

Report on the first quarter of the year 2014 for EP Energy, a.s.

- ✓ Consolidated sales reached EUR 647 million, consolidated EBITDA EUR 148 million, consolidated pro forma adjusted EBITDA for last twelve months EUR 446 million and consolidated net debt amounted to EUR 1,176 million
- ✓ In January 2014, Fitch affirmed EP Energy's rating at BB+ with outlook stable.

EP Energy, a.s. ("group or Group or EPE or EPE Group") is a vertically integrated energy utility that includes 67 companies. In 2013 the Group was the leading heat supplier in the Czech Republic, the second largest power generator in the Czech Republic and the third largest mining company in Germany. 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 and Germany, with smaller activities also in the Slovak Republic. Following our acquisition of a 49% stake (with management control) in SSE, our operations in the Slovak Republic are now more extensive.

KEY FIGURES AT A GLANCE

Consolidated financial results in EUR millions

	1Q 2013	1Q 2014
Sales	548.3	647.3
EBITDA ¹	135.7	147.9
Pro forma Adjusted EBITDA (last twelve months) ²		446.1
Total net debt ³		1,176.3
Profit from operations	76.3	78.3
Profit before tax	58.7	69.3
Net profit attrib. to EPE	55.5	41.9
Total assets		4,252.3
CAPEX ⁴	8.6	16.3

Physical units (EPE excluding SSE)

	1Q 2013	1Q 2014
Coal production Mt	5.0	5.6
Installed <i>cogeneration</i> Capacity ⁵ MW _e	500	500
Installed <i>condensation</i> Capacity ⁵ .. MW _e	360	750 ⁸
Installed heat capacity ⁵ MW _{th}	4,106	3,933
Heat supplied ^{5,6} TJ ⁷	8,544	6,647
Power produced ⁵ GWh	912	1,545
Power traded ⁵ GWh	4,441	3,788
Power supplied ⁵ GWh	530	517
Natural gas supplied ⁵ GWh	798	1014
Saale Energie MW _e	400	400

Physical units SSE

	1Q 2013	1Q 2014
Power distributed GWh	1,674	1,605
Power traded GWh	1,413	1,559
Power supplied GWh	1,272	1,192
Natural gas supplied GWh	35	79
Power produced GWh	3.5	3.6
Installed capacity MW _e	62.3	62.3

(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, a.s. Group (also "EPE Group"). For further discussion over the EPE Group performance refer to the following pages.

(2) 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 exclude effect of certain transactions (all for a twelve-month period ended March 31, 2014):

(a) the items related to Saale Energie, which lead to an EUR 8.8 million decrease to EBITDA in the twelve-month period ended March 31, 2014, which, due to the accounting treatment of the specific contractual arrangement with Schkopau (an associate of Saale Energie), are charged to operating costs of Saale Energie but relate to entries that would otherwise not be included in EBITDA.

(b) the impact of capitalisation of overburden accounted for in MIBRAG, which lead to an EUR 21.5 million increase to EBITDA for the twelve-month period ended March 31, 2014.

(c) the impact of non-cash goodwill impairment losses of Renewables segment, which lead to an EUR 8.6 million decrease to EBITDA in the twelve-month period ended March 31, 2014.

To derive Pro forma Adjusted EBITDA for the period from April 1, 2013 to March 31, 2014, EPE utilized EPE Group IFRS consolidated financial statements as of and for the year ended December 31, 2013 (EBITDA of EUR 383.5 million) and EPE Group condensed consolidated interim financial statements as of and for the three month period ended March 31, 2014 (EBITDA of EUR 147.9 million) with the three-month period ended March 31, 2013 (EBITDA of 135.7 million) as comparatives. The historical financial information of the EPE Group have been further adjusted to reflect a consolidation of a 49% share (associated with a management control) in Stredoslovenská energetika, a.s. (also "SSE") and its subsidiaries using the full method of consolidation including related changes in financing as if the SSE Group was acquired effectively on January 1, 2013. For information purposes only, the share of 51% non-controlling interest of Stredoslovenská energetika, a.s. and its subsidiaries on the Pro forma Adjusted EBITDA amounted to EUR 54.2 million in the twelve-month period ended March 31, 2014 (of which EUR 26.4 million relates to the period from December 1, 2013 to March 31, 2014 and EUR 27.8 million relates to the period from April 1, 2013 to November 30, 2013).

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, a.s. 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 towards Pražská teplárenská Holding a.s. (also "PTH") of EUR 141.2 million. For information purposes only, a portion of net debt totalling EUR 2.0 million as of March 31, 2014 belongs to a minority shareholder of Stredoslovenská energetika, a.s. 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.

(4) Excluding emission allowances

(5) 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. Nevertheless, operating data for Energotrans, MIBRAG and Saale Energie are excluded. The data for HSR is included in the 1Q 2014 figures.

(6) Represented by Elektrárny Opatovice, a.s. (also "EOP"), Severočeská teplárenská, a.s. (also "ST"), Plzeňská energetika a.s. (also "PE") and Pražská teplárenská a.s. (also "PT")

(7) 1 TJ = 0,2778 GWh

(8) Installed condensation capacity in the first quarter 2014 includes additional 390 MW_e related to Helmstedter Revier GmbH as compared to 360 MW_e for EOP, PE, PT and United Energy in the first quarter 2013.

Difference between consolidation scope for the first quarter 2013 and 2014 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, 2014 are presented in a separate file as an attachment to this report

>> *We remain focused on creating the shareholder value while keeping our low risk-profile* <<

Dear investors, customers and partners,

Our Q1 2014 IFRS EBITDA reached EUR 148 million, which in comparison to Q1 2013, increased by approximately 9%.

Our business operations, particularly in Power and Heat segment, were influenced by a warm winter in Q1 2014. The Pro forma Adjusted EBITDA for the twelve-month period ended March 31, 2014, reflecting full consolidation of SSE and consolidation of HSR for 1Q 2014 only reached EUR 446 million. Even though the quarterly IFRS EBITDA increased as compared to the same period last year, the last twelve months' results on the pro forma basis declined as compared to the same financial indicator for the year ended December 31, 2013. As mentioned before, the primary reason was a very warm winter. The average daily temperatures in the first three months of 2014 reached approximately 4.5°C compared to 0°C in the first quarter of 2013. The day-degrees (metrics comparing the indoor-to-outdoor temperature difference, the primary determinant of space heating needs) Q1/2014-to-Q1/2013 were 21% lower. Thanks to decoupled capacity-energy pricing the impact of the temperatures was below-proportional. Further, another two factors influenced the Q1 EBITDA: results of Stredoslovenská energetika were adversely impacted by the time-shifted reimbursement of regulatory charges relating to green energy fees payable to renewable energy producers in the central Slovakia region. Finally, foreign exchange rate intervention executed by the Czech National Bank in November 2013 resulting in EUR/CZK spot rate deterioration by approximately 7% leads to lower translation of operating results denominated in CZK to EUR denominated EBITDA figures. However, following the Czech National Bank's statements, we believe, that the foreign exchange rate change is temporary and should be reversing in future.

In January 2014 we successfully started fuel deliveries from MIBRAG to our Heat and Power facilities, namely Buschhaus, Elektrárny Opatovice and United Energy. The increased utilization of MIBRAG's capacity positively contributes to operational results of the group and further strengthens vertically integration of EP ENERGY.

On behalf of the Board of Directors and everyone at EP Energy, I would like to thank you for your ongoing support as we strive to continue creating the shareholder value while keeping our low risk-profile.

Sincerely yours,

A handwritten signature in blue ink, appearing to read 'Tomáš David', written in a cursive style.

Tomáš David
Member of the Board and CEO

Economy and Market development

Economy development:

According to preliminary estimates of the Czech Statistical Office, the Czech gross domestic product adjusted for price, seasonal, and calendar effects increased in the first quarter 2014 by 2.0%, year-on-year and remained unchanged as compared to 4Q 2013. GDP development was positively affected especially by net export. Household consumption and investment activity had slightly positive effect on the GDP.

According to estimates of Federal Statistical Office (Destatis) the German gross domestic product adjusted for price, seasonal, and calendar effects increased in the first quarter 2014 by 2.2%, year-on-year, and increased by 0.8% in 1Q 2014, quarter-on-quarter.

According to estimates of the Slovak Statistical Office, the Slovak GDP adjusted for seasonal effects increased in the first quarter 2014 by 2.0%, year-on-year and by 0.6%, quarter-on-quarter.

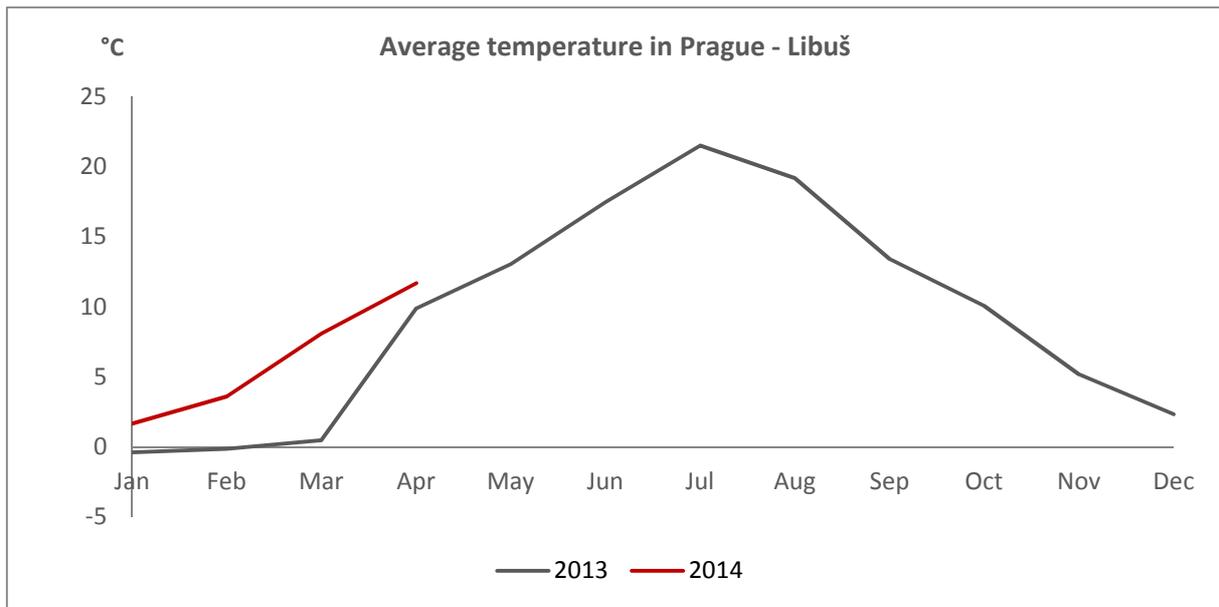
The outlook for the economy development remains rather uncertain. Nevertheless, according to the Czech National Bank, the Czech GDP should increase by 2.6% in 2014; the Bundesbank expects German GDP to grow by 1.7% in 2014 and according to the International Monetary Fund, the Slovak GDP should increase by 2.3% in 2014.

Weather:

The heat segment, the renewables segment and electricity production in cogeneration mode are strongly correlated to weather development. Thus, seasonality is natural in the group performance, where the heat segment is the strongest in 1Q and also in 4Q accompanied by higher power production in cogeneration mode.

From the heating business perspective, first quarter of the year 2014 was significantly warmer than the first quarter 2013. An approximate metrics representing “coldness” of the weather pattern is so called “day-degrees” (a metric integrating difference between reference indoor temperature and outdoor temperature over the given period of time), which was for the group and in the areas where we deliver the heat year-to-year by 21.2% lower.

For better illustration, the average temperature in Prague was 4.5 °C in the first quarter 2014 as compared to 0.0 °C in the first quarter 2013.



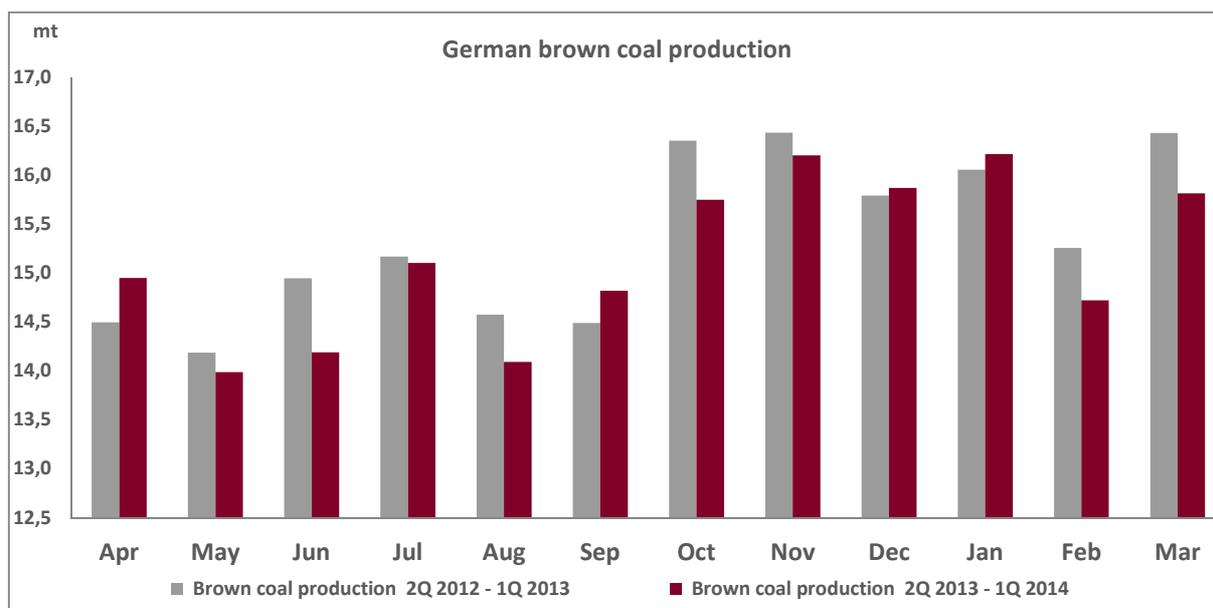
Note: Monthly average calculated from daily averages obtained by ČHMÚ (Czech Hydrometeorological Institute)

German brown coal market:

Unlike hard coal, brown coal is not a commodity traded on international markets and, therefore, brown coal prices and production volumes are less dependent on market developments compared to other fuels. Brown coal production is rather driven by local demand of several power plants, mainly due to relatively high transportation costs and specific design of such power plants to utilize a certain quality of brown coal. Since brown coal is usually sold under long term contracts, the prices of brown coal are typically driven by escalation formulas specified in such contracts. Overall, brown coal is a comparatively cheap fuel, which secures better position of brown coal fuelled power plants in the power generation merit order compared to other fossil fuels such as hard coal, gas or oil. The favorable merit order position translates to a relatively stable share of brown coal on German power generation of around 26%.

Overall brown coal production in Germany slightly decreased from 47.7 million tons in the first quarter 2013 to 46.7 million tons in the first quarter 2014, i.e. by 2.1% according to the statistics of Kohlenwirtschaft e.V.

Through our German subsidiary, MIBRAG, we produce and sell brown coal in Central Germany. MIBRAG is the third largest producer of brown coal in Germany with a total annual production of approximately 19 million tons. Our two biggest customers (Lippendorf and Schkopau) are efficient, state-of-the-art power plants operating in base load and both well positioned in the German power merit order. This could be demonstrated by a stable demand of our customers, which persisted also in the first quarter 2014. Furthermore, we sell our brown coal based on long term contracts with a high degree of price stability, which mainly depends on indexation related to mining costs, such as labour costs increases. Our three major contracts last until 2039, 2020 and 2022 respectively.



Source: Kohlenwirtschaft e.V.

Heat market:

The group heat business is concentrated in the Czech Republic, 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 on brown coal, the most cost efficient source of primary energy), we are able to offer our customers highly competitive prices.

Heat prices are based on a “costs plus reasonable profit” mechanism, required by the legislation and regulation by the independent Energy Regulatory Office, 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 Energy Regulatory Office.

Electricity and CO2 market:

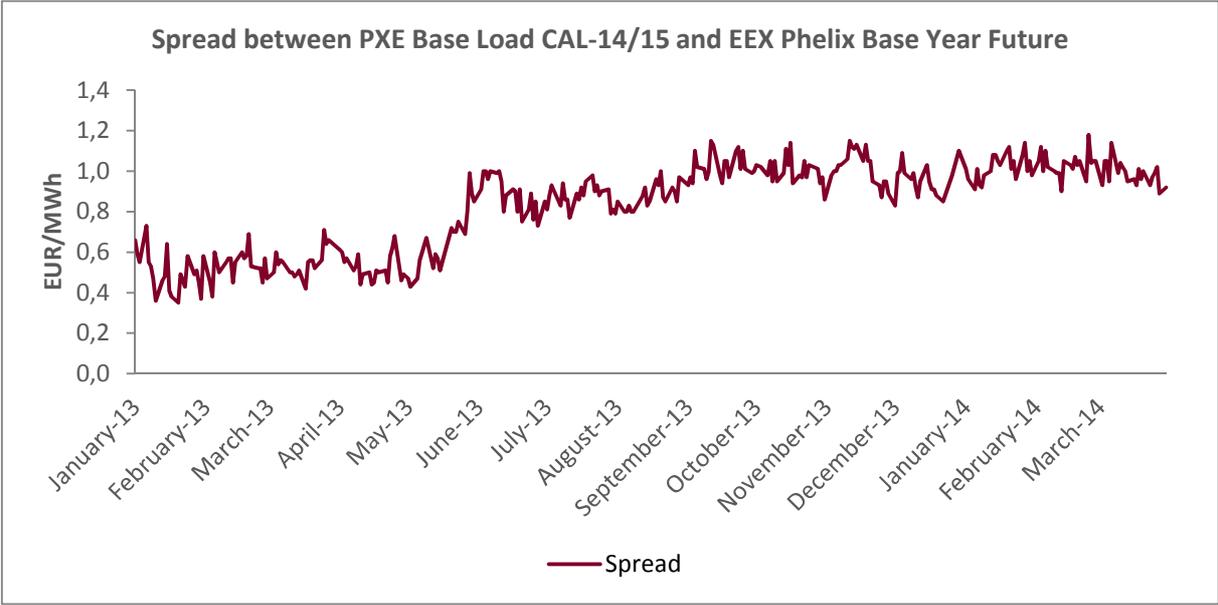
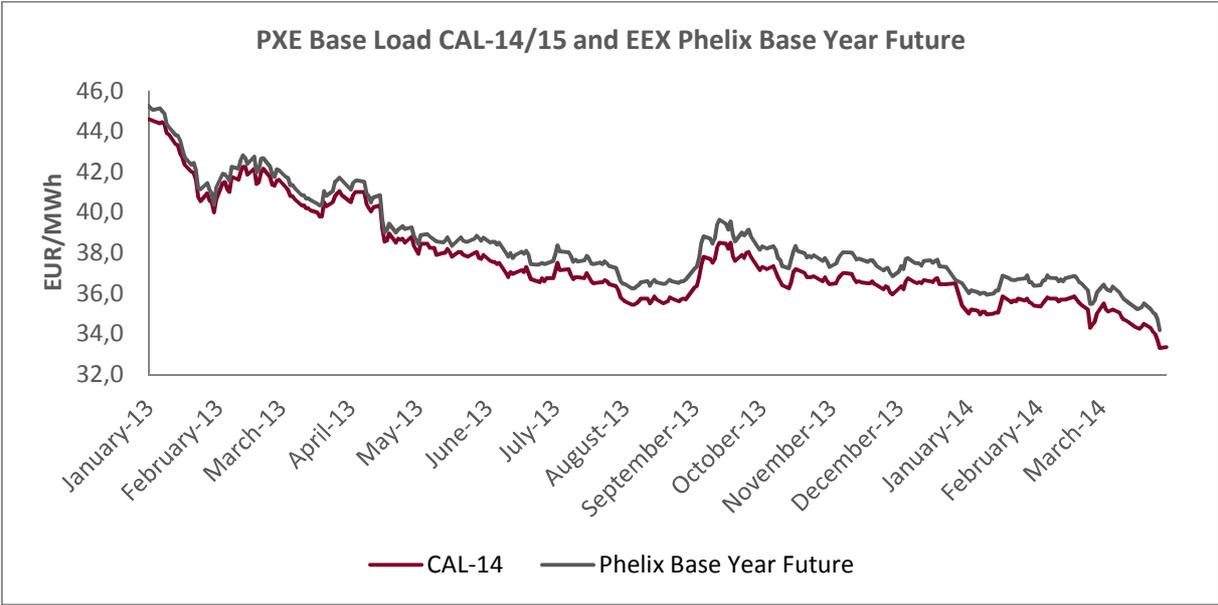
During the first quarter of 2014 power and EU Allowance (“EUA”) prices remained under pressure due to low prices of hard coal and renewable energy production. In the first quarter 2014 the 1-year forward electricity prices on the European Energy Exchange (also “EEX”) dropped in base load to EUR 36.1 per MWh (compared to EUR 42.2 per MWh year ago) and peak load dropped to EUR 46.5 per MWh (compared to EUR 52.8 per MWh year ago), representing a decrease for the base load and peak load prices of 14.5% and 11.9% respectively.¹

EUA with spot delivery was traded at average around EUR 5.8 per ton in the first quarter 2014², which represents substantial increase of the y-t-y prices of 25.4%.

¹ 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)

²Source: Thomson Reuters: EUSP.DE, simple average

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 around 1.0 EUR/MWh during the first quarter 2014. The low spreads encourage cross border trading and, vice versa, the liquidity of the Czech market increases.



Source: PXE Base Load CAL14; EEX Phelix Base Year Future.

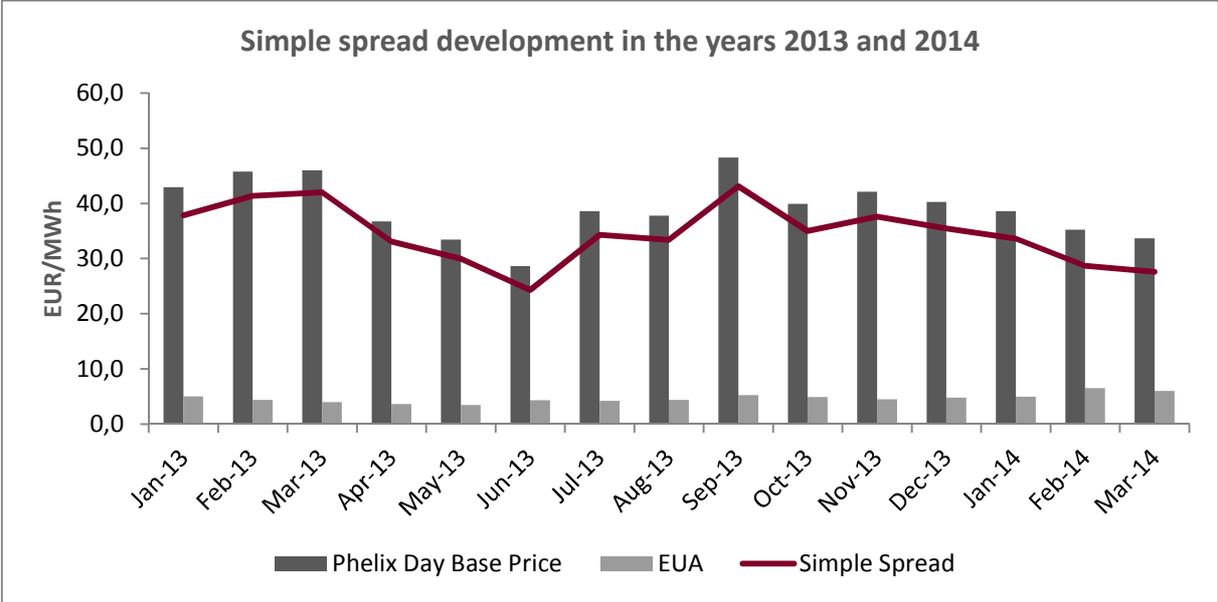
On the Czech market, electricity production from cogenerating units benefits from regulatory support. Up to CZK 200 is received as subsidy for each MWh produced in highly efficient cogeneration mode in 2014.

Additionally, producers supplying their power production directly to distribution grids benefit from the subsidy of CZK 9 for one MWh delivered, which applied to our entire power production in the Czech Republic.

These two subsidies accounted for EUR 2.1 million in the first quarter 2014 as compared to EUR 3.0 million in the first quarter 2013 especially due to lower production in cogeneration mode caused by

warmer weather and due to CZK depreciation in the first quarter 2014 as compared to the first quarter 2013.

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.

Key developments in the first quarter 2014

In January 2014, Fitch affirmed EP Energy's rating at BB+ with outlook stable.

On January 24, 2014, CE Energy, a.s., a 100% subsidiary of Energetický a průmyslový holding, a.s. (also "EPH"), acquired all of the outstanding shares of EP Energy, a.s. from EPH.

On January 30, 2014, EP Energy, a.s. provided a loan of EUR 60 million to CE Energy, a.s.

On February 7, 2014, CE Energy, a.s. issued senior notes in the amount of EUR 500 million due in 2021 (the "2021 Notes"). The 2021 Notes are secured by a pledge of 100% of the capital stock of CE Energy, a.s. and by a pledge of 50% minus one share of the capital stock of EP Energy, a.s.

Subsequent events

The EPE Group is currently considering a merger of ENERZET, a.s. into ROLLEON a.s.

The EPE Group is currently considering a merger of EPH Financing II, a.s. into EP Energy, a.s. with the decisive date January 1, 2014.

Management of EPE Group decided to close the business and liquidate the Company EBEH Opatovice, a.s. which currently does not have any business activity. The liquidation is currently in process.

EPE concluded on a revolving credit facility with a group of banks with a maximum utilisation of EUR 100 million.

On April 15, 2014, the EPE Group received an EUR 20 million earn-out relating to an acquisition of Stredoslovenská energetika, a.s.

On May 5, 2014, Pražská teplárenská holding, a.s. ("PTH") declared dividends to PT holding Investment B.V. of approximately EUR 141 million. The dividend was offset against intercompany loan of PTH of approximately EUR 139 million, with the remaining balance received in cash on May 19, 2014.

On May 7, 2014, the Company declared and distributed a dividend of EUR 90 million to CE Energy, a.s.

As at the date of preparation of these consolidated financial statements, the EPE Group is in the process of restructuring of EP Renewables a.s. group. This transaction will have no impact on the condensed consolidated interim financial statements of EP Energy, a.s.

Except for the matters described above and elsewhere in the Notes and in the Notes to Consolidated Financial Statements as of and for the year ended December 31, 2013, the Company's management is not aware of any other material subsequent events that could have an effect on the condensed consolidated interim financial statements as at March 31, 2014.

EP Energy, a.s. (the “Company”) Report for the first quarter 2014

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 quarter ended March 31, 2014.

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 first quarter ended March 31, 2014 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

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

(2) 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 exclude effect of certain transactions (all for a twelve-month period ended March 31, 2014):

(a) the items related to Saale Energie, which lead to an EUR 8.8 million decrease to EBITDA in the twelve-month period ended March 31, 2014, which, due to the accounting treatment of the specific contractual arrangement with Schkopau (an associate of Saale Energie), are charged to operating costs of Saale Energie but relate to entries that would otherwise not be included in EBITDA.

(b) the impact of capitalisation of overburden accounted for in MIBRAG, which lead to an EUR 21.5 million increase to EBITDA for the twelve-month period ended March 31, 2014.

(c) the impact of non-cash goodwill impairment losses of Renewables segment, which lead to an EUR 8.6 million decrease to EBITDA in the twelve-month period ended March 31, 2014.

To derive Pro forma Adjusted EBITDA for the period from April 1, 2013 to March 31, 2014, EPE utilized EPE Group IFRS consolidated financial statements as of and for the year ended December 31, 2013 (EBITDA of EUR 383.5 million) and EPE Group condensed consolidated interim financial statements as of and for the three month period ended March 31, 2014 (EBITDA of EUR 147.9 million) with the three-month period ended March 31, 2013 (EBITDA of 135.7 million) as comparatives. The historical financial information of the EPE Group have been further adjusted to reflect a consolidation of a 49% share (associated with a management control) in Stredoslovenská energetika, a.s. (also “SSE”) and its subsidiaries using the full method of consolidation including related changes in financing as if the SSE Group was acquired effectively on January 1, 2013. For information purposes only, the share of 51% non-controlling interest of Stredoslovenská energetika, a.s. and its subsidiaries on the Pro forma

Adjusted EBITDA amounted to EUR 54.2 million in the twelve-month period ended March 31, 2014 (of which EUR 26.4 million relates to the period from December 1, 2013 to March 31, 2014 and EUR 27.8 million relates to the period from April 1, 2013 to November 30, 2013).

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. For the purposes of this report we have restated segment information comparatives to comply with the IFRS 8 methodology.

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, 2013: CZK 25.568 per EUR 1.000
- Three-month period ended March 31, 2014: CZK 27.441 per EUR 1.000

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

- As of December 31, 2013: CZK 27.425 per EUR 1.000
- As of March 31, 2014: CZK 27.440 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 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.

The following table sets out the periods for which the major entities are included in our condensed consolidated interim financial statements and the basis for the stand-alone financial information:

Periods presented in the EPE Group’s condensed consolidated interim financial statements		
Subsidiary	1Q 2013	1Q 2014
EOP	Fully consolidated	Fully consolidated
UE	Fully consolidated	Fully consolidated
PT	Fully consolidated	Fully consolidated
Energotrans, a.s.	Not included, as it was sold in June 2012	Not included, as it was sold in June 2012
Plzeňská energetika a.s.	Fully consolidated	Fully consolidated
JTSD/MIBRAG	Fully consolidated	Fully consolidated
Saale Energie GmbH	Fully consolidated	Fully consolidated

PEAS, EPET	PEAS merged to EP Energy Trading, a.s. ("EPET") effective January 1, 2013. However, there is no impact on financial performance.	PEAS merged to EP Energy Trading, a.s. ("EPET") effective January 1, 2013. However, there is no impact on financial performance.
První mostecká, a.s.	Fully consolidated	Fully consolidated
Stredoslovenská energetika, a.s.	Not included	Fully consolidated since December 2013
Helmstedter Revier GmbH	Not included	Fully consolidated from the balance sheet perspective since December 31, 2013; operations fully consolidated since January 1, 2014.

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, 2013 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.

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 with operations across the entire energy value chain, focusing on brown coal production, heat and power generation, and distribution as well as energy supply and trading. Our principal operations are in the Czech Republic, Germany and the Slovak Republic. We are among the ten largest industrial groups in the Czech Republic in terms of EBITDA and the third-largest brown coal mining company in Germany by tonnage mined. For the first quarter 2014, the EPE Group consolidated sales reached EUR 647.3 million and consolidated EBITDA reached EUR 147.9 million. A significant part of our business comes from regulated industries (i.e., heat, power distribution and renewable energy) and business contracted through long-term agreements with a stable customer base (i.e., mining and a part of our power generation business), which we believe provides us with stability of cash flows and visibility of future performance.

Principal operating subsidiaries of the EPE Group

The EPE Group's principal operating subsidiaries are Mitteldeutsche Braunkohlengesellschaft mbH ("MIBRAG"), Elektrárny Opatovice, a.s. ("EOP"), Pražská teplárenská a.s. ("PT"), United Energy, a.s. ("UE"), Saale Energie GmbH ("Saale Energie"), EP ENERGY TRADING, a.s. ("EPET") and Stredoslovenská energetika, a.s. ("SSE"). MIBRAG operates in the Mining segment, EOP, PT, Saale Energie and UE operate in the Heat and Power segment and EPET with SSE operate in the Power Distribution and Supply segment. Together these subsidiaries accounted for the vast majority of the EPE Group's sales and EBITDA in the first quarter 2014.

For a list of EPE's other subsidiaries and minority interests, see Note 34 to EPE's condensed consolidated interim financial statements as of and for the three-month period ended March 31, 2014.

EPE operating segments

The Group operates in five reportable segments: Mining, Heat and Power, Renewables, Power Distribution and Supply and Other. Mining, Heat and Power and Power Distribution and Supply are the core segments of the Group.

Mining:

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

Heat and Power:

The Heat and Power 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 its 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 Saale Energie GmbH purchased in 2012, which owns 41.9% of the Schkopau-power plant representing a beneficial use right over 400MW of the plant's total

capacity of 900MW. In December 2013, the EPE Group acquired a 100% share in Helmstedter Revier GmbH which operates a condensation mode power plant with an installed capacity of 390MW.

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 one wind farm in Germany at MIBRAG, two solar power plants in Slovakia, and a biogas facility in Slovakia.

Power Distribution and Supply:

The Power Distribution and Supply segment consists of a Power Distribution division and a Supply division. The Supply division 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 and Power segment and purchases from external sources and purchases electricity and natural gas to supply customers through the Supply division. In addition, this segment reports distribution of electricity in the central Slovakia region. This segment is mainly represented by Stredoslovenská energetika, a.s., United Energy Coal Trading, a.s. and EP ENERGY TRADING, a.s.

Other:

The Other segment mainly represents EP Energy, a.s. The segment profit therefore primarily represents dividends declared by its subsidiaries and results from acquisition accounting.

The operating data are 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 EP Energy a.s. Group or the ownership share of the EPE Group in each entity (unless stated otherwise). Nevertheless, operating data for Energotrans and Saale Energie GmbH are excluded.

We note that Stredoslovenská energetika, a.s. has been fully consolidated since December 2013. Similarly, operations of newly acquired Helmstedter Revier GmbH have been fully consolidated since January 1, 2014, with the balance sheet fully consolidated from December 31, 2013 onwards.

For the purpose of this chapter, we comment on the segments and their performance, based on the segment reporting as presented in the notes to the condensed consolidated interim financial statements of EP Energy, a.s. as of and for the quarter ended March 31, 2014 prepared according to IFRS. The EBITDA and any other EBITDA included in this report does not represent EBITDA, as may be defined by any documentation for any financial liabilities of the group.

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

In million EUR	For the three-month period ended March 31,	
	2013	2014
Total sales		
Mining.....	114.1	107.7
Heat and Power	228.2	207.7
Renewables.....	1.3	1.5
Power Distribution and Supply	241.7	395.2
Other.....	0.7	0.7
Total segments.....	586.0	712.7
Intersegment eliminations.....	(37.7)	(65.4)
Consolidated data	548.3	647.3
Depreciation and amortization		
Mining.....	(29.9)	(26.0)
Heat and Power	(30.7)	(28.2)
Renewables.....	(0.9)	(0.9)
Power Distribution and Supply	(0.1)	(14.6)
Other.....	(0.0)	(0.0)
Total segments.....	(61.6)	(69.7)
Intersegment eliminations.....	0.0	0.0
Consolidated data	(61.6)	(69.7)
Negative goodwill		
Mining.....	0.0	0.0
Heat and Power	2.2	0.0
Renewables.....	0.0	0.0
Power Distribution and Supply	0.0	0.0
Other.....	0.0	0.0
Total segments.....	2.2	0.0
Intersegment eliminations.....	0.0	0.0
Consolidated data	2.2	0.0
Profit/(loss) from operations		
Mining.....	18.6	15.8
Heat and Power	56.8	44.8
Renewables.....	(0.1)	0.2
Power Distribution and Supply	2.1	18.2
Other.....	(1.0)	(0.8)
Total segments.....	76.4	78.2
Intersegment eliminations.....	(0.1)	0.1
Consolidated data	76.3	78.3
EBITDA⁽¹⁾		
Mining.....	48.5	41.8
Heat and Power	85.4	73.0
Renewables.....	0.8	1.0
Power Distribution and Supply	2.2	32.8
Other.....	(0.9)	(0.8)
Total segments.....	135.8	147.9
Intersegment eliminations.....	(0.1)	0.0
Consolidated data	135.7	147.9

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

Mining

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

the MIBRAG Group in June 2012. As such, the MIBRAG Group is fully consolidated only from July 1, 2012 onwards. We conduct other mining operations in Germany through our Heat and Power segment, which includes the Schöningen mine in the Helmstedt mining district, which we acquired through our acquisition of the HSR Group on December 31, 2013, and neither the operating data nor the financial data for these mining facilities in our Heat and Power segment is or will be included within our Mining operating data. At the same time, we note that as part of the segmental reporting we reclassified certain gross margin relating to deliveries of MIBRAG's lignite to Buschhaus, Elektrárny Opatovice and United Energy from Mining segment to Heat and Power segment. This reclassification adjustment aims to retain the effects from internal sourcing at Heat and Power facilities.

Our Mining segment accounted for 35.7% of consolidated EBITDA in the first quarter 2013 and 28.3% of consolidated EBITDA in the first quarter 2014, in each case before intersegment eliminations. The business of our Mining segment is conducted in Germany through our wholly-owned subsidiary MIBRAG.

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

		As of and for the 3-month period ended March 31,	
		2013	2014
Brown coal production.....	In Mt	5.0	5.6
Brown coal sold.....	In Mt	4.5	5.1
Reserves ⁽¹⁾	In Mt	459.1	435.6

(1) Refers to proved and probable reserves excluding the Buschhaus reserves.

Brown coal production and brown coal sold

For the first quarter 2014, MIBRAG's brown coal sold increased by 0.6 Mt, or 13.3% to 5.1 Mt as compared to 4.5 Mt for the first quarter 2013 and brown coal production increased by 0.6 Mt, or 12.0%, to 5.6 Mt as compared to 5.0 Mt for the first quarter 2013, which was mainly due to realized internal coal deliveries to Buschhaus, Elektrárny Opatovice and United Energy and higher demand from one of the power plants we supply as well as an effect of a new (temporary) customer gained in 2014.

Reserves

The evolution of reserves is aligned primarily with our brown coal production in the relevant period.

The table below shows a summary of key financial data for our Mining segment. The financial data are based on EPE's consolidated financial information before eliminations of intersegment transactions.

		For the 3-month period ended March 31,	
		2013	2014
Total Sales.....	in EUR millions	114.1	107.7
EBITDA.....	in EUR millions	48.5	41.8

EBITDA

EBITDA decreased by EUR 6.7 million, or 13.8%, to EUR 41.8 million for the first quarter 2014 as compared to EUR 48.5 million for the first quarter 2013, with key driver being mainly the one-off

positive non-cash effect of approx. EUR 4 million in 1Q 2013 (capitalization of overburden removal according to the IFRIC 20 standard), followed by approx. EUR 2.5 million effect primarily due to lower sales of heat caused by unfavorable weather conditions in 1Q 2014 as compared to 1Q 2013.

Heat and Power

The Heat and Power segment accounted for 62.8% of consolidated EBITDA for the first quarter 2013 and 49.4% of consolidated EBITDA for the first quarter 2014, in each case before intersegment eliminations. We conduct our Heat and Power operations in the Czech Republic through the following major subsidiaries: Pražská teplárenská, Elektrárny Opatovice, United Energy and Plzeňská energetika and in Germany through Saale Energie and since the completion of the acquisition of the HSR Group on December 31, 2013, we also conduct our Heat and Power operations in Germany through the HSR Group. We conduct other heat and power operations in Germany through our Mining segment, which includes several combined heat and power (“CHP”) facilities, and neither the operating data nor the financial data for these CHP facilities in our Mining segment is included within our Heat and Power operating data. The table below shows a summary of key operating data for the Heat and Power segment. The operating data are based on the results of the whole entity regardless of the date when each entity joined the EPE Group or the ownership share of the EPE Group in each entity.

		For the three-month period ended March 31,	
		2013	2014
Installed heat capacity	MWth	4,106	3,933
Heat supplied	TJ	8,544	6,647
Installed cogeneration capacity	MW _e	500	500
Installed condensation capacity	MW _e	360	750
Certified grid balancing capacity ⁽¹⁾	MW _e	169	205
Cogeneration production	GWh	339	258
Condensation production	GWh	574	1,287
Grid balancing services	GWh	316	272
Saale Energie ⁽²⁾	MW _e	400	400

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

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

Installed heat capacity

Installed heat capacity decreased by 173 MWth to 3,933 MWth in the first quarter 2014 as compared to 4,106 MWth in the first quarter 2013 due to the removal of one boiler in Pražská teplárenská and one boiler in Plzeňská energetika.

Heat supplied

Heat supplied decreased by 1,897 TJ, or 22.2%, to 6,647 TJ for the first quarter 2014 as compared to 8,544 TJ for the first quarter 2013. The decrease in heat supplied was primarily due to significantly warmer weather in the first quarter 2014 as compared to the first quarter 2013. As outlined previously in the Report, an approximate metrics representing “coldness” of the weather pattern is so called “day-degrees” (a metric integrating difference between reference indoor temperature and outdoor temperature over the given period of time), which was for the EPE Group and in the areas where we deliver the heat period-to-period by 21.2% lower which resulted in lower heat offtake at customers. This translated into reduction in associated EBITDA period-to-period.

Installed condensation capacity (excluding Saale Energie)

Installed condensation capacity increased by 390 MW_e to 750 MW_e as of March 31, 2014 as compared to 360 MW_e as of March 31, 2013. This increase in installed condensation capacity is associated with the acquisition of Helmstedter Revier GmbH in December 2013.

Certified grid balancing capacity

Certified grid balancing capacity increased by 36 MW_e to 205 MW_e in the first quarter 2014 as compared to 169 MW_e in the first quarter 2013. This increase corresponds to the additional certified grid balancing capacity in Plzeňská energetika.

Cogeneration production

Cogeneration production decreased by 81.1 GWh, or 23.9%, to 257.7 GWh for the first quarter 2014, as compared to 338.8 GWh for the first quarter 2013. This decrease in cogeneration production was primarily due to the significantly warmer weather in the first quarter 2014 as compared to the first quarter 2013 and therefore lower heat offtake connected with less co-generation power production.

Condensation production (excluding Saale Energie)

Condensation generation (excluding Saale Energie) increased by 713 GWh, or 124.2%, to 1,287 GWh for the first quarter 2014, as compared to 574 GWh for the first quarter 2013. This increase in condensation generation was primarily due to the acquisition of Helmstedter Revier GmbH in December 2013.

Grid balancing services

Grid balancing services decreased by 44 GWh, or 13.9%, to 272 GWh for the first quarter 2014 as compared to 316 GWh for the first quarter 2013. This decrease in grid balancing services was primarily due to the lower contracted grid balancing volume especially in EOP.

The table below shows a summary of key financial performance data for the Heat and Power segment as well as sales on a division (Heat and Cogeneration and Power Generation) basis. The financial data is based on 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,	
		2013	2014
Total sales	in EUR millions	228.2	207.7
EBITDA	in EUR millions	85.4	73.0

EBITDA

As part of our energy production optimization process, one of the subsidiaries in our Heat and Power segment, EOP, engages in sales and resales of electricity generated by EOP, as well as electricity purchased on the wholesale market. 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 and Power operations in the Czech Republic are generally priced in Czech crowns (with the exception of the EOP and UE supply contracts for MIBRAG brown coal, which are priced in euros), but our contracts for sales of electricity are primarily priced in euro, 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). Although we generally lock in the exchange rate at the time a contract is entered through the use of derivatives, the amounts due or paid under these derivative contracts, which offset the exchange rate fluctuation effects discussed above, are not included in EBITDA and are included in the Profit/loss from financial instruments and/or the Finance income and Finance expense lines in our financial information. Therefore EBITDA may not accurately reflect our results of operations and may not serve as accurate performance indicators of EOP, and consequently also EBITDA in the Heat and Power segment.

EBITDA decreased by EUR 12.4 million, or 14.5%, to EUR 73.0 million for the first quarter 2014 as compared to EUR 85.4 million for the first quarter 2013. This decrease was mainly due to warmer weather which led to significantly lower heat demand in the first quarter 2014 as compared to the first quarter 2013. Further factors that led to the decrease include lower power prices realized, lower power production in cogeneration mode resulting from lower heat offtake and fewer allocated emissions allowances in the first quarter 2014 compared to the first quarter 2013. In addition, our heat generation financial performance was negatively impacted by the foreign exchange rate intervention executed by the Czech National Bank in November 2013 which contributed to the fact that for the reporting purposes we translated CZK denominated financial information at an average rate of CZK/EUR 27.441 for 1Q 2014 versus CZK/EUR 25.568 for 1Q 2013. This negative development was partially offset by the change in the consolidation scope, i.e. the acquisition of Helmstedter Revier GmbH in December 2013. Also, we note that as part of the segmental reporting we reclassified certain gross margin relating to deliveries of MIBRAG's lignite to Buschhaus, Elektrárny Opatovice and United Energy from Mining segment to Heat and Power segment. This reclassification adjustment aims to retain the effects from internal sourcing at Heat and Power facilities.

Renewables

The Renewables segment accounted for 0.6% of consolidated EBITDA in the first quarter 2013 and for 0.7% of consolidated EBITDA in the first quarter 2014, in each case before intersegment eliminations. Our Renewables business is conducted in the Czech Republic, Germany and the Slovak Republic through EP Renewables, a.s. (and its subsidiaries) and MNE, and includes wind, solar and biogas operations.

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

		As of and for the three-month period ended March 31,	
		2013	2014
Installed Capacity	MW _e	25.0	25.0
Power Production.....	GWh	8.5	10.5

Installed capacity

Installed capacity remained at 25.0 MW_e at March 31, 2014 and March 31, 2013.

Power production

Power production increased by 2.0 GWh, or 23.5%, to 10.5 GWh for the first quarter 2014 as compared to 8.5 GWh for the first quarter 2013. This increase was primarily due to better wind and solar conditions throughout the first quarter 2014 as compared to the first quarter 2013.

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,	
		2013	2014
Total Sales	in EUR millions	1.3	1.5
EBITDA.....	in EUR millions	0.8	1.0

EBITDA

EBITDA increased by EUR 0.2 million, or 25.0%, to EUR 1.0 million for the first quarter 2014 as compared to EUR 0.8 million for the first quarter 2013. This increase in EBITDA was mainly due to the better wind and solar conditions in the first quarter 2014 as compared to the first quarter 2013.

Power Distribution and Supply

The Power Distribution and Supply segment accounted for 1.6% of consolidated EBITDA for the first quarter 2013 and 22.2% of consolidated EBITDA for the first quarter 2014, in each case before intersegment eliminations, and is conducted in the Czech Republic, the Slovak Republic and Poland through our subsidiary EPET (including PEAS, which merged with and into EPET on January 1, 2013), United Energy Coal Trading, a.s., UNITED ENERGY COAL TRADING POLSKA S.A. and Stredoslovenská energetika, a.s.

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.

		For the three-month period ended March 31,	
		2013	2014
Power traded	GWh	4,441	3,788
Power supplied	GWh	530	517
Natural gas supplied	GWh	798	1,014

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

		For the three-month period ended March 31,	
		2013	2014
Power distributed	GWh	1,674	1,605
Power traded	GWh	1,413	1,559
Power supplied	GWh	1,272	1,192
Natural gas supplied	GWh	35	79
Power produced	GWh	3.5	3.6
Installed capacity	MW _e	62.3	62.3

Power traded

Power traded (excluding SSE) decreased by 653 GWh, or 14.7%, to 3,788 GWh for the first quarter 2014 as compared to 4,441 GWh for the first quarter 2013. This decrease in power traded was primarily due to a decrease in power trading activity.

Please note that there was a change in the methodology of reporting of power traded (thus the volume for 1Q 2013 mentioned above does not correspond to the number reported last year). This change consists in including the financial derivatives into the volume traded in the total volume of power traded. We changed the approach in order to reflect more accurately the activity of the power trading in the report, because financial derivatives represent an important part of the power trading.

Power traded by SSE reached 1,559 GWh in 1Q 2014, i.e. 10.3% increase compared to 1Q 2013. Main driver was higher re-sold volume coming from renewable resources.

Power supplied

Power supplied decreased by 13 GWh, or 2.5%, to 517 GWh for the first quarter 2014 as compared to 530 GWh for the first quarter 2013. This decrease in power supplied reflects lower power sales in the Czech Republic due to higher competition on Czech power market as well as mild winter resulting in lower electricity offtake.

Power supply by SSE reached 1,192 GWh in 1Q 2014, which is decrease of 6.3% in comparison with 1Q 2013. This decrease is caused mainly by Household and Midmarket customer loss and consumption drop driven by mild winter.

Natural gas supplied

Natural gas supplied increased by 216 GWh, or 27.1%, to 1,014 GWh for the first quarter 2014 as compared to 798 GWh for the first quarter 2013. This increase in natural gas supplied was due to higher gas sales to EPET's industrial customers.

Natural gas supplied by SSE reached 79 GWh in 1Q 2014, i.e. increase of 44 GWh in comparison with 1Q 2013. This increase is due to growth of supply portfolio through new customer acquisitions.

Power distributed

Power distributed by SSE reached 1,605 GWh in 1Q 2014, i.e. decrease of 69 GWh or 4.1% as compared to 1Q 2013. We registered decline on all voltage levels (mainly due to higher temperature during winter season).

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,	
		2013	2014
Total Sales.....	in EUR millions	241.7	395.2
EBITDA	in EUR millions	2.2	32.8

EBITDA

As part of our power trading activities, EPET engages in sales of power generated by EPE Group companies, as well as resale 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 resale, 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 and Power operations in the Czech Republic are generally priced in Czech crowns (with the exception of the EOP and UE supply contracts for MIBRAG brown coal, which are priced in euros), but we may purchase power in euro, EBITDA from our supply operations may increase or decrease (and even be negative) depending on currency exchange rate fluctuations. Although we generally lock in the exchange rate 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 only partially included in EBITDA and the remainder is included in the Profit/(loss) from financial instruments line and/or the Finance income and Finance expense lines, unless they qualify for hedge accounting under IFRS, in which case they are reflected in the Cost of sales: 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. The effect of exchange rate and power price derivatives has been partially included in EBITDA since January 1, 2013, when hedge accounting was put in place at EPET. Hedge accounting was adopted at EPET because it enables EPET to display the effect of hedging financial derivatives in the income statement as a result or cost of operations, as opposed to a solely financial result, therefore allowing the capture of all relevant effects as a part of operating profit. Therefore, EBITDA may not accurately reflect our results of operations and may not serve as an accurate performance indicator of our Energy Supply and Trading segment. The same analysis applies for a portion of the revenues and costs from electricity trading related to financial commodity derivatives. These revenues and costs are only partially reflected in EBITDA, while the remainder is included in Profit/(loss) from financial instruments and/or the Finance income and Finance expense lines. The effect of financial commodity derivatives has been partially included in EBITDA since January 1, 2013, when hedge accounting was put in place at EPET.

EBITDA increased by EUR 30.6 million to EUR 32.8 million for the first quarter 2014 as compared to EUR 2.2 million for the first quarter 2013. The increase was due to inclusion of SSE operations for the first quarter 2014 which was then partly offset by lower profitability at EPET (lower achieved margins).

The SSE Group is legally bound to connect producers of green energy, if they comply with requirements set by Regulatory Office for Network Industries (“URSO”) and to purchase the green electricity generated, which is used to cover network losses. The purchase tariff for green energy is set by URSO and is covered by the Tariff for system operation (“TPS”). For the three-month period ended March 31, 2014 the SSE Group recognised a loss of EUR 11.1 million as the difference between the costs of purchased green energy and costs related to the subvention of electricity produced from coal, and revenues from TPS. Based on the current Regulatory Framework the losses incurred will be

compensated in two years' time, i.e. relevant amounts in 2016 through an increase of revenues from TPS. The resulting asset originating in the three-month period ended March 31, 2014 and in prior periods was not recognized as the asset does not meet the recognition criteria set by IFRS as adopted by the EU. See section "Other granted promises" for more details.

Other

The Other segment accounted for negative 0.7% of consolidated EBITDA for the first quarter 2013 and negative 0.5% of consolidated EBITDA for the first quarter 2014, in each case before intersegment eliminations. The table below shows a summary of key financial data for the Other segment:

		<u>For the three-month period ended March 31,</u>	
		2013	2014
Total sales	in EUR millions	0.7	0.7
EBITDA	in EUR millions	(0.9)	(0.8)

The main driver of the negative EBITDA in both first quarter 2013 and 2014 was the other operating expenses of EP Energy. 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 of executive and part-time employees (administrative staff) and associated social and health insurance, administrative costs for repairs and maintenance, other taxes and fees, costs for audit and accounting services, costs for legal consultancy, operating leases, rent of premises, communication expenses, travel expenses, costs for translation, non-tax deductible fees, rental income and other administrative costs.

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 for our Mining segment:

In EUR millions	For the 3-month period ended March 31,	
	2013	2014
Capital expenditures relating to tangible fixed assets.....	6.3	6.9
Capital expenditures relating to intangible fixed assets excluding emission rights	0.0	0.3

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

Capital expenditures relating to tangible fixed assets increased by EUR 0.6 million, or 9.5%, to EUR 6.9 million in the first quarter 2014 from EUR 6.3 million in the first quarter 2013. The majority of these capital expenditures are connected to the development of MIBRAG's mining operations, notably the movement of mining infrastructure to the mining field Peres within MIBRAG's Vereinigtes Schleenhain mine.

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

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

In EUR millions	For the 3-month period ended March 31,	
	2013	2014
Capital expenditures relating to tangible fixed assets.....	1.8	1.8
Capital expenditures relating to intangible fixed assets excluding emission rights	0.0	0.0

Capital expenditures relating to tangible fixed assets remained the same in the first quarter 2014 as compared to the first quarter 2013.

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 Renewables segment:

In EUR millions	For the 3-month period ended March 31,	
	2013	2014
Capital expenditures relating to tangible fixed assets.....	0.3	0.3
Capital expenditures relating to intangible fixed assets excluding emission rights	0.0	0.0

Capital expenditures relating to tangible fixed assets remained on the similar level in the first quarter 2014 as compared to the first quarter 2013.

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

In EUR millions	For the 3-month period ended March 31,	
	2013	2014
Capital expenditures relating to tangible fixed assets.....	0.0	6.6
Capital expenditures relating to intangible fixed assets excluding emission rights	0.1	0.3

Capital expenditures in our Power Distribution and Supply segment in the first quarter 2014 were primarily affected by changes in the consolidation scope. Acquisition of SSE resulted in higher capital expenditures which are expected to materialize also in the following periods.

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

In EUR millions	For the 3-month period ended March 31,	
	2012	2013
Capital expenditures relating to tangible fixed assets	0.0	0.0
Capital expenditures relating to intangible fixed assets excluding emission rights	0.0	0.0

Capital expenditures in the Other segment are not material due to the nature of operations of this segment.

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 brown coal dust and energy by-products (such as ash and gypsum).

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Results of operations of the EPE Group

The following sections provide a period-by-period comparison of the EPE Group’s historical income statement data. The financial data has been prepared in accordance with IFRS, and has been derived from the EPE’s condensed consolidated interim financial statements for the three-month period ended March 31, 2014 (which include financial information for the three-month period ended March 31, 2013 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: first quarter 2014 compared to the first quarter 2013

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, 2014, 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”.

Consolidated statement of comprehensive income

For the three-month period ended 31 March 2014

In thousands of EUR (“TEUR”)

	31 March 2014 (three months)	31 March 2013 (three months)
Sales: Energy	618,406	526,251
of which: Electricity	359,788	237,960
Heat	106,772	136,069
Coal	79,988	81,000
Gas	71,799	71,222
Other energy products	59	-
Sales: Other	28,891	22,059
Total sales	647,297	548,310
Cost of sales: Energy	(389,554)	(324,038)
Cost of sales: Other	(13,499)	(5,984)
Total cost of sales	(403,053)	(330,022)
	244,244	218,288
Personnel expenses	(58,966)	(44,235)
Depreciation and amortisation	(69,657)	(61,600)
Repairs and maintenance	(2,947)	(4,263)
Emission rights, net	(7,195)	(9,934)
Negative goodwill	-	2,176
Taxes and charges	(2,902)	(2,777)
Other operating income	12,689	6,463
Other operating expenses	(36,982)	(27,808)
Profit (loss) from operations	78,284	76,310
Finance income	11,366	7,275
Finance expense	(23,607)	(20,377)
Profit (loss) from derivative financial instruments	3,343	(3,794)
Net finance income (expense)	(8,898)	(16,896)
Share of profit (loss) of equity accounted investees, net of tax	(74)	(668)
Profit (loss) before income tax	69,312	58,746
Income tax revenues (expenses)	(14,129)	4,028
Profit (loss) for the period	55,183	62,774
Items that are or may be reclassified subsequently to profit or loss:		
Foreign currency translation differences for foreign operations	19,852	3,337
Foreign currency translation differences for presentation currency	(20,139)	(25,076)
Effective portion of changes in fair value of cash flow hedges, net of tax	(2,405)	(39)
Other comprehensive income for the period, net of tax	(2,692)	(21,778)
Total comprehensive income for the period	52,491	40,996
Profit (loss) attributable to:		
Owners of the Company	41,876	55,460
Non-controlling interest	13,307	7,314
Profit (loss) for the period	55,183	62,774
Total comprehensive income attributable to:		
Owners of the Company	38,965	34,759

Non-controlling interest	13,526	6,237
Total comprehensive income for the period	52,491	40,996

Key line items

Sales: Energy

Sales: Energy increased by EUR 92.2 million, or 17.5%, to EUR 618.4 million for the first quarter 2014 as compared to EUR 526.3 million for the first quarter 2013.

Sales of electricity

Sales of electricity increased by EUR 121.8 million, or 51.2%, to EUR 359.8 million for the first quarter 2014 as compared to EUR 238.0 million for the first quarter 2013. This increase in sales of electricity reflects mainly the change in the consolidation scope, i.e. the acquisition of Stredoslovenská energetika, a.s. in November 2013 and Helmstedter Revier GmbH in December 2013. This increase was partially offset by the decrease in sales of electricity by EPET due to lower power production in own power plants and mild winter which materialized in lower electricity offtake.

Sales of heat

Sales of heat decreased by EUR 29.3 million, or 21.5%, to EUR 106.8 million for the first quarter 2014 as compared to EUR 136.1 million for the first quarter 2013. This decrease in sales of heat was primarily due to the lower demand of heat generated by PT, EOP, UE, PE caused by significantly warmer weather in the first quarter 2014 as compared to the first quarter 2013. As noted previously in the Report, an approximate metrics representing “coldness” of the weather pattern is so called “day-degrees” (a metric integrating difference between reference indoor temperature and outdoor temperature over the given period of time), which was for the EPE Group and in the areas where we deliver the heat period-to-period by 21.2% lower which resulted in lower heat offtake at customers.

Sales of gas

Sales of gas increased by EUR 0.6 million, or 0.8%, to EUR 71.8 million for the first quarter 2014 as compared to EUR 71.2 million for the first quarter 2013. This increase in sales of gas was primarily due to the change in the consolidation scope, i.e. the acquisition of Stredoslovenská energetika, a.s. in November 2013.

Sales of coal

Sales of coal decreased immaterially by EUR 1.0 million, or 1.2%, to EUR 80.0 million for the first quarter 2014 as compared to EUR 81.0 million for the first quarter 2013.

Sales: Other

Sales: Other increased by EUR 6.8 million, or 31.0%, to EUR 28.9 million for the first quarter 2014 as compared to EUR 22.1 million for the first quarter 2013. This increase in sales: Other was primarily due to the higher trading activity especially in UECT POLSKA s.a.

Cost of sales: Energy

Cost of sales: Energy increased by EUR 65.5 million, or 20.2%, to EUR 389.6 million for the first quarter 2014 as compared to EUR 324.0 million for the first quarter 2013. This increase in Cost of sales: Energy was primarily due to the change in the consolidation scope, i.e. the acquisition of Stredoslovenská energetika, a.s. in November 2013 and Helmstedter Revier GmbH in December 2013 partially offset by lower cost of sales: Energy by EPET.

Cost of sales: Other

Cost of sales: Other increased by EUR 7.5 million, or 125.6%, to EUR 13.5 million for the first quarter 2014 as compared to EUR 6.0 million for the first quarter 2013. This increase in Cost of sales: Other was primarily due to the change in the consolidation scope and due to the increased Cost of sales: Other of UECT and UECT POLSKA.

Personnel expenses

Personnel expenses increased by EUR 14.7 million, or 33.3%, to EUR 59.0 million for the first quarter 2014 as compared to EUR 44.2 million for the first quarter 2013. This increase in personnel expenses was due to the change in the consolidation scope, i.e. the acquisition of Stredoslovenská energetika, a.s. in November 2013 and Helmstedter Revier GmbH in December 2013.

Depreciation and amortization

Depreciation and amortization increased by EUR 8.1 million, or 13.1%, to EUR 69.7 million for the first quarter 2014 as compared to EUR 61.6 million for the first quarter 2013. This increase in depreciation and amortization was primarily due to the change in the consolidation scope, i.e. the acquisition of Stredoslovenská energetika, a.s. in November 2013 and Helmstedter Revier GmbH in December 2013 partially offset by lower Depreciation and amortization of Mibrag and Pražská teplárenská.

Repairs and maintenance

Repairs and maintenance decreased by EUR 1.3 million, or 30.9%, to EUR 2.9 million for the first quarter 2014 as compared to EUR 4.3 million for the first quarter 2013. The decrease in Repairs and maintenance was primarily caused by one-off expenditures at Mibrag in the first quarter 2013.

Emission rights, net

Emission rights, net decreased by EUR 2.7 million, or 27.6%, to EUR 7.2 million for the first quarter 2014 as compared to EUR 9.9 million for first quarter 2013. This decrease in emission rights, net was primarily due to lower consumption of emission allowances by Mibrag and EOP partially offset by higher price and lower free allocation of emission rights. Lower consumption of emission allowances was due to mild winter which translated into lower heat and power production and thus less exhausted emissions.

Negative goodwill

Negative goodwill decreased by EUR 2.2 million to EUR 0.0 million for the first quarter 2014 as compared to EUR 2.2 million for the first quarter 2013. Negative goodwill decreased to zero due to no acquisitions activity in the first quarter 2014 opposed to gaining of full control in První mostecká in 1Q 2013.

Taxes and charges

Taxes and charges increased by EUR 0.1 million, or 4.5%, to EUR 2.9 million for the first quarter 2014 as compared to EUR 2.8 million for the first quarter 2013. This increase in taxes and charges is immaterial.

Other operating income

Other operating income increased by EUR 6.2 million, or 96.3%, to EUR 12.7 million for the first quarter 2014 as compared to EUR 6.5 million for the first quarter 2013. The increase in Other operating income is primarily due to the change in the consolidation scope, i.e. the acquisition of Stredoslovenská energetika, a.s. in November 2013 and Helmstedter Revier GmbH in December 2013.

Other operating expenses

Other operating expenses increased by EUR 9.2 million, or 33.0%, to EUR 37.0 million for the first quarter 2014 as compared to EUR 27.8 million for the first quarter 2013. This increase in Other operating expenses is primarily due to the change in the consolidation scope, i.e. the acquisition of Stredoslovenská energetika, a.s. in November 2013 and Helmstedter Revier GmbH in December 2013 and due to increased consulting and administrative costs of Mibrag.

Finance income

Finance income increased by EUR 4.1 million, or 56.2%, to EUR 11.4 million for the first quarter 2014 as compared to EUR 7.3 million for the first quarter 2013. This increase in finance income was primarily due to the increase in interest income caused by the change in the consolidation scope, particularly the acquisition of Helmstedter Revier GmbH in December 2013.

Finance expense

Finance expense increased by EUR 3.2 million, or 15.9%, to EUR 23.6 million for the first quarter 2014 as compared to EUR 20.4 million for the first quarter 2013. This increase in finance expense was primarily driven by the increase of interest expenses, fees and commissions expense in connection with the acquisition of Stredoslovenská energetika, a.s.

Profit/(loss) from derivative financial instruments

Profit/(loss) from derivative financial instruments increased by EUR 7.1 million to a profit of EUR 3.3 million for the first quarter 2014 as compared to a loss of EUR 3.8 million for the first quarter 2013. This change in profit/(loss) from financial instruments was primarily due to the lower losses from the revaluation of currency derivatives for trading at EOP and by increased profit from commodity financial derivatives at EPET.

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

Share of profit/(loss) of equity accounted investees, net of tax changed by EUR 0.6 million to a loss of EUR 0.1 million for the first quarter 2014 as compared to a loss of EUR 0.7 million for the first quarter 2013. This change in profit/(loss) of equity accounted investees, net of tax is mainly related to PTH.

Income tax expenses

Income tax expenses changed by EUR 18.2 million to negative EUR 14.1 million for the first quarter 2014 as compared to positive EUR 4.0 million for the first quarter 2013 – while current income taxes increased by EUR 18.8 million in the first quarter 2014 as compared to the first quarter 2013, on the contrary, deferred income taxes decreased by EUR 0.6 million as compared to the first quarter 2013. The increase in income tax expenses was primarily due to the significant increase in the income tax for the current period recorded in MIBRAG and PT for the first quarter 2014 as compared to the first quarter 2013. The increase was partially offset by the decrease in the income tax for the current period at EOP.

Other comprehensive income for the period, net of tax

Other comprehensive income for the period, net of tax, changed by EUR 19.1 million to a negative EUR 2.7 million for the first quarter 2014 as compared to negative EUR 21.8 million for the first quarter 2013. This change in other comprehensive income, net of tax, was primarily due to the increase in foreign currency translation differences for foreign operations.

Total comprehensive income for the period

Total comprehensive income for the period increased by EUR 11.5 million, or 28.0%, to EUR 52.5 million for the first quarter 2014 as compared to EUR 41.0 million for the first quarter 2013. This increase in total comprehensive income for the period was primarily due to the lower loss from other comprehensive income for the period, net of tax.

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, since EPE's issuance of the Notes, bonds and, since EPE entered into the SSE Acquisition Credit Facility, borrowings thereunder). 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. We have recently entered into a revolving credit facility with an expectation to enter into one more credit facility in near future. These revolving credit facilities, together with our internal cash generation capacity shall enable us to meet the Group's short-term liquidity needs, including working capital.

Cash flow

The following table summarizes our selected consolidated cash flows for the first quarter 2013 and 2014.

	Three-month period ended March 31,	
	2013	2014
	(in EUR millions)	
Operating profit before changes in working capital	162.3	143.7
<i>Selected changes to working capital</i>		
Change in financial instruments in other than fair value	(162.0)	(48.2)
Change in trade receivables and other assets.....	(31.0)	(12.6)
Change in inventories (including proceeds from sale)	(1.0)	2.7
Change in extracted minerals and mineral products.....	0.2	(1.2)
Change in trade payables and other liabilities	(31.1)	(51.0)
Change in assets held for sale and related liabilities.....	(0.2)	–
Cash flows generated from (used in) operating activities	(90.8)	9.8
Cash flows from (used in) investing activities	(1.7)	(25.3)
Cash flows from (used in) financing activities	71.6	(1.4)
Total changes in cash flows	(20.9)	(16.9)

Our cash flow figures in the periods analysed were significantly impacted by certain transactions that we have undertaken, specifically the acquisition of SSE and HSR.

Operating Activities

Cash flows from (used in) operating activities changed by EUR 100.6 million to cash in-flow from operating activities of EUR 9.8 million for the first quarter 2014, as compared to negative cash flows used in operating activities of EUR 90.8 million for the first quarter 2013. This change in cash flows from (used in) operating activities is primarily due to improvement of working capital for the first quarter 2014 as compared to the first quarter 2013. The principal reason for the improvement of working capital was a positive change in the financial instruments in other than fair value which primarily relates to upstream loans provided to EPH.

Investing Activities

Cash flows from (used in) investing activities changed by EUR 23.6 million to negative cash flows used in investing activities of EUR 25.3 million for the first quarter 2014, as compared to negative cash flows from investing activities of EUR 1.7 million for the first quarter 2013. This change in cash flows from (used in) investing activities is primarily due to the increase in capital expenditures related to the acquisition of Stredoslovenská energetika a.s. and Helmstedter Revier GmbH and due to the decrease in proceeds from sale of financial instruments –derivatives.

Financing Activities

Cash flows from (used in) financing activities changed by EUR 73.0 million to negative cash flows used in financing activities of EUR 1.4 million for the first quarter 2014, as compared to positive cash flows from financing activities of EUR 71.6 million for the first quarter 2013. This change in cash flows from (used in) financing activities is primarily due to borrowings and repayments of loans made in the first quarter 2013. Particularly drawing of the syndicated bank loan and subsequent repayment of shareholder debt.

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 above, the inclusion of SSE's results in our financial statements

will correspondingly increase our capital expenditures. We have made, and expect to continue to make, expenditures to maintain compliance with environmental laws. For example, starting in 2016, the stricter emission targets set forth by the European Industrial Emissions Directive (IED) will apply for large combustion plants, including those that we operate, which we estimate will require additional capital expenditures in excess of EUR 80 million for our power plants in the Czech Republic (predominantly at EOP and minor technology improvements at UE and PE), and an additional EUR 6.5 million total for our Schkopau (primarily mercury-related) and MIBRAG power plants in Germany. We are also considering the construction of rail infrastructure for the transport of MIBRAG brown coal to off-takers EOP, UE and Buschhaus. In addition, we expect to incur a one-off capital expenditure in or around 2016 relating to the brown coal train unloading facilities at Buschhaus. We also expect to accelerate our capital expenditure on certain refurbishments to our heating network operations over the next two years in order to be eligible for approximately EUR 6 million in public subsidies in the Czech Republic. We also expect to incur one-off capital expenditures in relation to our two renewable energy projects that are in development, mainly in 2014-2015, with an expected cost of EUR 1.5 million/MW of installed capacity.

During the first quarter 2013 and 2014, capital expenditures were as follows:

	As of and for the three-month period ended March 31,	
	2013	2014
Capital expenditures for tangible fixed assets.....	8.4	15.6
Capital expenditures for intangible fixed assets excluding emission rights	0.1	0.7
Capital expenditures for emission rights (incl. free allocations)	21.0	19.0
Total capital expenditures	29.5	35.3
Property, plant and equipment, at cost	1,906.8	2,909.3

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

Capital expenditures for tangible fixed assets increased by EUR 7.2 million, or 85.2%, to EUR 15.6 million for the first quarter 2014 as compared to EUR 8.4 million for the first quarter 2013. This increase in capital expenditures for tangible fixed assets was primarily due to the acquisition of Stredoslovenská energetika, a.s., which was reflected in our financial statements from December 1, 2013.

Capital expenditures for intangible fixed assets excluding emission rights immaterially increased by EUR 0.6 million to EUR 0.7 million for the first quarter 2014 as compared to EUR 0.1 million for the first quarter 2013.

Capital expenditures for emission rights

A portion of our emissions allowance-related capital expenditures represents repurchases of previously sold emissions allowances.

For the periods presented in this Report out of all entities included in the EPE Group, MIBRAG, EOP, PE and UE 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. Buschhaus will also be required to purchase emissions allowances. 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, 2013 and March 31, 2014.

In EUR millions	December 31, 2013	March 31, 2014
Loans payable to credit institutions	325.1	323.9
Loans payable to other than credit institutions	142.6	143.8
<i>of which owed to the parent company</i>	2.3	2.3
<i>of which owed to other related companies</i>	140.3	141.4
Bank overdraft	0.0	0.0
Notes	1,091.8	1,106.5
Liabilities from financial leases	0.2	0.1
Total	1,559.7	1,574.3
Non-current	1,513.8	1,524.9
<i>of which owed to the parent company</i>	0.0	0.0
<i>of which owed to other related companies</i>	139.1	139.1
Current	45.9	49.4
<i>of which owed to the parent company</i>	2.3	2.3
<i>of which owed to other related companies</i>	1.2	2.4
Total	1,559.7	1,574.3

Off-balance sheet arrangements of the EPE Group

The table below sets out EPE's financial commitments and contingencies as of December 31, 2013 and March 31, 2014.

In EUR millions	December 31, 2013	March 31, 2014
Granted pledges—securities	1,041.3	1,040.4
Guarantees given	286.8	283.7
Other contingent liabilities	1,861.2	1,832.1
Total	3,189.3	3,156.2

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

Other contingent liabilities relate to granted loans of EUR 1,290.7⁽¹⁾ million (December 31, 2013: EUR 1,284.2⁽¹⁾ million), pledged cash of EUR 106.5 million (December 31, 2013: EUR 104.7 million) and further pledges of EUR 434.9 million (December 31, 2013: EUR 472.4 million) that include pledged fixed assets of EUR 320.0 million (December 31, 2013: EUR 343.1 million), pledged inventories of EUR 15.3 million (December 31, 2013: EUR 17.9 million) and trade receivables of EUR 99.6 million (December 31, 2013: EUR 111.3 million); all were used as collateral for external financing.

(1) Total balance of pledged granted loans includes intercompany loans of EUR 758.5 million (December 31, 2013: EUR 811.6 million).

Other granted promises

Other granted promises comprise EUR 341.4 million (December 31, 2013: EUR 309.3 million), which are represented by the contracts for future energy supply, and EUR 80.0 million (December 31, 2013: EUR 68.9 million), which are represented by the contingent assets related to green energy for the three-month period ended March 31, 2014 (that includes the contingent asset from 2012 which shall be recovered throughout 2014) and for the year 2013 (December 31, 2013: contingent assets cover years 2012 and 2013).

Contingent assets related to green energy for the reporting period

The SSE Group is legally bound to connect producers of green energy, if they comply with requirements set by Regulatory Office for Network Industries (“URSO”) and to purchase the green electricity generated, which is used to cover network losses. The purchase tariff for green energy is set by URSO and is covered by the Tariff for system operation (“TPS”). For the three-month period ended March 31, 2014 the SSE Group recognised a loss of EUR 11.1 million as the difference between the costs of purchased green energy and costs related to the subvention of electricity produced from coal, and revenues from TPS. This loss is included in the contingent asset of EUR 80.0 million specified above. Based on the current Regulatory Framework the losses incurred will be compensated in two years’ time, i.e. relevant amounts in 2015 and 2016 through an increase of revenues from TPS (December 31, 2013: in 2014 and 2015). The resulting asset originating in the three-month period ended March 31, 2014 and in prior periods was not recognized as the asset does not meet the recognition criteria set by IFRS as adopted by the EU.

Other commitments and contingencies

EPE’s parent company, Energetický a průmyslový holding, a.s. (“EPH”), and a major energy company (the “Interested Party”) are parties to contractual arrangements under of which they have agreed to use their best efforts to agree on the potential sale of certain heating assets currently held by a certain member of EPE Group (the “Transaction”), provided that the specified conditions will be met, inter alia, that the terms and conditions of the transaction will be agreed between the parties and the transaction will be approved by the respective corporate bodies of each relevant entity. If the Transaction is not completed within the agreed period, EPH will use its best efforts to provide the Interested Party with a similar alternative asset (“the Alternative Transaction”). If the transaction is not completed by the extended deadline either, EPH will pay to the Interested Party compensation of approximately EUR 7.3 million. As these transactions are subject to a confidentiality obligation, disclosure of more detailed information herein is prohibited.

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

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

Attachments stored on www.epenergy.cz:

Unaudited condensed consolidated interim financial statements as of and for the three-month period ended March 31, 2014 prepared in accordance with International Financial Reporting Standards as adopted by the European Union