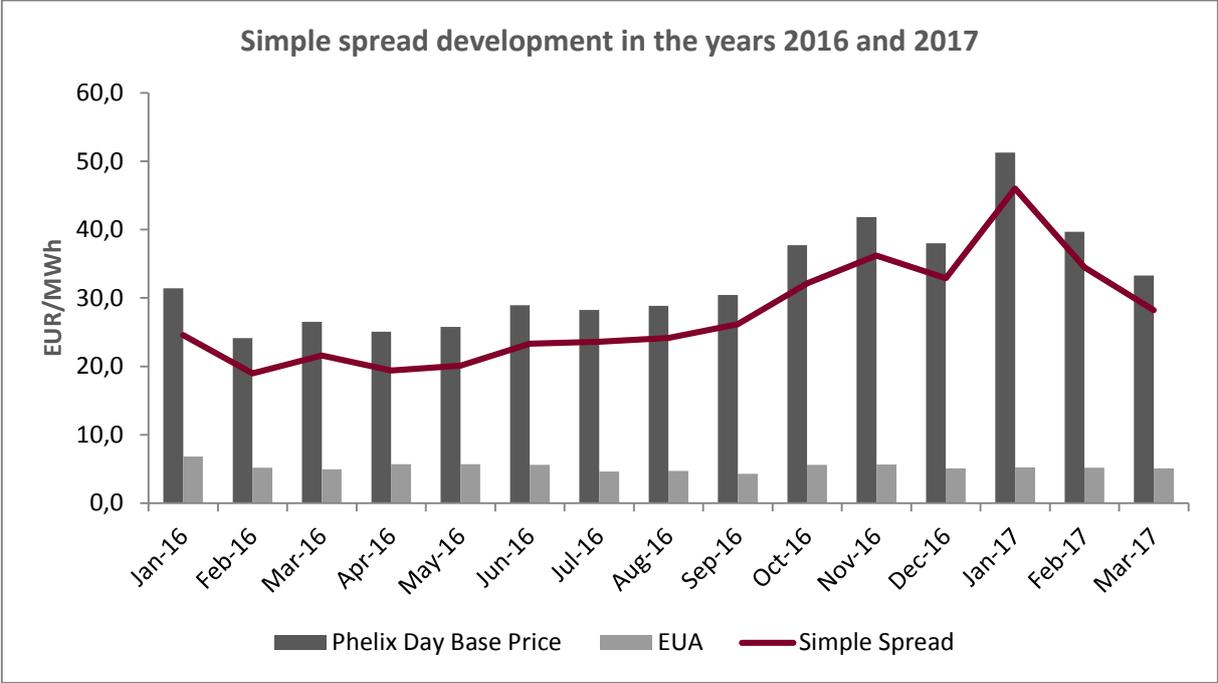


Source: PXE Base Load CAL17 and CAL18; EEX Phelix Base Year Future

<sup>7</sup>Source: Thomson Reuters: EEX-EUSP3-SPOT, simple average

On the Czech market, electricity production from cogenerating units benefits from regulatory support. The CZK 200<sup>8</sup> is received as subsidy for each MWh produced in highly efficient cogeneration mode. This subsidy accounted for EUR 2 million in the first quarter 2017 and in the first quarter 2016.

Besides relatively low share of power production on EBITDA and cash flow generation of the EPE Group, let us note that from the performance perspective, EPE is exposed to the spread between the power price and the price of emission allowance rather than to development of power prices alone.



Source: Thomson Reuters, EEX Simple Spread defined as the difference between Phelix Day Base and EUA price, using trading day data when both power and EUA are traded and simple monthly averages

Note: simple spread represents the price difference between power price and EUA price

<sup>8</sup>Beginning on January 1, 2014 the subsidy was divided into four levels (CZK 200/MWh, CZK 140/MWh, CZK 60/MWh and CZK 45/MWh), depending on the efficiency of the cogeneration production of the plant. The majority of our power produced in cogeneration mode continues to receive the CZK 200/MWh level of subsidy.

## Key developments in the first quarter of 2017

### i) Repayment of EP Energy Group's loans, other financing matters and dividends

On January 20, 2017 EP Energy a.s. paid interim dividend of EUR 10 million (equivalent CZK 270 million).

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

On March 10, 2017 EP Energy a.s. paid interim dividend of EUR 10 million (equivalent CZK 270 million).

### ii) Other matters

On February 24, 2017 the transaction with Macquarie Infrastructure and Real Assets (MIRA) was closed. As a result, MIRA gained 31% in EP Infrastructure, a.s. (EPIF), the parent company of EP Energy, a.s. The remaining 69% of EPIF remained with EPH, which also retained management control over EPIF. The MIRA-managed consortium is led by Macquarie European Infrastructure Fund 5 and includes other global institutional investors.

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

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

<b>Ultimate Shareholders of the EP Energy</b>	<b>As of date of the report</b>
	(%)
EP Investment S.à r.l	36.57
EP Investment S.à r.l 2	32.43
Mira Co.	31.00
<b>Total</b>	<b>100.00</b>

On March 9, 2017 Mr. Daniel Křetínský resigned as the Chairman of the Board of Directors of EP Energy, a.s. and Mr. Tomáš David was elected as the new Chairman of the Board of Directors. On March 10, 2017 Mr. Daniel Křetínský was removed from office of member of the Board of Directors and with effect from March 11, 2017 Mr. William Price was elected as the new member of the Board of Directors.

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

## **Subsequent events**

On April 6, 2017, the Czech National Bank ceased the foreign exchange intervention. The market now expects that the Czech Crown will be appreciating against Euro in the near future.

On May 16, 2017, the Company provided loan of EUR 50 million to EP Infrastructure, a.s., its sole shareholder. On May 18, 2017 the sole shareholder, EP Infrastructure, a.s., confirmed previously paid interim dividends of EUR 20 million. Also, on that date, the sole shareholder of the Company declared dividend of EUR 50 million, which was set off with the outstanding loan and accrued interest.

On May 22, 2017, the Company provided a loan of EUR 8 million to EP Infrastructure, a.s., its sole shareholder.

Except for the matters described above and elsewhere in the Report on the first quarter of the year 2017 for EP Energy, a.s. or in the condensed consolidated interim financial statements as of March 31, 2017, the Company's management is not aware of any other material subsequent events that could have a significant effect on the condensed consolidated interim financial statements as of March 31, 2017.

## EP Energy, a.s. (the “Company”) Report on the first quarter of 2017

### Reporting

This report (the “Report”) is the report required under Section 4.03 of the indenture governing the senior secured notes (the “Notes I” or “2019 Notes”), dated as of October 31, 2012 (the “Indenture I” or “2019 Indenture”) and Section 4.03 of the indenture governing the senior secured notes (the “Notes II” or “2018 Notes”) dated as of April 18, 2013 (the “Indenture II” or “2018 Indenture”) for the three-month period ended March 31, 2017.

### Presentation of financial information

This Report summarizes consolidated financial and operating data derived from the unaudited condensed consolidated interim financial statements of EP Energy, a.s. as of and for the three-month period ended March 31, 2017 prepared in accordance with IFRS as adopted by the European Union (“IFRS”).

### Non-IFRS measures

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

### Definitions of EBITDA, Pro forma Adjusted EBITDA

EBITDA represents profit from operations plus depreciation of property, plant and equipment and amortization of intangible assets minus negative goodwill (if applicable). The EBITDA included in this report does not represent the term EBITDA as may be defined by any documentation for any financial liabilities of the EP Energy Group (also “EPE Group”). For further discussion over the EPE Group performance refer to the following pages.

Pro forma Adjusted EBITDA represents pro forma profit from operations plus pro forma depreciation of property, plant and equipment and pro forma amortization of intangible assets minus pro forma negative goodwill (if applicable).

To derive Pro forma Adjusted EBITDA for the period from April 1, 2016 to March 31, 2017, EPE utilized EPE Group IFRS consolidated financial statements as of and for the year ended December 31, 2016 (EBITDA of EUR 293 million) and EPE Group IFRS condensed consolidated interim financial statements as of and for the three-month period ended March 31, 2017 (EBITDA of EUR 141 million) with the three-month period ended March 31, 2016 (EBITDA of EUR 122 million) as comparatives. Further adjusted to reflect a disposal of Pražská teplárenská LPZ, a.s. (“LPZ”) on June 1, 2016. Adjusting the EBITDA for LPZ result related to period April 1, 2016 to May 31, 2016 (EUR 2 million)

Pro forma Adjusted EBITDA (last twelve months) calculation in EUR millions:

	4/2016 – 3/2017
Actual IFRS EBITDA for the period January – March 2017	141
Actual IFRS EBITDA for the period January – December 2016	293
Actual IFRS EBITDA for the period January – September 2015 (restated)	(122)
<b>Simple EBITDA (last twelve months)</b>	<b>312</b>
Disposal of LPZ Pro Forma adjustment	(2)
<b>Pro forma Adjusted EBITDA (last twelve months)</b>	<b>310</b>

\*Amounts might not sum up due to rounding

The Pro forma Adjusted EBITDA included in this report does not represent the term EBITDA as may be defined by any documentation for any financial liabilities of the EP Energy Group. For further discussion over the EPE Group performance refer to the following pages.

After the listing of the Notes on the Irish Stock Exchange, the EPE Group has begun to report segment information in accordance with IFRS 8 Segment Reporting (starting with the 2012 annual consolidated financial statements). Since we did not previously report segment information using IFRS 8 rules, it may be difficult to compare our segment data with our “line of business” data previously reported elsewhere.

We present EBITDA, Pro forma Adjusted EBITDA and other certain financial measures and ratios 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 and Pro forma Adjusted EBITDA to assess our performance. EBITDA and Pro forma Adjusted EBITDA are not measures calculated in accordance with IFRS and our use of the terms EBITDA and Pro forma Adjusted EBITDA may vary from others in our industry. EBITDA and Pro forma Adjusted EBITDA differ from Consolidated EBITDA and Adjusted EBITDA as may be defined in the Indenture. EBITDA and Pro forma Adjusted 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 Adjusted EBITDA and other certain financial measures and ratios 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 Power Distribution and Supply segment due to the implementation of our power optimization strategy in this segment.

EBITDA, Pro forma Adjusted 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 also note that differences in the consolidation scope as described in part of this Report “Key factors affecting comparability of the results of operations of the EPE group” are impacting the comparability of the financial data.

#### **Exchange rates**

For your convenience, we have translated Czech crown amounts in this Report into euro. The exchange rates for the income statement and cash flow statement items are the following average exchange rates of the Czech National Bank in Czech crown per euro for the relevant period.

- Three-month period ended March 31, 2016: CZK 27.039 per EUR 1.000
- Three-month period ended March 31, 2017: CZK 27.020 per EUR 1.000

The exchange rates for balance sheet items are the rates as of period end.

- As of December 31, 2016: CZK 27.020 per EUR 1.000
- As of March 31, 2017: CZK 27.030 per EUR 1.000

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.

## **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.

## **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 was originally formed with acquisitions of ownership interests in Pražská energetika (“PRE”) in 2004 and in UE in 2005 by J&T Group, which is one of beneficial owners of EPH (our ultimate parent company). EPH was formed in 2009 and the ownership interests in PE, EOP, UE, EPET and PEAS were transferred to it by J&T Group. We were formed on December 16, 2010, but we have restated financial statements from August 2009, based on the results of our subsidiaries that were owned by EPH during that period. Before our formation, many of our current subsidiaries were subsidiaries of 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. The acquisition of various subsidiaries or additional interests in such subsidiaries and the disposition of certain subsidiaries mean 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.

Specifically, during 2016 activities and assets held by EP Infrastructure, a.s. – “EPIF” were reorganized in order to refocus on regulated and/or long-term contracted infrastructure-type assets. The reorganization also included the following matters relating to the EPE Group and affecting comparative period:

### ***German assets sale***

German assets include, among others, MIBRAG and Saale Energie (“German assets”). MIBRAG is a wholly-owned subsidiary of JTSD, Saale Energie is a wholly-owned subsidiary of EP Germany; both EP Germany and JTSD were wholly-owned subsidiaries of EPE (where EP Germany has been since December 31, 2015 directly owned by JTSD as a result of the sale of all EP Germany shares by EPE to JTSD for EUR 4.3 million, corresponding to fair value of equity of EP Germany).

The German assets were disposed of by means of sale of 100% shares in JTSD by EPE to EPH for EUR 156.0 million (corresponding to fair value of equity of JTSD); the disposal was completed on April 1, 2016 and the purchase price was fully settled in cash. Further details on German assets sale and EPIF reorganization can be found in Report on the year ended December 31, 2016 for EP Energy, a.s.

The following table sets out how the main subsidiaries are included in the respective periods in our condensed consolidated interim financial statements:

Periods presented in the EPE Group's consolidated IFRS financial statement		
<b>Subsidiary</b>	<b>1-3 2016</b>	<b>1-3 2017</b>
Elektrárna Opatovice, a.s.	Fully consolidated	Fully consolidated
United Energy, a.s.	Fully consolidated	Fully consolidated
Pražská teplárenská a.s.	Fully consolidated	Fully consolidated
Plzeňská energetika a.s.	Fully consolidated	Fully consolidated
EP ENERGY TRADING, a.s.	Fully consolidated	Fully consolidated
Stredoslovenská energetika, a.s.	Fully consolidated	Fully consolidated
EP Cargo, a.s.	Fully consolidated	Fully consolidated
Budapesti Erömű Zrt	Fully consolidated	Fully consolidated
JTSD/MIBRAG (including its subsidiary, among others, MNE)	Classified as discontinued operation and not included in continuing operations.	Not included
Helmstedter Revier GmbH	Classified as discontinued operation and not included in continuing operations.	Not included
Saale Energie GmbH	Classified as discontinued operation and not included in continuing operations.	Not included
Pražská teplárenská LPZ, a.s.	Fully consolidated	Not included

We have recently added new businesses to the EPE Group and may 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. Our 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.

#### **Development of the key risks for the group**

The risk profile of the EPE Group has not materially changed since the last reporting date and the risk analysis provided in the Report for the year ended December 31, 2016<sup>9</sup> is still a valid indication of the key risks that the EPE Group faces. The Group continues to actively keep track of the risks and has dedicated staff to follow different risk areas.

<sup>9</sup> Published on April 28, 2017

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

### Overview of the EPE Group

We are a leading vertically integrated energy utility focusing on heat and power generation and distribution, as well as energy supply and trading. We generate a substantial percentage of our EBITDA in the Slovak Republic and the Czech Republic, where our principal operations are located. In addition, through the acquisition of BERT in December 2015 we entered the Hungarian market. For the first quarter 2017, the EPE Group had consolidated sales and EBITDA of EUR 543 million and EUR 141 million, respectively. A significant part of our business comes from regulated activities (*i.e.*, heat and power distribution and renewable energy), and business contracted through long-term agreements with a stable customer base (*i.e.*, grid balancing services as part of our power generation activities), which we believe provides us with resiliency of cash flows and future performance.

### Principal operating subsidiaries of the EPE Group

The EPE Group's principal operating subsidiaries are Elektrárny Opatovice, a.s. ("EOP"), Pražská teplárenská a.s. ("PT"), United Energy, a.s. ("UE"), Stredoslovenská energetika, a.s. ("SSE"), EP ENERGY TRADING, a.s. ("EPET") and Budapesti Erömü Zrt ("BERT"). EOP, PT, UE and BERT operate in the Heat Infra segment and SSE with EPET operate in the Power Distribution and Supply segment. Together these subsidiaries accounted for the vast majority of the EPE Group's sales and EBITDA for the first quarter 2017.

For a list of EPE's other subsidiaries and minority interests, see Note 33 to EPE's unaudited condensed consolidated interim financial statements as of and for the three-month period ended March 31, 2017.

### EPE operating segments

We operate in the following reportable segments:

- Heat Infra,
- Power Distribution and Supply,
- Renewables,
- Holding,
- Other.

Heat Infra and Power Distribution and Supply are the core segments of the Group.

Until April 1, 2016 the Group also operated Mining segment which was disposed as part of the reorganization of EP Infrastructure, a.s. ("EPIF") in 2016 (see the section Key factors affecting comparability of the results of operations of the EPE Group - German assets sale). Mining segment was classified as discontinued operation in 2016 and therefore did not affect the EBITDA for three-month period ended March 31, 2016.

#### **Heat Infra:**

The Heat Infra segment owns and operates four large-scale combined heat and power plants (CHPs) in the Czech Republic operated in highly efficient cogeneration mode and represented primarily by: Elektrárny Opatovice, a.s., United Energy, a.s., Plzeňská energetika a.s. and Pražská teplárenská a.s., which is operating the largest district heating system in the Czech Republic, supplying heat to the City of Prague. The heat generated in segment's cogeneration power plants is supplied mainly to retail customers through well maintained and robust district heating systems that the EPE Group owns in most of the cases. The segment also includes Budapesti Erömü Zrt., which is a leading heat and power producer in Hungary, operating three Combined Cycle Gas Turbine ("CCGT") plants in the Budapest

area. In addition, EPE disposed Pražská teplotárenská LPZ, a.s. ("LPZ") on June 1, 2016 therefore the below data include its operation in three-month period ended March 31, 2016 only.

The segment also included Saale Energie GmbH and Helmstedter Revier GmbH until April 1, 2016. These entities were classified as discontinued operations therefore do not affect the EBITDA of first quarter of 2016 and were disposed as part of the reorganization of EP Infrastructure, a.s. ("EPIF") in 2016 (see the section Key factors affecting comparability of the results of operations of the EPE Group - German assets sale).

#### ***Power Distribution and Supply:***

Primarily, the Power Distribution and Supply segment reports distribution of electricity in the central Slovakia region. The segment consists of a Power Distribution division and a Supply division. The Supply division primarily supplies power and natural gas to end-consumers in the Czech Republic and Slovakia. The Power Distribution division purchases and sells in the wholesale market power generated by the Heat Infra segment and purchases from external sources and purchases electricity and natural gas to supply customers through the Supply division. This segment is mainly represented by SSE, EPET, EP Sourcing, a.s. ("EPS") and EP Cargo a.s. ("EPC").

#### ***Renewables:***

The 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. The Group also owns two solar power plants in Slovakia, and a biogas facility in Slovakia.

The segment also included Mibrag Neue Energie until April 1, 2016 that was classified as discontinued operation therefore does not affect the EBITDA of first quarter of 2016 and was disposed as part of the reorganization of EP Infrastructure, a.s. ("EPIF") in 2016 (see the section Key factors affecting comparability of the results of operations of the EPE Group - German assets sale).

#### ***Holding***

The Holding segment represents EP Energy, a.s. as a holding company. The segment profit therefore primarily represents dividends received from its subsidiaries, finance expense and results from acquisition accounting.

#### ***Other***

The segment Other consists of minor operations not fitting to our key segments.

#### **Reorganization**

As part of the reorganization of EPIF in 2016, the Company sold-off its power generation activities in Germany as well as its mining operations in Germany to its ultimate parent company EPH (effective on April 1, 2016). The decision to sell-off these activities, which comprise an isolated geographical segment (Germany), was reached at the end of 2015. Due to the fact that these operations were predominantly representing the whole German operations, mining operations and condensation power production, the Company presents these activities as discontinued operations as of and for the three-month period ended March 31, 2016 (i.e. does not affect EBITDA of any presented period).

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

In million EUR	For the three-month period ended March 31,	
	2016	2017
<b>Total sales</b>		
Heat Infra .....	205	211
Renewables .....	1	1
Power Distribution and Supply .....	385	381
Other .....	1	-
<b>Total segments.....</b>	<b>592</b>	<b>593</b>
Holding.....	-	-
Intersegment eliminations .....	(37)	(50)
<b>Consolidated data .....</b>	<b>555</b>	<b>543</b>
<b>Depreciation and amortization</b>		
Heat Infra .....	(21)	(19)
Renewables .....	(1)	(1)
Power Distribution and Supply .....	(18)	(15)
Other .....	-	-
<b>Total segments.....</b>	<b>(40)</b>	<b>(35)</b>
Holding.....	-	-
Intersegment eliminations .....	-	-
<b>Consolidated data .....</b>	<b>(40)</b>	<b>(35)</b>
<b>Negative goodwill</b>		
Heat Infra .....	-	-
Renewables .....	-	-
Power Distribution and Supply .....	-	-
Other .....	-	-
<b>Total segments.....</b>	<b>-</b>	<b>-</b>
Holding.....	-	-
Intersegment eliminations .....	-	-
<b>Consolidated data .....</b>	<b>-</b>	<b>-</b>
<b>Profit/(loss) from operations</b>		
Heat Infra .....	52	57
Renewables .....	-	-
Power Distribution and Supply .....	31	49
Other .....	1	-
<b>Total segments.....</b>	<b>84</b>	<b>106</b>
Holding.....	(1)	-
Intersegment eliminations .....	(1)	-
<b>Consolidated data .....</b>	<b>82</b>	<b>106</b>
<b>EBITDA<sup>(1)</sup></b>		
Heat Infra .....	73	76
Renewables .....	1	1
Power Distribution and Supply .....	49	64
Other .....	1	-
<b>Total segments.....</b>	<b>124</b>	<b>141</b>
Holding.....	(1)	-
Intersegment eliminations .....	(1)	-
<b>Consolidated data .....</b>	<b>122</b>	<b>141</b>

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

## Heat Infra

The Heat Infra segment accounted for 58.9% of consolidated EBITDA for the first quarter 2016 and 53.9% of consolidated EBITDA for the first quarter 2017, in each case before intersegment eliminations and holding results. We conduct our Heat Infra operations in the Czech Republic through the following major subsidiaries: Pražská teplárenská, Elektrárny Opatovice, United Energy and Plzeňská energetika and in Hungary through Budapesti Erömü Zrt. The table below shows a summary of key operating data for the Heat Infra 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. EPE disposed Pražská teplárenská LPZ, a.s. ("LPZ") on June 1, 2016 therefore the below data include its operation in first quarter of 2016. Results of all other subsidiaries of the Group which belong to the Heat Infra Business are for the entire period.

		As of and for the three-month period ended March 31,	
		2016	2017
Installed heat capacity <sup>(1)</sup> .....	MW <sub>th</sub>	3,856	3,276
Heat supplied .....	TJ	9,867	9,837
Installed cogeneration capacity .....	MW <sub>e</sub>	896	894
Installed condensation capacity .....	MW <sub>e</sub>	360	360
Certified grid balancing capacity <sup>(2)</sup> .....	MW <sub>e</sub>	517	517
Cogeneration production .....	GWh	736	880
Condensation production .....	GWh	296	678
Grid balancing services .....	GWh	657	799

(1) Heat capacity installed on heat exchangers

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

### Installed heat capacity

Installed heat capacity decreased by 580 MW<sub>th</sub>, or 15.1%, to 3,276 MW<sub>th</sub> as of March 31, 2017, as compared to 3,856 MW<sub>th</sub> as of March 31, 2016. This decrease was mainly due to the fact that on June 1, 2016 the Group disposed LPZ that operated total installed heat capacity of 525 MW<sub>th</sub> and due to decommissioning of 55 MW<sub>th</sub> source at PT at the end of 2016.

### Heat supplied

Heat supplied decreased by 30 TJ, or 0.3%, to 9,837 TJ for the first quarter 2017 as compared to 9,867 TJ for the first quarter 2016. Heat supply figures include 735 TJ produced by LPZ in 1Q 2016, while 0 TJ in 1Q 2017 (as it was disposed on June 1, 2016). This effect was almost balanced by higher heat supplied volume caused by relatively colder weather pattern. As outlined previously in the Report, day-degrees, the metrics representing "coldness" of the weather pattern (difference between reference indoor temperature and actual outdoor temperature integrated over the given period of time) were in the areas where we deliver the heat period-to-period by 5.9% higher which resulted in higher heat offtake by customers.

### Installed capacity

Installed cogeneration capacity decreased by 2 MW<sub>e</sub>, or 0.2% to 894 MW<sub>e</sub> as of March 31, 2017 as compared to 896 MW<sub>e</sub> as of March 31, 2016. This decrease was due to the disposal of LPZ, which operated total installed cogeneration capacity of 2 MW<sub>e</sub>, at the beginning of June 2016.

Installed condensation capacity remained at 360 MW<sub>e</sub> at March 31, 2017 and March 31, 2016.

Certified grid balancing capacity remained at 517 MW<sub>e</sub>, at March 31, 2017 and March 31, 2016.

### **Cogeneration production**

Cogeneration production increased by 144 GWh, or 19.6%, to 880 GWh for the first quarter 2017, as compared to 736 GWh for the first quarter 2016. While all CHPs produced slightly higher volume of power in cogeneration mode generally due to the better weather conditions and higher heat demand that allowed higher production in cogeneration mode, namely BERT recorded very high power production volume (589 GWh in the first quarter 2017, while 470 GWh in the first quarter 2016) as it managed to seize temporary opportunities at the Hungarian power market.

### **Condensation production**

Condensation generation increased by 382 GWh, or 129.1%, to 678 GWh for the first quarter 2017, as compared to 296 GWh for the first quarter 2016. This increase was due to the higher electricity price.

### **Grid balancing services**

Grid balancing services increased by 142 GWh, or 21.6%, to 799 GWh for the first quarter 2017 as compared to 657 GWh for the first quarter 2016. This increase in grid balancing services primarily reflects a higher success rate in winning tenders for grid balancing services organized by the Czech TSO CEPS and success in providing grid balancing service in Hungary by BERT.

The table below shows a summary of key financial performance data for the Heat Infra segment. The financial data is based on EPE 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. EPE disposed LPZ on June 1, 2016 therefore only data for first quarter of 2016 include its operations. Results of all other subsidiaries of the Group which belong to the Heat Infra Business are for the entire period.

		<b>For the three-month period ended March 31,</b>	
		<b>2016</b>	<b>2017</b>
Total sales .....	in EUR millions	205	211
EBITDA .....	in EUR millions	73	76

### **EBITDA**

As our contracts with suppliers for our Heat Infra operations in the Czech Republic are generally priced in Czech crowns, but our contracts for sales of electricity are primarily priced in EUR, EBITDA from our power generation operations presented in CZK as a functional currency 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 sales transactions are priced in Czech crowns, however the EBITDA is affected by translation of CZK to EUR for reporting presentation purposes as the EPE Group's presentation currency is EUR). 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 included in EBITDA in Total sales as Gain (loss) from commodity derivatives for trading with electricity and gas, net.

EBITDA increased by EUR 3 million, or 4.1%, to EUR 76 million for the first quarter 2017 as compared to EUR 73 million for the first quarter 2016. Improvement stems primarily from EUR 6 million profit on disposal of Nový Veleslavín, a.s., which was a member of PT Group holding a land plot and a not utilized building. Better result on power sales caused by higher power prices and higher cogeneration

production was offset by deteriorated EBITDA from heat sales that were impacted by three factors: (i) positive weather effect in 2017, (ii) disposal of LPZ in June 1, 2016 and (iii) lower margin achieved by BERT on sale of heat due to lower realised heat sale price in 2017.

### **Power Distribution and Supply**

The Power Distribution and Supply segment accounted for 39.5% of consolidated EBITDA for the first quarter 2016 and 45.4% of consolidated EBITDA for the first quarter 2017, in each case before intersegment eliminations and holding results. We conduct our Power Distribution and Supply operations in the Slovak Republic and the Czech Republic mainly through our subsidiary SSE, EPET, EPS and EPC.

The table below shows a summary of key operating data for the Power Distribution and Supply 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, however the data excludes SSE which is presented separately.

		<b>For the three-month period ended March 31,</b>	
		<b>2016</b>	<b>2017</b>
Power traded .....	GWh	4,337	4,610
Power supplied .....	GWh	599	532
Natural gas traded .....	GWh	856	198
Natural gas supplied .....	GWh	696	848

The table below shows a summary of key operating data for the SSE Group:

		<b>For the three-month period ended March 31,</b>	
		<b>2016</b>	<b>2017</b>
Power distributed .....	GWh	1,635	1,742
Power traded .....	GWh	1,949	1,689
Power supplied .....	GWh	1,108	1,105
Natural gas supplied .....	GWh	118	150
Power produced .....	GWh	4	4
Installed capacity .....	MW <sub>e</sub>	63	63

### **Power distributed**

Power distributed by SSE reached 1,742 GWh for the first quarter 2017, which represents an increase by 107 GWh, or 6.5%, as compared to the first quarter 2016. Low temperatures in first quarter of 2017 caused distribution increase namely at high and medium voltage level.

### **Power traded**

Power traded (excluding SSE) increased by 273 GWh, or 6.3%, to 4,610 GWh for the first quarter 2017 as compared to 4,337 GWh for the first quarter 2016. This increase in power traded was caused by larger amount of deals coming to delivery in comparison to first quarter 2016 (higher trading activity of EPET traders).

Power traded realized by SSE reached 1,689 GWh for the first quarter of year 2017, which is a decrease of 13.3%, or 260 GWh, as compared to 1,949 GWh for the first quarter of year 2016. The reason for

the decline in activity was lower re-sold volume coming from renewable resources on the Slovak market.

### Power supplied

Power supplied (excluding SSE) decreased by 67 GWh, or 11.2%, to 532 GWh for the first quarter 2017 as compared to 599 GWh for the first quarter 2016. This decrease in power supplied reflects lower consumption of EPET wholesale customer portfolio.

Power supply realized by SSE reached 1,105 GWh for the first quarter 2017, which is a decrease by 3 GWh, or 0.3%, as compared to 1,108 GWh for the first quarter 2016.

### Natural gas traded

Natural gas traded (excluding SSE) decreased by 658 GWh, or 76.9%, to 198 GWh for the first quarter 2017 as compared to 856 GWh for the first quarter 2016. This decrease in natural gas traded was primarily due to more prudent risk policy limiting speculative trades, which was implemented at EPIF level since January 2017.

### Natural gas supplied

Natural gas supplied (excluding SSE) increased by 152 GWh, or 21.8%, to 848 GWh for the first quarter 2017 as compared to 696 GWh for the first quarter 2016. This increase in natural gas supplied reflects higher consumption of EPET customer portfolio due to the better weather conditions due to the lower temperatures in the first quarter 2017.

Natural gas supplied by SSE reached 150 GWh for the first quarter 2017, which is an increase by 32 GWh, or 27.1%, as compared to 118 GWh for the first quarter 2016. This increase is due to growth of supply portfolio through new customer acquisitions and low temperatures namely in January 2017.

The table below shows a summary of key financial data for the Power Distribution and Supply segment. The financial data are based on EPE 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 three-month period ended March 31,	
		2016	2017
Total Sales.....	in EUR millions	385	381
EBITDA .....	in EUR millions	49	64

### EBITDA

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 energy production 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. Moreover, because our contracts with suppliers for our Heat Infra operations in the Czech Republic are generally priced in Czech crowns (with the exception of supplies under certain contracts for brown coal to the EOP and UE, which are priced in EUR and were significantly reduced starting in 2016), but we may purchase power in EUR, EBITDA from our supply operations may increase or decrease (and even be negative) depending on currency

exchange rate fluctuations (the EBITDA is affected by translation of CZK to EUR for reporting presentation purposes as the EPE Group's presentation currency is EUR). We generally lock in the exchange rate and power prices 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 and power price fluctuation effects discussed above, are included in EBITDA and the effect of fair valuation of financial commodity derivatives is included in Total sales as Gain (loss) from commodity derivatives for trading with electricity and gas, net, unless they qualify for hedge accounting under IFRS, in which case they are reflected in the Cost of sales: Other and Sales: Other lines for currency derivatives and in the Sales: Energy and Cost of sales: Energy for derivatives hedging the price of power.

EBITDA increased by EUR 15 million, or 30.6%, to EUR 64 million for the first quarter 2017 as compared to EUR 49 million for the first quarter 2016. EBITDA realized by SSE increased by EUR 16 million which is results of two effects: (i) the System Operations Tariff ("SOT") effect (see the section Regulatory contingent assets related to green energy) that had a positive effect of EUR 15 million in the first quarter 2017, while negative effect of EUR 9 million in the first quarter 2016 and (ii) loss on supply portfolio management (loss EUR 7 million), where the losses were caused by limited ability of SSE to convert the pre-hedged position into the exact daily and hourly profiles because of extremely high peak power prices in January and February resulted from strong winter and outage of nuclear power plants in France.

Furthermore, EPC experienced slight decrease in EBITDA for EUR 1 million mainly due to lower sales from coal transportation.

### **Renewables**

The Renewables segment accounted for 0.8% of consolidated EBITDA for the first quarter 2016 and also for 0.7% of consolidated EBITDA for the first quarter 2017, in each case before intersegment eliminations and holding results. Our Renewables business is conducted in the Czech Republic and the Slovak Republic, and operations include wind, solar and biogas power generating facilities.

		<b>As of and for the three-month period ended March 31,</b>	
		<b>2016</b>	<b>2017</b>
Installed Capacity .....	MW <sub>e</sub>	14	14
Power Production.....	GWh	7	5

### **Installed capacity**

Installed capacity remained at 14 MW<sub>e</sub> as of March 31, 2017 and March 31, 2016.

### **Power production**

Power production decreased by 2 GWh, or 28.6%, to 5 GWh for the first quarter 2017 as compared to 7 GWh for the first quarter 2016. This decrease was primarily due to lower production in the biogas facility, as compared to the first quarter 2016.

The table below shows a summary of key financial data for the Renewables segment. The financial data are based on EPE 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 three-month period ended March 31,	
		2016	2017
Total Sales .....	in EUR millions	1	1
EBITDA.....	in EUR millions	1	1

### EBITDA

EBITDA remained at EUR 1 million in the first quarters in both periods 2016 and 2015. Any changes were not material.

### Other

The Other segment accounted for 0.8% of consolidated EBITDA for the first quarter 2016 and 0.0% of consolidated EBITDA for the first quarter 2017, in each case before intersegment eliminations and holding results. The table below shows a summary of key financial data for the Other segment:

		For the three-month period ended March 31,	
		2016	2017
Total sales.....	in EUR millions	1	-
EBITDA.....	in EUR millions	1	-

EBITDA decreased by EUR 1 million, or 100.0%, to EUR 0 million for the first quarter 2017 as compared to EUR 0 million for the first quarter 2016.

### Holding

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

		For the three-month period ended March 31,	
		2016	2017
Total sales .....	in EUR millions	-	-
EBITDA .....	in EUR millions	(1)	-

The main driver of the negative EBITDA in both 2016 and 2017 was the other operating expenses of EP Energy, as the only entity presented within Holding. The costs were primarily associated with costs relating to outsourcing of various functions and costs for professional services at EP Energy.

### Other revenues and expenses

Our repeating expenses are generally related to wages and salaries 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.

## 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.

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

In EUR millions	For the three-month period ended March 31,	
	2016	2017
Capital expenditures relating to tangible fixed assets.....	2	2
Capital expenditures relating to intangible fixed assets excluding emission rights .....	-	-

Capital expenditures relating to tangible fixed assets remained at EUR 2 million in the first three quarter 2017 and in the first quarter 2016.

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

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

In EUR millions	For the three-month period ended March 31,	
	2016	2017
Capital expenditures relating to tangible fixed assets.....	11	6
Capital expenditures relating to intangible fixed assets excluding emission rights .....	1	-

Capital expenditures relating to tangible fixed assets decreased by EUR 5 million, or 45.5%, to EUR 6 million in the first quarter 2017 from EUR 11 million in the first quarter 2016. The majority of these capital expenditures is directly connected to SSE's operations, namely technical improvements on existing distribution network performed by SSE – Distribúcia, a member of SSE Group, as a long-term project to be in line with Slovak legislature that requires, among others, installation of smart electrometers by 2020.

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

Capital expenditures in the **Renewables, Other and Holding segment** are not material which stems from the nature of operations within these segments.

## 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.** EPE presents Sales: Energy in five component parts: sales of electricity (incl. distribution), sales of heat, sales of gas, sales of coal and sales of other energy products across all of our segments. EPE recognizes 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 energy by-products (such as ash and gypsum).

**Gain (loss) from commodity derivatives for trading with electricity and gas, net.** At the date of the financial statements, trading derivatives are measured at fair value. As the trading in commodity derivatives forms a significant part of the Group's total trading activities, the measurement effect is recognized in "Gain (loss) from commodity derivatives for trading with electricity and gas, net", a separate line item under "Total sales".

**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 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 financial instruments.** Profit/(loss) from financial instruments represents profit or loss from commodity derivatives that are not presented as a part of Gain (loss) from commodity derivatives for trading with electricity and gas, net, 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 period, 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 period.** 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 the EPE's condensed consolidated interim financial statements for the three-month period ended March 31, 2017 (which include financial information for the three-month period ended March 31, 2016 as a comparison) and should be read in conjunction with and is qualified in its entirety by reference to these financial statements, including the notes thereto.

### Results of operations of the EPE Group: the first quarter 2017 compared to the first quarter 2016

The following table sets forth our historical income statement data derived from the EPE's condensed consolidated interim financial statements for the three-month period ended March 31, 2017, prepared in accordance with IFRS as adopted by the EU, as well as other financial data. For a description of the changes in the reporting perimeter, see "Key factors affecting comparability of the results of operations of the EPE Group".

### Condensed consolidated interim statement of comprehensive income

For the three-month period ended 31 March 2017

In million EUR

	2016 (three months)	2017 (three months)
Sales: Energy	545	541
<i>of which: Electricity</i>	351	358
<i>Heat</i>	146	134
<i>Gas</i>	42	43
<i>Coal</i>	6	6
Sales: Other	11	5
Gain (loss) from commodity derivatives for trading with electricity and gas, net	(1)	(3)
<b>Total sales</b>	<b>555</b>	<b>543</b>
Cost of sales: Energy	(387)	(366)
Cost of sales: Other	(10)	(5)
<b>Total cost of sales</b>	<b>(397)</b>	<b>(371)</b>
<b>Subtotal</b>	<b>158</b>	<b>172</b>
Personnel expenses	(22)	(22)
Depreciation and amortization	(40)	(35)
Repairs and maintenance	(2)	(2)
Emission rights, net	(5)	(6)
Taxes and charges	(1)	(1)
Other operating income	9	13
Other operating expenses	(15)	(13)
<b>Profit (loss) from operations</b>	<b>82</b>	<b>106</b>
Finance income	9	-
Finance expense	(20)	(16)
Profit (loss) from financial instruments	(1)	3
<b>Net finance income (expense)</b>	<b>(12)</b>	<b>(13)</b>

	<b>2016</b> <b>(three</b> <b>months)</b>	<b>2017</b> <b>(three</b> <b>months)</b>
Gain/(loss) on disposal of subsidiaries, special purpose entities, joint ventures and associates	1	-
<b>Profit (loss) before income tax</b>	<b>71</b>	<b>93</b>
Income tax expenses	(17)	(21)
<b>Profit (loss) from continuing operations</b>	<b>54</b>	<b>72</b>
Profit (loss) from discontinued operations, net of tax	(12)	-
<b>Profit (loss) for the period</b>	<b>42</b>	<b>72</b>
<b>Items that are or may be reclassified subsequently to profit or loss:</b>		
Foreign currency translation differences for foreign operations	1	1
Foreign currency translation differences from presentation currency	-	(2)
Effective portion of changes in fair value of cash flow hedges, net of tax	(13)	-
<b>Other comprehensive income for the period, net of tax</b>	<b>(12)</b>	<b>(1)</b>
<b>Total comprehensive income for the period</b>	<b>30</b>	<b>71</b>
<b>Profit (loss) attributable to:</b>		
<b>Owners of the Company</b>		
Profit for the year from continuing operations	39	49
Profit for the year from discontinued operations	(12)	-
Profit for the year attributable to owners of the company	<b>27</b>	<b>49</b>
<b>Non-controlling interest</b>		
Profit for the year from continuing operations	15	23
Profit for the year attributable to non-controlling interest	15	<b>23</b>
<b>Profit (loss) for the period</b>	<b>42</b>	<b>72</b>
<b>Total comprehensive income attributable to:</b>		
Owners of the Company	15	48
Non-controlling interest	15	23
<b>Total comprehensive income for the period</b>	<b>30</b>	<b>71</b>

## Key line items

### Sales: Energy

Sales: Energy decreased by EUR 4 million, or 0.7%, to EUR 541 million for the first quarter 2017 as compared to EUR 545 million for the first quarter 2016.

### Sales of electricity

Sales of electricity increased by EUR 7 million, or 2.0%, to EUR 358 million for the first quarter 2017 as compared to EUR 351 million for the first quarter 2016. Increase of sales related mostly to higher power production by the Czech CHP fleet together with an increase in power prices in first quarter of 2017, as compared to first quarter of 2016.

### Sales of heat

Sales of heat decreased by EUR 12 million, or 8.2%, to EUR 134 million for the first quarter 2017 as compared to EUR 146 million for the first quarter 2016. The decrease in sales of heat was primarily due to disposal of LPZ in June 1, 2016 and lower heat selling price realised by BERT since January 2017.

It was partially compensated by higher volume of heat sold due to cold weather pattern in areas where we deliver heat.

#### **Sales of gas**

Sales of gas increased by EUR 1 million, or 2.4%, to EUR 43 million for the first quarter 2017 as compared to EUR 42 million for the first quarter 2016. Minor increase is primarily result of EUR 12 million increased Slovak gas sales due to cold weather pattern and minor customer portfolio acquisitions, which was balanced by EUR 12 million lower Czech gas sales due to reduction of gas speculative trading activities since January 2017.

#### **Sales of coal**

Sales of coal remained at EUR 6 million for the first quarters 2017 and 2016.

#### **Sales: Other**

Sales: Other decreased by EUR 6 million, or 54.5%, to EUR 5 million for the first quarter 2017 as compared to EUR 11 million for the first quarter 2016. This decrease was primarily due to disposal EP Coal trading Polska s.a. in 2016, which resulted in EUR 4 million decrease.

#### **Gain (loss) from commodity derivatives for trading with electricity and gas, net**

Gain (loss) from commodity derivatives for trading with electricity and gas, net decreased by EUR 2 million, or 200.0% to negative EUR 3 million for first quarter 2017 as compared to negative EUR 1 million for the first quarter 2016. This resulted from fair value re-measurement of trading derivatives as at the date of financial statement.

#### **Cost of sales: Energy**

Cost of sales: Energy decreased by EUR 21 million, or 5.4%, to EUR 366 million for the first quarter 2017 as compared to EUR 387 million for the first quarter 2016. This decrease in Cost of sales: Energy was primarily due to lower natural gas activities undertaken by EPET, which resulted in lower natural gas purchases.

#### **Cost of sales: Other**

Cost of sales: Other decreased by EUR 5 million, or 50.0%, to EUR 5 million for first quarter 2017 as compared to EUR 10 million for the first quarter 2016. Decrease related to disposal of EP Coal Trading Polska s.a. and EP Cargo Polska s.a. in 2016.

#### **Personnel expenses**

Personnel expenses remained at EUR 22 million for the first quarters 2017 and 2016.

#### **Depreciation and amortization**

Depreciation and amortization decreased by EUR 5 million, or 12.5%, to EUR 35 million in the first quarter 2017 as compared to EUR 40 million for the first quarter 2016. The decrease stems primarily from disposal of LPZ assets.

#### **Repairs and maintenance**

Repairs and maintenance remained at EUR 2 million for the first quarters 2017 and 2016.

**Emission rights, net**

Emission rights, net increased by EUR 1 million, or 20.0%, to negative EUR 6 million for the first quarter 2017 as compared to negative EUR 5 million for first quarter 2016, which primarily results from continuing decrease of emission allowances free allocation and higher consumption of emission allowances due to higher production in CHPs.

**Taxes and charges**

Taxes and charges remained at EUR 1 million for the first quarters 2017 and 2016.

**Other operating income**

Other operating income increased by EUR 4 million, or 44.4%, to EUR 13 million for the first quarter 2017 as compared to EUR 9 million for the first quarter 2016. The increase relates to gain from sale of non-core assets (land plots and not used buildings).

**Other operating expenses**

Other operating expenses decreased by EUR 2 million, or 13.3%, to EUR 13 million for the first quarter 2017 as compared to EUR 15 million for the first quarter 2016. The decrease relates mostly to higher capitalisation of own work (namely at SSE) which is revenue reported as a part of Other operating expenses.

**Finance income**

Finance income decreased by EUR 9 million, or 100%, to EUR 0 million for the first quarter 2017 as compared to EUR 9 million for the first quarter 2016. Finance income is mostly represented by interest income, primarily due from loans provided to the EPIF and which was repaid on May 2, 2016. As result, no interest income was realized in first quarter 2017.

**Finance expense**

Finance expense decreased by EUR 4 million, or 20.0%, to EUR 16 million for the first quarter 2017 as compared to EUR 20 million for the first quarter 2016. Primary reason for decrease of finance expense is EUR 4 million improvement in the FX result in the first three quarters 2017.

**Profit/(loss) from financial instruments**

Profit/(loss) from financial instruments increased by EUR 4 million to a profit of EUR 3 million for the first quarter 2017 as compared to loss of EUR 1 million for the first quarter 2016. The change is result of revaluation of derivatives held primarily by BERT, which are held for commodity price risk management purposes, but which do not fulfil conditions for hedge accounting.

**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 decreased to EUR 0 million for the first quarter 2017 as compared to EUR 1 million for the first quarter 2016.

**Income tax expenses**

Income tax expenses increased by EUR 4 million, or 23.5%, to EUR 21 million for the first quarter 2017 as compared to EUR 17 million for the first quarter 2016. Increase of income tax is result of higher profit before tax realised by group. Effective tax rate slightly decreased from 23.9% to 22.6%, which is result of decrease in corporate income tax rate in Hungary to 9%.

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**Other comprehensive income for the period, net of tax**

Other comprehensive income for the period, net of tax, changed by EUR 11 million to negative EUR 1 million for the first quarter 2017 as compared to negative EUR 12 million for the first quarter 2016. It is primarily result of lower revaluation loss on hedging derivatives.

## **Liquidity and capital resources of the EPE Group**

### **Capital resources**

EPE's 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 EPE is 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.

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

EPE's primary sources of liquidity historically have been cash flows from operations of subsidiaries, cash on EPE's balance sheet and external financings (including shareholder loans and bonds since EPE's issuance of the Notes). EPE's 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.

EPE believes that its operating cash flows, together with the cash reserves and future borrowings permitted under EPE's debt facilities, will be sufficient to fund EPE's working capital requirements, anticipated capital expenditures and debt service requirements as they become due. EPE intends to maintain cash balances at EPE to meet the Group's short-term liquidity needs, including working capital (which we intend to replenish periodically with cash from operations).

EP Energy and its subsidiaries may from time to time use available liquidity (from any sources) to reduce the indebtedness of the Group. In particular, subject to compliance with applicable law and the terms and conditions of the bonds, the Company and its subsidiaries may from time to time repurchase outstanding bonds issued by them in the open market or otherwise at any time and at any price, as they may determine in their absolute discretion depending on prevailing market conditions.

## Cash flow

The following table summarizes our selected consolidated cash flows for the first quarters 2016 and 2017.

	For the three-month period ended March 31,	
	2016 (restated)	2017
	<i>In million EUR</i>	
<b>Operating profit before changes in working capital</b> .....	<b>120</b>	<b>141</b>
<i>Selected changes to working capital</i>		
Change in trade receivables and other assets .....	9	(26)
Change in trade payables and other liabilities .....	(43)	(20)
Change in inventories (including proceeds from sale) .....	1	6
Change in assets held for sale and related liabilities .....	19	3
Changes in restricted cash.....	-	1
<b>Cash flows generated from (used in) operating activities</b> .....	<b>93</b>	<b>95</b>
<b>Cash flows from (used in) investing activities</b> .....	<b>(3)</b>	<b>(6)</b>
<b>Cash flows from (used in) financing activities</b> .....	<b>(21)</b>	<b>(23)</b>
<b>Total changes in cash flows</b> .....	<b>69</b>	<b>66</b>

### Operating Activities

Cash flows generated from (used in) operating activities increased by EUR 2 million, or 2.1%, to EUR 95 million for the first quarter 2017, as compared to EUR 93 million for the first three quarters 2016. This change is primarily due to EUR 30 million higher profit for the period that was partially offset by higher working capital requirements.

### Investing Activities

Cash flows used in investing activities increased by EUR 3 million to negative EUR 6 million for the first quarter 2017, as compared to negative EUR 3 million for the first quarter 2016. The increase of cash flow used in investing activities relates mainly to lower interest received as compared to first quarter 2016.

### Financing Activities

Cash flows used in financing activities increased by EUR 2 million to negative cash flows used in financing activities of EUR 23 million for the first quarter 2017, as compared to negative cash flows from financing activities of EUR 21 million for the first quarter 2016. While the negative cash flow in first quarter 2016 resulted from repayment of borrowings of EUR 21 million, cash flow in first quarter 2017 related mainly to dividend paid to sole shareholder in amount of EUR 20 million.

### 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. As noted earlier, the stricter emission targets set forth by the European Industrial Emissions Directive (IED) applied starting 2016 for large combustion plants, including those operated by us, driven the capital expenditure in past. Non-compliance with the stricter emission targets set forth by the European Industrial Emissions Directive, the Air Protection Act or the operation

permit in the designated time periods may lead to the imposition of penalties or even result in operations being shut down.

We also expect to accelerate our capital expenditures on certain refurbishments to our heating network operations over the next years in order to be eligible for public subsidies currently available in the Czech Republic.

During the first quarters 2016 and 2017, capital expenditures, irrespective of actual cash flows, were as follows:

	As of and for the three-month period ended March 31,	
	2016	2017
Capital expenditures for tangible fixed assets.....	13	8
Capital expenditures for intangible fixed assets excluding emission rights .....	1	-
Capital expenditures for emission rights (incl. free allocations) .....	8	9
<b>Total capital expenditures .....</b>	<b>22</b>	<b>17</b>
Property, plant and equipment, at depreciated cost .....	1,579	1,534

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

Capital expenditures for tangible fixed assets decreased by EUR 5 million, or 38.5%, to EUR 8 million for the first quarter 2017 as compared to EUR 13 million for the first quarter 2016. This decrease relates to colder weather which caused several investments being postponed to later part of the year.

Capital expenditures for intangible fixed assets decreased by EUR 1 million, to EUR 0 million for the first quarter 2017 as compared to EUR 1 million for the first quarter 2016.

#### **Capital expenditures for emission rights**

For the periods presented in this Report out of all entities included in the EPE Group, EOP, PE, UE and BERT were required to purchase emission allowances for their own respective consumption due to an insufficient allocation of emission allowances. The share that our Czech operating subsidiaries will need to purchase will increase over time as the result of the allocation system under which fewer emissions allowances are now allocated free of charge. 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, as well as volatility in the market prices of emissions allowances that we need to acquire.

## Contractual and other material financial obligations of the EPE Group

The table sets out our loans and borrowings as of December 31, 2016 and March 31, 2017.

In EUR millions	Dec 31, 2016	Mar 31, 2017
Issued debentures at amortised cost .....	1,098	1,113
Loans payable to credit institutions .....	38	36
Loans payable to other than credit institutions .....	14	14
<i>of which owed to the parent company / ultimate parent company .....</i>	-	-
<i>of which owed to other related companies .....</i>	14	14
<b>Total .....</b>	<b>1,150</b>	<b>1,163</b>
Non-current.....	1,140	1,130
<i>of which owed to the parent company / ultimate parent company .....</i>	-	-
<i>of which owed to other related companies .....</i>	14	14
Current .....	10	33
<b>Total .....</b>	<b>1,150</b>	<b>1,163</b>

## Off-balance sheet arrangements of the EPE Group

The table below sets out EPE's financial commitments and contingencies as of December 31, 2016 and March 31, 2017.

In EUR millions	Dec 31, 2016	Mar 31, 2017
Granted pledges – securities .....	855	855
Guarantees given .....	117	135
Other granted pledges .....	886	854
<b>Total .....</b>	<b>1,858</b>	<b>1,844</b>

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

Guarantees given mainly include contracts for the future supply of energy for EUR 124 million (December 31, 2016: EUR 113 million).

Other granted pledges:

In EUR millions	Dec 31, 2016	Mar 31, 2017
Loans granted <sup>(1)</sup> .....	325	325
Property, plant and equipment .....	395	383
Cash and cash equivalents .....	75	72
Trade receivables .....	62	45
Inventories .....	29	29
<b>Total .....</b>	<b>886</b>	<b>854</b>

(1) Total balance of pledged granted loans includes intercompany loans of EUR 324 million (December 31, 2016: EUR 319 million)

#### Off balance sheet assets

In EUR millions	Dec 31, 2016	Mar 31, 2017
Received promises .....	395	408
Other received guarantees and warranties .....	4	-
<b>Total .....</b>	<b>399</b>	<b>408</b>

#### Received promises

Received promises mainly comprise the contracts for the future purchase of energy in amount of EUR 124 million (31 December 2016: EUR 197 million) and regulatory contingent assets related to green energy of EUR 123 million (31 December 2016: EUR 138 million) recognised by SSE Group, which are represented by the contingent assets related to green energy and loan commitment received by EP Energy, a.s. of EUR 50 million (31 December 2016: EUR 50 million).

#### Regulatory contingent assets related to green energy

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

For the three-month period ended March 31, 2017 SSE recognized a loss of EUR 1 million (31 March 2016: loss of EUR 8 million) as the difference between the green energy support costs and revenues from TPS in the period from 1 January 2017 to 31 March 2017. The loss disregards effects from recognition and release of accrued income which represented in total an income of EUR 16 million (31 March 2016: loss of EUR 1 million).

Based on the current Regulatory Framework the cumulated losses incurred in 2015 and 2016 will be compensated in two years' time, i.e. relevant amounts in 2017 and 2018 through an increase of revenues from TPS. Contingent asset as at March 31, 2017 comprises 9/12 of 2016 loss totalling EUR 138 million (i.e. EUR 104 million) and EUR 20 million as a loss incurred in three-month period ended March 31, 2017 (contingent assets as at December 31, 2016 amounted to EUR 138 million).

Based on the RONI decision dated in December 2016 the resulting contingent asset of EUR 73 million originating in the year 2015 was recognized as accrued income in the combined statement of financial position as of 31 December 2016 and will be fully collected in the course of 2017 (31 December 2015: EUR 77 million originating in the year 2014 was recognized as accrued income in the consolidated statement of financial position as of 31 December 2015 and was fully collected in the course of 2016). The loss for 2017 (EUR 20 million) has not yet been recognized as the asset does not yet meet the recognition criteria set by IFRS as adopted by the EU and will be recognized during the course of 2018 once an RONI confirmation on the exact amount shall be received.

## **Litigations and claims**

### **Elektrárny Opatovice, a.s.**

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

### **United Energy, a.s.**

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

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

The parallel dispute regarding inadequate compensation is still ongoing with no clear outcome. The next court hearing is planned for 6 June 2017 as a meeting with mediator in order to help the parties to reach their own solution.

### **Plzeňská energetika a.s.**

In August 2012, Škoda Investment a.s. (SI) filed a claim for unjust enrichment against Plzeňská energetika a.s. (PE) for approximately EUR 2 million. This unjust enrichment claim allegedly arises from the fact that Plzeňská energetika a.s. owns and operates utility distribution systems (e.g., for gas, water and heat), which lie on the property of Škoda Investment a.s., thereby illegally restricting the ownership of Škoda Investment a.s. In February 2016 both parties, i.e. PE as well as SI, received an official request from the court to settle the dispute by mediation. Following this request the hearing has been adjourned until further notice. In June 2016 SI has filed an additional claim for unjust enrichment against PE for approximately EUR 1 million. Additional claim covers period 2013 – 2014. EPE Group’s management believes that the claim is unfounded and should be dismissed by the court. For this reason Plzeňská energetika a.s. did not create a provision for this litigation as at 31 March 2017.

### **Stredoslovenská energetika, a.s. Group (“SSE Group”)**

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

### **Regulatory proceedings by ERO against Pražská teplárenská (“PT”)**

PT is involved in regulatory proceedings commenced in October 2015 by ERO claiming that prices charged to customers of PT’s local small-scale heating infrastructures in 2011 were in breach of the Czech Act on Prices. In March 2016, ERO issued a decision ordering PT to pay EUR 9 million (CZK 240 million) consisting of a penalty totaling EUR 4.5 million (CZK 120 million) and restitution to affected customers of EUR 4.5 million (CZK 120 million). PT appealed the decision on 24 March 2016 with supplemental information provided on 14 April 2016. On 7 July 2016 PT received a resolution from ERO by which the Chairman of ERO returned the case again to the first instance for a new hearing. In November 2016 PT received new decision which confirmed the result of the court of the first instance.

PT appealed again and on 23 December 2016 ERO issued a decision changing the amount to be paid to EUR 8 million (CZK 222 million) consisting of a penalty of EUR 4 million (CZK 111 million) and restitution to affected customers of EUR 4 million (CZK 111 million). On 26 January 2017 PT filed an appeal on the decision to the Regional court in Brno and applied for suspensive effect. At the same time PT submitted a fine of EUR 4 million to the ERO's account. On 23 February 2017 the Regional court satisfied the request for a suspensive effect in full and on 28 April 2017 the ERU returned the fine back to PT and again conservatively recorded a provision of EUR 4 million. The next PT steps will depend on the final decision of the Regional court on the action brought by PT.