

Report on the first three quarters of the year 2013 for EP Energy, a.s.

(reissued)

- ✓ Consolidated sales reached EUR 1,308 million, consolidated EBITDA EUR 280 million and consolidated net debt amounted to EUR 889 million
- ✓ Financial performance remained good in all segments
- ✓ Our parent Energetický a průmyslový holding, a.s. completed the acquisition of a 49% stake (including management control) of Stredoslovenská energetika, a.s. The acquisition vehicle EPH Financing II, a.s. was subsequently contributed (including related acquisition financing) to EP Energy, a.s.'s equity.
- ✓ Completion of acquisition of Helmstedter Revier GmbH (including the Buschhaus lignite fired power plant and an adjacent lignite mine, Schöningen)

EP Energy, a.s. ("group or Group or EPE or EPE Group") is a vertically integrated energy utility that includes 59 companies. In 2012 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

Million	Consolidated financial results (MCZK)		Consolidated financial results (MEUR)	
	Not audited 30.9.2012 ²	Not audited 30.9.2013 ²	Not audited 30.9.2012 ²	Not audited 30.9.2013 ²
Sales	27,681	33,675	1,101	1,308
EBITDA ¹	6,300	7,210	251	280
Profit from operations	5,843	2,648	232	103
Profit before tax	9,244	801	368	31
Net profit attrib. to EPE	8,938	329	356	13
Total assets		79,967		3,107
Total net debt ³		22,880		889
CAPEX ⁷	1,158	1,427	46	55
Operating cash flow before changes in working capital	6,662	6,963	265	270

	1-9 2012	1-9 2013
Coal production Mt	13.6	14.2
Installed <i>cogeneration</i> Capacity ⁴ MW _e	500	500
Installed <i>condensation</i> Capacity ⁴ .. MW _e	360	360
Installed heat capacity ⁴ MW _{th}	4,105	4,105
Heat supplied ^{4,5} TJ ⁶	11,935	12,892
Power produced ⁴ GWh	2,355	2,126
Power traded ⁴ GWh	8,672	9,381
Power supplied ⁴ GWh	1,366	1,538
Natural gas supplied ⁴ GWh	1,228	1,485
Saale Energie MW _e	400	400

(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 group.

(2) Difference between consolidation scope for the first three quarters of 2012 and the first three quarters of the year 2013 is described later in section: “Key factors affecting comparability of the results of operations of the EPE group”

(3) Net debt figure is based on the EPE Group consolidated financial statements (Total Loans and borrowings *less* Cash and cash equivalents), but excludes the loan towards Pražská Teplárenská Holding, a.s. (also “PTH”) in the amount of CZK 3,876 million as of September 30, 2013 representing the amount of dividends to be declared by PTH to PTHI in 2014. This loan will be offset in 2014 with a non-cash dividend to be declared by PTH to PTHI, and despite the fact that the loan is recorded as a liability in the EPE Group consolidated accounts because PTH is an associate of EPE Group and therefore the loan is not eliminated in consolidation, the loan represents our proportionate share of the anticipated dividend at PTH.

(4) 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. Nevertheless, operating data for Energotrans and MIBRAG (power and heat related indicators) are excluded.

(5) 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”)

(6) 1 TJ = 0,2778 GWh

(7) Excluding emission allowances

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EP Energy, a.s. - Unaudited Condensed Consolidated Interim Financial Statements as of and for the nine-month period ended 30 September 2013 are presented in separate files as attachments to this report.

EP Energy, a.s. - Unaudited Pro Forma Consolidated Financial Statements as of and for the nine months ended September 30, 2012, the nine months ended September 30, 2013, the year ended December 31, 2012 and the twelve-month period ended 30 September 2013 are presented in separate files as attachments to this report.

Stredoslovenská energetika, a.s. - Unaudited Condensed Consolidated Interim Financial Statements as of and for the nine-month period ended 30 September 2013 are presented in separate files as attachments to this report.

Stredoslovenská energetika, a.s. - Consolidated Financial Statements as of and for the year ended December 31, 2012 are presented in separate files as attachments to this report.

>> We remain focused on maintaining and improving our risk-profile and exploring further synergies across the group. <<

Dear investors, customers and partners,

Benefiting from EP Energy's resilient operations and inherently low risk profile, we report consolidated EBITDA of EUR 280.0 million in the first three quarters of 2013. In comparison to the first three quarters of 2012, our EBITDA has grown by approximately 14.4% (in CZK terms). This can be attributed mainly to the changes in the consolidation scope as well as favourable weather conditions supporting solid performance of Heat & Power segment.

There have been no material changes to the operations of the group in the first three quarters of 2013 and we concentrated on efficiency and cost discipline.

We remain focused on maintaining and improving our risk-profile and exploring further synergies across the group. At the same time, we closely follow the market development and, in line with our prudent acquisition strategy, are following a limited number of opportunities in our core business either to utilize spare mining capacity of Mibrag or to further strengthen our vertical integration. In line with this strategy we have progressed in the following two areas:

- MIBRAG mbH, signed on September 18, 2013 a share and purchase agreement to acquire the Helmstedt mining district (including the Buschhaus lignite fired power plant) with E.ON. The transaction was completed at the very end of 2013 and the assets became part of the consolidated EPE Group. This transaction will help us to further increase utilization of our mining capacities in MIBRAG, i.e. exploit synergies and strengthen the EPE group's vertical integration.
- As of November 27, 2013 our parent company Energetický a průmyslový holding, a.s. ("EPH") completed the acquisition of 49% equity share (associated with management control) in Stredoslovenská Energetika, a.s. ("SSE") from Électricité de France S.A. ("EdF"). SSE is one of the major power distribution and electricity supply company in Slovak Republic. In December 2013 EPH contributed this asset and related acquisition financing to EP Energy. As a result, EP Energy further increased its share of EBITDA from regulated businesses and it also perfectly fits into our strategy of creating and strengthening a vertically integrated value chain. In addition EP Energy's total power supply (including SSE's power supply) will exceed our total power generation which represents rather an advantage given the recent development of power market.

In addition, we would like to announce that we have recently ended our eight-year dispute with Czech Coal over coal deliveries, spanning several lawsuits, by signing an out-of-court settlement, which provides for the termination of all litigation and the early termination of our coal supply contract with Czech Coal. We have effectively replaced the coal from Czech Coal with supplies from MIBRAG which further vertically integrates our Mining segment and Heat & Power segment.

We have reissued our condensed consolidated interim financial statements as of and for the nine month period ended September 30, 2013 to reflect certain adjustments recorded as a result of further review procedures. Also, we have updated our Report for the first three quarters of the year 2013 to update for these adjustments. We have also included certain supplemental information to reflect our recent acquisitions, updates to our key risks and our business, operational and financial performance discussion.

I would like to thank all EP Energy group staff for their contribution to what has been a successful first three quarters of the year.

Sincerely yours,

A handwritten signature in blue ink, appearing to read 'Tomáš David', with a stylized, cursive script.

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 decreased in the third quarter 2013 by 1.6%, year-on-year and decreased by 0.5%, quarter-on-quarter. Negative effects were weak investment activity and the decrease in net export. Government spending and household consumption has remained the same as compared to the third quarter of previous year.

According to estimates of Federal Statistical Office (Destatis) the German gross domestic product adjusted for price, seasonal, and calendar effects increased in the third quarter 2013 by 0.6%, year-on-year, and increased by 0.3%, quarter-on-quarter.

The outlook for the economy development remains quite uncertain. Nevertheless, according to the Czech Central Bank, the Czech GDP should decrease by 0.9% in 2013; the Bundesbank expects German GDP to grow by 0.3% in 2013.

Weather:

The heat segment, the renewables segment and electricity production in cogeneration mode are correlated to weather development. Thus, seasonality may be observed 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.

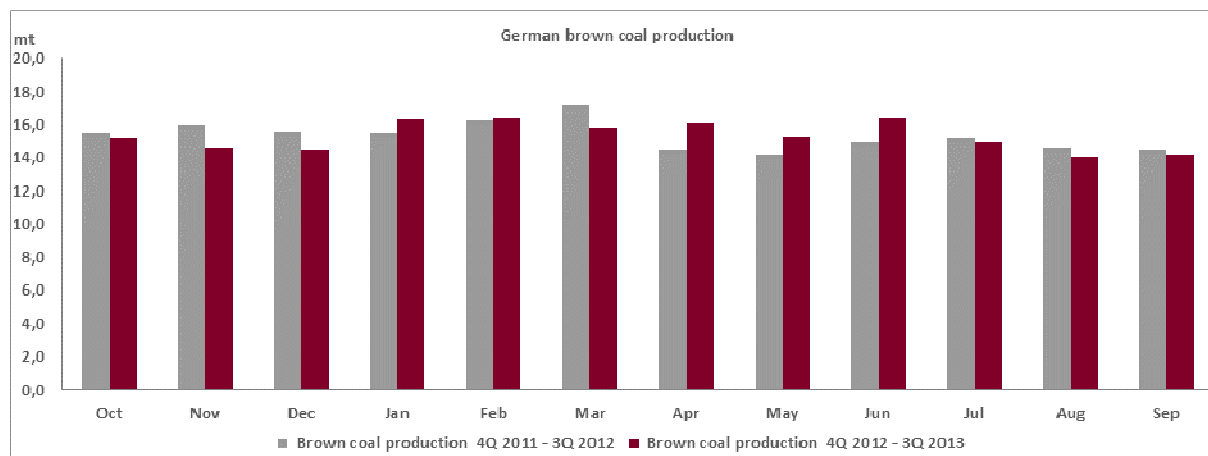
From the heating business perspective, the first three quarters of 2013 were colder than the first three quarters of 2012. An approximate metrics representing “coldness” of the weather pattern is so called “day-degrees” (a metric integrating difference between reference indoor temperature and outdoor temperature over the given period of time), which was for the group and in the areas where we deliver the heat Q3-t-Q3 18.7% higher.

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 relatively 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 favourable 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 decreased from 136.9 million tons in Q1-Q3 2012 to 134.9 million tons in Q1-Q3 2013, i.e. by 1.5% 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 the stable demand of our customers, which persisted also in Q1-Q3 2013. 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 cost 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 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 believe we fully 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:

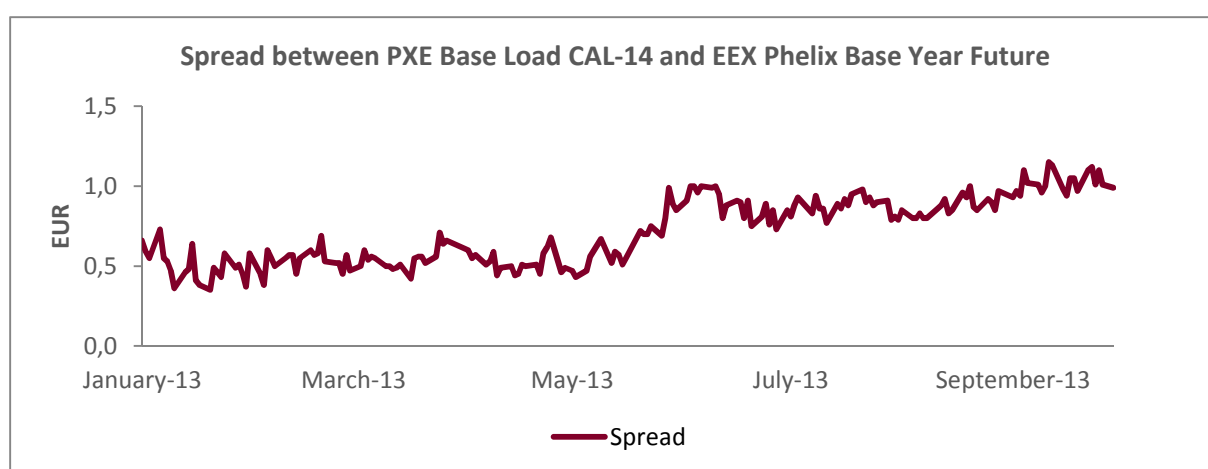
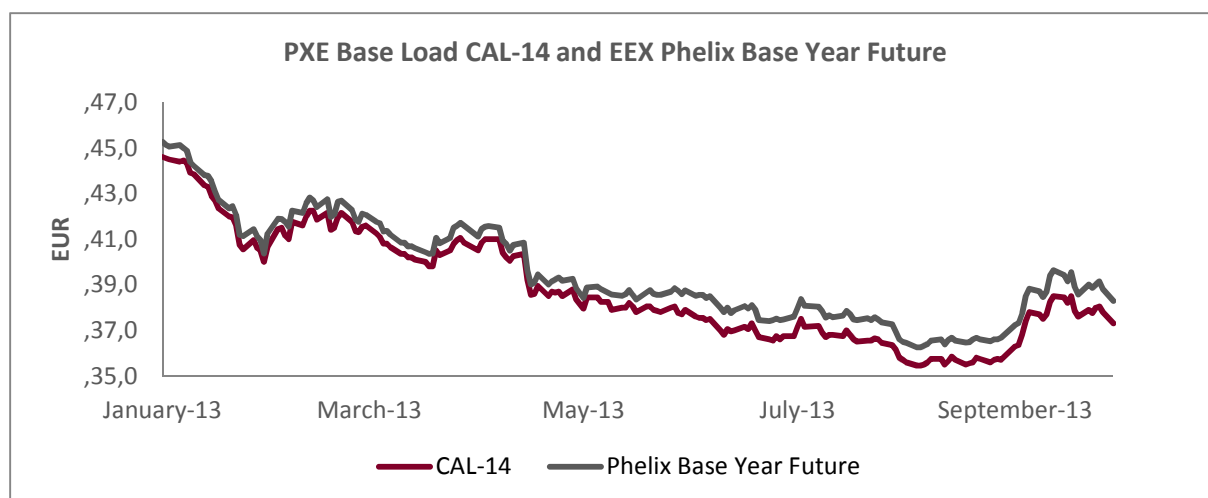
During the first three quarters of 2013 power and EU Allowance (“EUA”) prices remained under pressure due to lower economic activity in respective markets, low prices of hard coal and renewable energy production. In the first three quarters of 2013 the 1-year forward electricity prices on the European Energy Exchange (also “EEX”) dropped in base load to EUR 39.5 per MWh (compared to EUR 50.1 per MWh year ago) and peak load dropped to EUR 50.0 per MWh (compared to EUR 61.7 per MWh year ago), representing a decrease for the base load and peak load prices of 21.1% and 19.1% respectively.¹

EUA with spot delivery was traded at average around EUR 4.39 per ton in the first three quarters of 2013², which represents substantial drop of the y-t-y prices of 39.8%.

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 in the 3rd quarter 2013 oscillating around 1.0 EUR/MWh. The low spreads encourage cross border trading and, vice versa, the liquidity of the Czech market increases.

¹ Source: EEX, Phelix Base Year Future and Phelix Peak Year Future (simple average of the daily price for 1 year forward prices calculated for period January 1 until September 30 of respective year)

² Source: European Energy Exchange: EU Emission Allowances Rights, contract EUSP, simple average

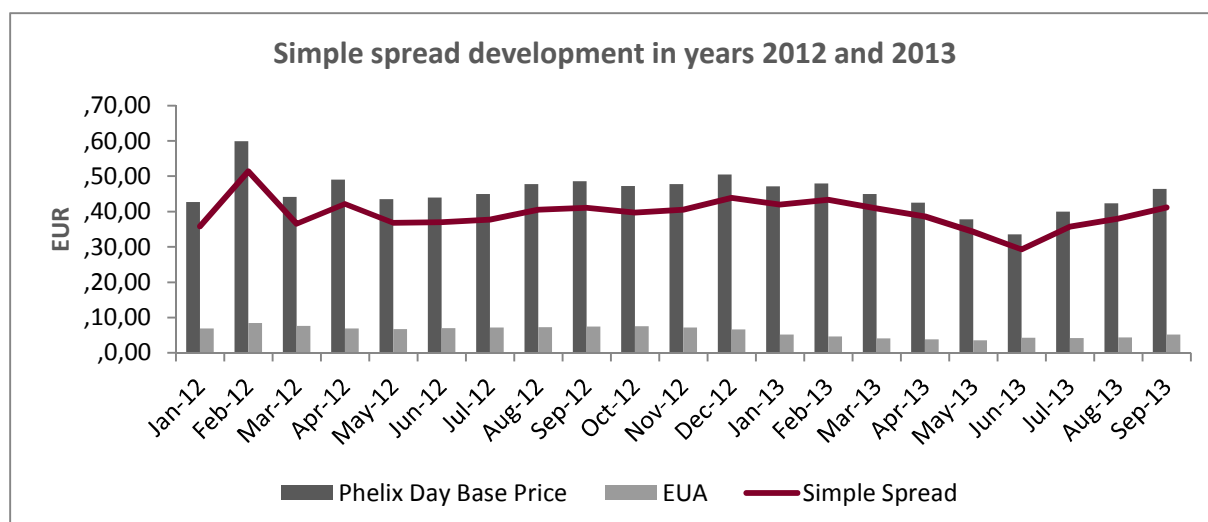


Source: PXE Base Load CAL14; EEX Phelix Base Year Future.

On the Czech market, electricity production from cogenerating units benefits from regulatory support. Currently, CZK 200 is received as subsidy for each MWh produced in cogeneration mode, which represents increase of CZK 155 per MWh provided in 2012.

Additionally, the Czech Energy Regulatory Office has reintroduced a subsidy for producers supplying their power production directly to distribution grids for 2013. Based on that we benefit from the subsidy of CZK 12 for one MWh delivered directly to the distribution grid, which applies to our entire power production in the Czech Republic.

Besides relatively low share of power production on EBITDA and cash flow generation of the 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: EEX Simple Spread defined as the difference between Phelix Day Base and EUA price, using trading days 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.

Recent developments

Stredoslovenská energetika, a.s.

On November 27, 2013, our parent company EPH completed its acquisition of a 49% equity stake (including management control) in the Slovak power distribution and supply company Stredoslovenská energetika, a.s. ("SSE") from E.D.F. International for a purchase price of approximately €400 million. Following the acquisition of our 49% interest in SSE through our wholly-owned subsidiary, EPH Financing II, a.s. ("EPH Fin II"), we will fully consolidate the results of SSE in accordance with IFRS, and SSE's results will be fully consolidated for purposes of our pro forma presentation. The purpose of this acquisition is to further develop our strategy of vertical integration of the EPE Group, namely balancing the production, distribution and supply of electricity, as well as increasing our focus on regulated activities. 82.8% of SSE's EBITDA for the nine months ended September 30, 2013 comes from its power distribution activities, which are regulated.

EPH contributed shares in EPH Fin II, the holding company for the 49% interest in SSE, and an intercompany receivable owed to Energetický a průmyslový holding, a.s. ("EPH") from EPH Fin II to EP Energy on December 16, 2013 in exchange for additional shares in EP Energy. As a result of such contribution, indebtedness of EPH Fin II and SSE, of approximately €300 million, including €231 million of EPH Fin II's acquisition debt (the "SSE Acquisition Credit Facility"), as of December 31, 2013, was absorbed by the EPE Group. The acquisition financing provided through a bank loan ranks pari passu with the Notes and shares the same security and guarantees as the Notes.

SSE distributes and supplies electricity to both businesses and households in the Slovak Republic and served approximately 700,000 customers in 2012. SSE is based in the city of Žilina and operates in the central part of the Slovak Republic, which accounts for approximately a third of the area of the Slovak Republic and 30% of the population. At December 31, 2012, Stredoslovenská energetika – Distribúcia, a.s., SSE's wholly-owned subsidiary through which SSE conducts regulated distribution activities, owned nearly 33,626 km of high-, medium- and low-voltage power lines and served approximately 724,711 delivery points. In 2012, SSE supplied 4.2 TWh of power to approximately 630,000 customers and launched a gas marketing business. SSE also owns and operates a small number of generation assets: solar power plants with an aggregate capacity of 9.8 MWe, small hydropower plants with an aggregate installed capacity of 2.5 MW and a 50 MW gas turbine dedicated to the sale of system services to the Slovak transmission system operator, Slovenská elektrizačná prenosová sústava, a.s. ("SEPS").

The remaining 51% equity stake in SSE is owned by the National Property Fund of the Slovak Republic (the "NPF") (a Slovak government agency focusing on the process of privatization of former state-owned entities). As part of the sale of SSE, EPH, EPH Fin II, the NPF, the Ministry of Economy of the Slovak Republic (the Ministry of Economy of the Slovak Republic together with the NPF, the "Slovak Parties") and SSE entered into a shareholders' agreement (the "SSE Shareholders' Agreement") which sets out the areas of responsibility and decision making for the general meeting of shareholders, managing board of directors and the supervisory board. Under the SSE Shareholders' Agreement, EPH Fin II nominates a majority of the managing board of directors (with a minority on the supervisory board) and exercises management control over SSE, although the Slovak Parties must approve certain material business decisions.

The operating data included in the table below are based on the individual results of SSE, in which our 49% interest (with management control) was acquired after September 30, 2013.

SSE		As of and for the year ended December 31,	As of and for the nine months ended September 30,	As of and for the twelve months ended September 30,
		2012	2013	2013
Power distributed.....	GWh	5,621	4,335	5,874
Power supplied.....	GWh	4,197	3,223	4,385
Power generated.....	GWh	16	10	13
Installed capacity ⁽¹⁾	MW _e	62	62	62
Natural gas supplied.....	GWh	9	59	67

- (1) SSE owns and operates a small number of generation assets: solar power plants with an aggregate installed capacity of 9.8 MWe, small hydropower plants with an aggregate installed capacity of 2.5 MW_e and a 50 MW_e gas turbine dedicated to the sale of system services to the Slovak transmission system operator, SEPS.

Helmstedter Revier GmbH

On September 18, 2013, MIBRAG signed a share purchase agreement to acquire HSR (which owns Buschhaus and Schöningen, an active mine in the Helmstedt mining district) from E.ON. The transaction was completed in December 2013 with the transfer of shares in HSR effective on December 31, 2013. HSR is now part of the EPE Group. Buschhaus is currently satisfying the majority of its fuel needs from Schöningen. The mine is expected to be fully extracted at the end of 2016, at which time we would begin supplying Buschhaus exclusively with MIBRAG brown coal. MIBRAG already supplies Buschhaus with some of its brown coal. In 2013 MIBRAG delivered around 180,000 tons of brown coal to Buschhaus, and we expect to increase deliveries gradually from 2014 to 2016 until Schöningen is depleted at around the end of 2016. Once Schöningen is depleted, we expect to deliver up to 2.5 Mt of brown coal from MIBRAG to Buschhaus to meet the full annual fuel needs of Buschhaus. HSR is liable for reclamation payments in relation to certain already exhausted mines, as well as the Schöningen mine, which we expect to pay with cash generated from the power plant's operations. Based on a third-party evaluation opinion dated June 26, 2013, HSR recorded total mine reclamation provisions of €60.2 million according to German GAAP as of September 30, 2013. For the Schöningen mine, our main reclamation actions are expected to begin in 2017 with the greatest impact on cash flow occurring from 2017 to 2020 (expected to be up to €10 million per annum). Reclamation of the old exhausted mines is already ongoing at an annual expenditure of approximately €2 million, and together with Schöningen the reclamation activities will continue beyond 2020, mainly due to the necessary flooding of future end lakes. In addition to its reclamation provisions, HSR also has certain personnel-related provisions, including for social plan obligations of €30.0 million according to German GAAP as of September 30, 2013, which are reflected in the purchase price of HSR. We have also signed a short-term power supply agreement with E.ON, which terminates in November 2014. Thereafter, we may either pursue a long-term supply contract or sell the electricity produced by Buschhaus on the spot market. By using our brown coal to generate power at Buschhaus, we believe we will enhance the synergies between our business lines and strengthen the vertical integration of the EPE Group. We believe that our MIBRAG mines have sufficient production capacity to supply Buschhaus for the expected lifespan of the power plant. Although HSR was acquired by MIBRAG, its results (including those related to its brown coal mining activities) going forward will be included in our Heat and Power segment. We have not included any financial information with respect to HSR in this Report. HSR's financial results will be included in future periods.

The operating data included in the table below are based on the individual results of HSR, which was acquired after September 30, 2013.

HSR		As of and for the year ended December 31,	As of and for the nine months ended September 30,	As of and for the twelve months ended September 30,
		2012	2013	2013
Coal production.....	Mt	2.0	1.1	1.7
Installed condensation capacity	MW _e	390	390	390
Condensation production.	GWh	2,298	1,537	2,141

PPF Group N.V. Transactions

EPH has recently reached an agreement with Timeworth Holdings Limited and the PPF Group N.V. to repurchase a portion of Timeworth Holdings Limited's share of EPH, which will bring Timeworth Holdings Limited's shareholding in EPH down to 40% and increase each of the remaining shareholders' stakes to 20%. We understand that Timeworth Holdings Limited is in advanced discussions with EPH to buy out its remaining 40% stake in EPH, either by redemption and cancellation of its shares or by purchase of Timeworth Holdings Limited's shares by the remaining shareholders with funds upstreamed from EPH. If this transaction is completed, each of the remaining shareholders will beneficially hold approximately one-third of EPH. We understand that EPH expects to fund this repurchase in part with the proceeds from loans or distributions totaling €90 million to be made by EP Energy to CE Energy, which will in turn be applied by CE Energy in further repayment of certain subordinated shareholder debt owed by CE Energy to EPH. The balance of the repurchase price is expected to come from the EPH Group's cash on hand, future borrowings by members of the EPH Group and the sale of certain assets. In the event the repurchase of Timeworth Holdings Limited's shares does not occur, we understand that EPH will use such funds to make a payment to Timeworth Holdings Limited, to repay indebtedness of the EPH Group and/or for general corporate purposes.

Czech Coal

We have recently ended our eight-year dispute with Czech Coal over coal deliveries, spanning several lawsuits, by signing an out-of-court settlement, which provides for the termination of all litigation and the early termination of our coal supply contract with Czech Coal. We have effectively replaced the coal from Czech Coal with supplies from MIBRAG.

Other

Effective as of November 4, 2013, each of Czech Energy Holding, a.s., HC Fin3 N.V., EAST BOHEMIA ENERGY HOLDING LIMITED, Lignite Investments 1 Limited and Honor Invest, a.s. was merged into EP Energy.

On November 12, 2013, we increased our ownership share in PRVNÍ MOSTECKÁ a.s. from 82.36% to 97.6%. PRVNÍ MOSTECKÁ a.s. supplies and distributes heat to the Czech city of Most.

On November 25, 2013, EPE provided a loan of €70.1 million to EPH.

On January 24, 2014, CE Energy, a.s., a wholly-owned subsidiary of EPH, acquired all of the outstanding shares of EP Energy from EPH.

On January 30, 2014, CE Energy, a.s. is expected to borrow a loan from EP Energy of approximately €60 million.

By currency, our revenues and EBITDA generated in euro for the nine months ended September 30, 2013 represented a very significant share of overall revenues and EBITDA. Following the contribution by EPH of its newly acquired 49% stake in SSE to EPE on December 16, 2013 and the completion of the HSR acquisition in December 2013, the Group's revenue and EBITDA generated in euro will further increase. As a result, we expect that beginning with the Group's financial statements as of and for the year ending December 31, 2013, the Group will change its presentation currency from Czech crowns to euro. The change will allow the Group's financial statements to be presented in the currency that most closely represents the main operating currency of the Group's operations.

EP Energy, a.s. (the “Company”) Report for the first three quarters of 2013

Reporting

This report (the “Report”) is the report required under Section 4.03 of the indenture governing the senior secured notes (the “Notes I”), dated as of October 31, 2012 (the “Indenture I”) and Section 4.03 of the indenture governing the senior secured notes (the “Notes II”) dated as of April 18, 2013 (the “Indenture II”) (both also the “Notes” and the “Indentures”) for the first three quarters of the year 2013.

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 nine-month period ended September 30, 2013 prepared in accordance with IFRS as adopted by the European Union (“IFRS”).

Non-IFRS measures

We have included certain non-IFRS financial measures in this Report, including EBITDA and Pro Forma 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 EBITDA and Pro Forma Adjusted EBITDA

We present below our presentation and definitions of EBITDA, Pro Forma EBITDA and Pro Forma Adjusted EBITDA.

EBITDA has been impacted by the following effects during the relevant period, defined as follows:

“2012 Non-Cash Reclamation Provision Effects” means the following non-cash effects related to reclamation provisions: (i) a change in the discount rate (which led to a CZK 2,718 million (€108.11 million) increase to EBITDA for the year ended December 31, 2012) and (ii) an increase in the assumed inflation rate (which led to a CZK 582 million (€23.15 million) decrease to EBITDA for the year ended December 31, 2012).

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

“2013 Non-Cash Overburden Effect” means the impact of capitalization of overburden (which led to a CZK 566 million (€21.98 million) increase to EBITDA for the nine months ended September 30, 2013).

“2013 Saale Energie Costs” means items related to Saale Energie (which led to a CZK 186 million (€7.22 million) decrease to EBITDA for the nine months ended September 30, 2013), which, due to the accounting treatment of the specific contractual arrangement with Schkopau, are charged to operating costs of Saale Energie but relate to entries that would otherwise not be included in EBITDA.

“LTM Saale Energie Costs” means items related to Saale Energie (which led to a CZK 309 million (€12.07 million) decrease to EBITDA for the twelve months ended September 30, 2013), which, due to the accounting treatment of the specific contractual arrangement with Schkopau, are charged to

operating costs of Saale Energie but relate to entries that would otherwise not be included in EBITDA.

“Part-Year 2012 Saale Energie Costs” means items related to Saale Energie (which led to a CZK 57 million (€2.27 million) decrease to EBITDA for the nine months ended September 30, 2012), which, due to the accounting treatment of the specific contractual arrangement with Schkopau, are charged to operating costs of Saale Energie but relate to entries that would otherwise not be included in EBITDA.

Pro Forma Adjusted EBITDA excludes the following effects:

- (a) the 2012 Non-Cash Reclamation Provision Effects;
- (b) the 2013 Non-Cash Overburden Effect;
- (c) the LTM Saale Energie Costs; and
- (d) the SSE Non-Controlling Interest, which means the NPF’s 51% share of the EBITDA of SSE (which represented CZK 1,897 million (€74.07 million) for the twelve months ended September 30, 2013).

EBITDA

EBITDA is defined herein as Profit/(loss) from operations (*i.e.*, Total sales *less* Total operating costs) *plus* Depreciation and amortization *less* Negative goodwill.

In addition, EBITDA for each of the periods under review also reflects certain of the effects mentioned above as follows:

	Nine months ended September 30, 2012	Nine months ended September 30, 2013	Twelve months ended September 30, 2013
EBITDA for EPE Group	<ul style="list-style-type: none"> Part-Year 2012 Saale Energie Costs 	<ul style="list-style-type: none"> 2013 Non-Cash Overburden Effect 2013 Saale Energie Costs 	<ul style="list-style-type: none"> 2012 Non-Cash Reclamation Provision Effects 2013 Non-Cash Overburden Effect LTM Saale Energie Costs
EBITDA for Mining Segment	<ul style="list-style-type: none"> N/A 	<ul style="list-style-type: none"> 2013 Non-Cash Overburden Effect 	<ul style="list-style-type: none"> 2012 Non-Cash Reclamation Provision Effects 2013 Non-Cash Overburden Effect
EBITDA for Heat and Power Segment	<ul style="list-style-type: none"> Part-Year 2012 Saale Energie Costs 	<ul style="list-style-type: none"> 2013 Saale Energie Costs 	<ul style="list-style-type: none"> LTM Saale Energie Costs

Pro Forma EBITDA (or Pro Forma Consolidated EBITDA or pro forma EBITDA) is defined herein as Profit/(loss) from operations (*i.e.*, Total sales *less* Total operating costs) *plus* Depreciation and amortization *less* Negative goodwill, adjusted to reflect:

- (a) the full consolidation of SSE as a result of our acquisition of the 49% interest in SSE;
- (b) the acquisition of 100% of the MIBRAG Group;
- (c) the full consolidation of PT;
- (d) the disposition of Energotrans, a.s.; and
- (e) the acquisition of Saale Energie,

as though such transactions had each occurred on January 1, 2012.

Pro Forma Adjusted EBITDA (or Pro Forma Adjusted Consolidated EBITDA or pro forma adjusted EBITDA) presented for the twelve months ended September 30, 2013 is defined herein as Pro Forma EBITDA as further adjusted to exclude:

- (a) the 2012 Non-Cash Reclamation Provision Effects;
- (b) the 2013 Non-Cash Overburden Effect;
- (c) the LTM Saale Energie Costs; and
- (d) the SSE Non-Controlling Interest.

We present EBITDA, Pro Forma EBITDA and Pro Forma Adjusted EBITDA because we believe these financial measures may enhance an investor's understanding of the profitability and cash flow generation of the EPE 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, Pro Forma EBITDA and Pro Forma Adjusted EBITDA to assess our performance. EBITDA, Pro Forma EBITDA and Pro Forma Adjusted EBITDA are not measures calculated in accordance with IFRS and our use of the terms EBITDA, Pro Forma EBITDA and Pro Forma Adjusted EBITDA may vary from others in our industry. EBITDA, Pro Forma EBITDA and Pro Forma Adjusted EBITDA differ from Consolidated EBITDA as defined in the Indentures (as defined below). EBITDA, Pro Forma EBITDA and Pro Forma Adjusted EBITDA should not be considered as alternatives to "Sales: energy," "Sales: other," "Gross profit," "Profit/(loss) from operations," "Cash generated from (used in) operating activities" or any other performance measure derived in accordance with IFRS.

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

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

The financial information presented in this Report is presented in Czech crowns. For your convenience, we have translated certain Czech crown amounts in this Report into euro. 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.

- First three quarters ended September 30, 2012: CZK 25.14 per €1.00
- First three quarters ended September 30, 2013: CZK 25.75 per €1.00

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

- As of September 30, 2012: CZK 24.87 per €1.00
- As of September 30, 2013: CZK 25.74 per €1.00

You should not view such translations as a representation that such Czech crown amounts actually represent such euro amounts, or could be or could have been converted into euro at the rate indicated or at any other rate.

We present certain non-IFRS measures relating to SSE in this Report. A reconciliation to EBITDA for SSE is included below:

SSE

EBITDA for SSE for the years ended December 31, 2011 and December 31, 2012, the nine months ended September 30, 2012 and September 30, 2013 and the twelve months ended September 30, 2013 is defined as Operating profit (i.e., Revenue less total operating expenses) plus depreciation and amortization less negative goodwill.

	Year ended December 31,		Nine months ended September 30,		Twelve months ended September 30,
	2011	2012	2012	2013	2013
	(€ in millions)		(€ in millions)		(€ in millions)
Distribution					
Operating profit	124.44	72.70	31.59	60.98	102.09
Depreciation and amortization ⁽¹⁾	22.19	24.41	18.37	19.19	25.23
Negative goodwill	—	—	—	—	—
EBITDA	146.63	97.11	49.96	80.17	127.32
Supply					
Operating profit	15.99	11.63	10.74	6.25	7.14
Depreciation and amortization ⁽²⁾	1.57	1.41	1.08	0.94	1.27
Negative goodwill	—	—	—	—	—
EBITDA	17.56	13.04	11.82	7.19	8.41
Other					
Operating profit	9.17	7.40	7.87	6.77	6.30
Depreciation and amortization ⁽³⁾	3.58	3.56	2.66	2.66	3.56
Negative goodwill	—	—	—	—	—
EBITDA	12.75	10.96	10.53	9.43	9.86
Consolidated data					
Operating profit	149.60	91.73	50.20	74.00	115.53
Depreciation and amortization ⁽⁴⁾	27.34	29.38	22.11	22.79	30.06
Negative goodwill	—	—	—	—	—
EBITDA	176.94	121.11	72.31	96.79	145.59

- (1) Depreciation, amortization and impairment for SSE's Distribution segment was €23.60 million, €25.37 million, €19.20 million, €20.18 million and €26.35 million for the years ended December 31, 2011 and 2012, the nine-month periods ended September 30, 2012 and 2013 and the twelve months ended September 30, 2013, respectively. Impairment charges (reversals) of €1.41 million, €0.96 million, €0.83

million, €0.99 million and €1.12 million for the years ended December 31, 2011 and 2012, the nine-month periods ended September 30, 2012 and 2013 and the twelve months ended September 30, 2013 have not been added back to EBITDA.

- (2) Depreciation, amortization and impairment for SSE's Supply segment was €1.68 million, €1.34 million, €1.07 million, €0.93 million and €1.20 million for the years ended December 31, 2011 and 2012, the nine-month periods ended September 30, 2012 and 2013 and the twelve months ended September 30, 2013, respectively. Impairment charges (reversals) of €0.11 million, negative €0.07 million, negative €0.01 million, negative €0.01 million and negative €0.07 million for the years ended December 31, 2011 and 2012, the nine-month periods ended September 30, 2012 and 2013 and the twelve months ended September 30, 2013 have not been added back to EBITDA.
- (3) Depreciation, amortization and impairment for SSE's Other segment was €1.11 million, €2.66 million, €1.83 million, €1.82 million and €2.65 million for the years ended December 31, 2011 and 2012, the nine-month periods ended September 30, 2012 and 2013 and the twelve months ended September 30, 2013, respectively. Impairment charges (reversals) of negative €2.47 million, negative €0.90 million, negative €0.83 million, negative €0.84 million and negative €0.91 million for the years ended December 31, 2011 and 2012, the nine-month periods ended September 30, 2012 and 2013 and the twelve months ended September 30, 2013 have not been added back to EBITDA.
- (4) Depreciation, amortization and impairment for SSE was €26.39 million, €29.37 million, €22.10 million, €22.93 million and €30.20 million for the years ended December 31, 2011 and 2012, the nine-month periods ended September 30, 2012 and 2013 and the twelve months ended September 30, 2013, respectively. Impairment charges (reversals) of negative €0.95 million, negative €0.01 million, negative €0.01 million, €0.14 million and €0.14 million for the years ended December 31, 2011 and 2012, the nine-month periods ended September 30, 2012 and 2013 and the twelve months ended September 30, 2013 have not been added back to EBITDA.

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.

Risk factors

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

These factors include, among others:

Risks related to our businesses and industries

Risks related to each of our segments

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

During the most recent economic downturn, we experienced a reduction in demand for power, which adversely affected our results. A future economic downturn could also have a negative impact on the power and, to a lesser degree, heat industries generally. There may be reduced demand for power and heat as a result of a future economic crisis, which could result in both a decrease in the power (and, to a lesser extent, heat) produced and sold by our power plants, as well as a decrease in volumes at our distribution and supply business. In addition, certain market prices may be reduced, such as for wholesale electricity, when market demand falls. Moreover, our large fixed asset base may make it difficult to rapidly adjust our fixed costs downward when demand for our products declines unexpectedly, or where we are forced to reduce our prices. Therefore, any actions we may take in response to such a decline in demand, or price decrease, may be too slow or otherwise insufficient to counter an immediate decline in our sales or earnings, resulting in an adverse effect on our business, financial condition, results of operations and cash flows.

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

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

Our heat and power plants, energy trading platforms, wind and solar farms and biogas facilities, distribution infrastructure (including transmission systems not operated or controlled by us), mining facilities, coal dust factories and briquette plants, and our information systems controlling these facilities, could be subject to failure, breakdowns, unplanned outages, capacity limitations, system loss, breaches of security or physical damage due to natural disasters (such as adverse weather conditions, storms, floods, fires, explosions, landslides, slope ruptures or earthquakes), human error, computer viruses, fuel interruptions, criminal acts and other catastrophic events. Certain of these events have happened in the past (for example, in 2012, we had a landslide in one of our mines, a more recent landslide occurred at a mine not operated by us in the Central German mining district and from September 2013 to December 2013, Buschhaus had to be taken offline due to generator damage) and we cannot give any assurance that such events will not occur in the future or that the

preventative measures taken by us will be effective. Any physical damage to our facilities may be costly to repair and any outages may cause us to lose revenues due to the inability to supply our customers.

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

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

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

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

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

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

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

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

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

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

We operate a vertically integrated mining, heat and power generation and distribution and supply business that depends upon the extraction and use of brown coal as a primary fuel source. We mine brown coal, sell it to third parties and use it in our own heat and power plants as a primary fuel. Brown coal produces significantly more emissions, most notably CO₂, than other primary fuel sources, such as natural gas or nuclear fuel. If brown coal-fired heat and power generating activities become subject to increasing public and political opposition, as they have on occasions in the past, we could face increased costs in mining, selling and burning brown coal as a primary fuel source, as well as in selling the power we produce from brown coal, as a result of potentially adverse environmental regulations, increased taxes, fees or fines, or private lawsuits against us and our brown coal-purchasing customers. We may be adversely affected not only by measures that directly impede mining activities or the sale or use of brown coal in heat or power production, but also by measures that promote other fuel sources or alternative technologies for heat and power production (such as renewable energies). We could also experience a reduction in demand for the brown coal we sell. Any of the foregoing could materially increase our costs of doing business, decrease our revenues and/or have a material adverse effect on our business, financial condition, results of operations and cash flows. For example, certain political parties have in the past tried unsuccessfully to initiate a reform of the German Federal Mining Act (*Bundesberggesetz*, “BBergG”), which would have led, *inter alia*, to the discontinuation of some of the privileged interests of the mining industry by introducing additional charges for the holders of certain old mining rights (*alte Gewinnungsrechte*). There is also a risk that we may become subject to payment obligations in relation to water hoisting fees and mining royalties. The political parties supporting such reforms have also unsuccessfully proposed the implementation of strict efficiency requirements for coal fired power plants in the German Federal Emission Control Act. In addition, there has recently been some support for the introduction of new taxes on sales of lignite in Germany. Although these initiatives have not gained a political majority, political and public resistance against mining brown coal and/or coal-fired power plants, particularly against open-cast mining privileges, may grow in future and lead to policy changes or the imposition of new taxes. See “—Risks related to mining operations—We may be subject to mining royalty fee payments to certain governmental authorities, and any such imposition of fees could materially and adversely affect our business, financial condition, results of operations and cash flows,” “—The EPE Group’s operations are subject to strict environmental, heritage and health and safety regulation and enforcement,” “—Our operations are subject to significant government regulation and laws and our business, financial condition, results of operations and cash flows could be adversely affected by changes in the law or regulatory schemes”.

Certain of our businesses are sensitive to variations in weather.

Certain of our businesses are affected by variations in general weather conditions and unusual weather patterns. Our businesses forecast heat and power sales on the basis of normal weather, which represents a long-term historical average. While we also consider possible variations in normal weather patterns and potential impacts on our facilities and businesses, there can be no assurance that such planning can prevent negative impacts on our businesses. Generally, demand for electricity peaks in the winter and summer, and demand for heat peaks in the winter. Typically, when winters are warmer than expected or summers are cooler than expected, demand for energy, and in the case of winter, heat, is lower, resulting in less demand for heat and electricity than forecasted for our heat and power generation businesses, and our mining business, since we provide brown coal for heat and power plants. When Central Europe experiences longer periods of sunny weather, our solar energy parks are able to produce more electricity, whereas unexpectedly long periods of rain and cloud-cover could significantly reduce our solar energy production. In addition, our MIBRAG's brown coal mines are located in a region of Germany which may be subject to high winds, and, as a result, it has attracted recent wind farm developments. Periods of unusually high winds in Germany, combined with an increase in the number of wind farms and in the efficiency and output of wind farms as a consequence of "repowering" (the replacement of existing turbines with newer, more efficient turbines) measures may increase the amount of wind energy fed into the power grid region supplied by MIBRAG's customers, as well as by Buschhaus. As renewable energy sources are given preferential treatment in Germany, including through priority feed-in rights to the power grid, in general, an increase of renewable energy production has in the past led, and may in the future lead, to a decrease in the amount of energy fed into the power grid by brown coal-fired power plants in Germany and our brown coal-fired power plant customers and hence a corresponding reduction in their brown coal off-take from MIBRAG. Because our production and sale of brown coal is dependent upon the volumes purchased by our local power plant customers, significant variations from normal weather where any of our heat, power or brown coal customers are located could have an adverse impact on our business, financial condition, results of operations and cash flows. Additionally, variations in weather can indirectly affect the outstanding balance owed to SSE in compensation for additional costs paid by SSE in support of renewable energy sources in Slovak Republic. Because SSE partially recovers the compensation through a special tariff charged to end consumers, if customers use less power than the average usage because of warmer winters, then a larger deficit will need to be compensated by the RO correction mechanism. Because the RO's correction mechanism refunds a deficit over two years, any increase in the deficit may temporarily increase our cash flow requirements and have a negative effect on our profits and EBITDA generation.

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

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

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

grid, reducing the grid capacity available for feed-in from conventional power plants such as Lippendorf and Schkopau.

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

Our revenues and margins of operations may be negatively impacted by volatile prices for power, natural gas, hard coal and emission allowances for CO₂ and volatility in the revenues we receive from heat sales.

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

Power and heat

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

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

Power prices have showed a decreasing trend in most of the European regions since the beginning of 2013 because supply from renewables has been growing faster than the demand for power, pushing the market price of electricity downwards. The continuation of such trend could have a material adverse effect on our business, financial condition, results of operations and cash flows. For more information, see "Management's discussion and analysis of financial condition and results of operations—Factors impacting the results of our Heat and Power segment—The "Clean Spread"—Power."

In our power generation business, we attempt to minimize our exposure to price volatility and to achieve margin stability by selling forward the electricity generated by us typically up to two years in advance under one calendar year contracts. However, it may not be possible to enter into forward sales on commercially acceptable terms, or at all, for any or all of the electricity generated at our

plants. Moreover, we sell some of our electricity on the spot markets and, therefore, despite our attempts to minimize our exposure to electricity price volatility, such volatility could have a material adverse impact on our business, financial condition, results of operations and cash flows. The amount and proportion of our power generation sold this way may increase to the extent our business becomes more focused on generating power in condensation mode.

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

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

In our Heat and Power segment, we are also sensitive to pricing pressures from alternative sources of power. Although electricity prices have increased in the past, as time goes on, increasing competition could cause reductions in the market price for power. If feed in from power generation sources with lower variable costs (*i.e.*, nuclear and renewables) increases faster than consumption, our profit margins will likely decrease because our variable costs will remain unchanged. For example, the principal nuclear power plant in the Czech Republic—Temelín—is being evaluated for a potential expansion project that could result in a significant increase in the availability of nuclear-power generation in the Czech Republic, which could increase the competitive pressures in the Czech power generation market, and could therefore have a material adverse effect on our business, financial condition, results of operations and cash flows as demand shifts from our power plants to nuclear power plants. In addition, in both the Czech Republic and especially in Germany, higher demand from end-customers for renewable energy or the promotion of renewable energy could also lead to an increase in renewable energy projects that have preferential access to the distribution grid and thus reduce the access of our power plants to the grid for off-take of our power generation, lowering our volumes. The evolution of competitive electricity markets may cause price and access pressure in certain power markets where we sell or intend to sell power. The foresaid also applies to the power generation market in Germany, where we benefit from 400 MW of power generation capacity at Schkopau through our ownership of Saale Energie, 390 MW of power generation installed capacity at Buschhaus through our ownership of HSR and operate two smaller power plants within our Mining segment. Any such price and access pressure could have a material adverse effect on our business, financial condition, results of operations and cash flows.

As our operations emit CO₂, we are subject to the European Union Emissions Trading System (“EU ETS”) which works on a “cap and trade” principle and limits the annual amount of CO₂ we can emit. In the Czech Republic, the New Czech Emissions Allowances Act (Act No. 383/2012 Coll., on conditions for trading with emission allowances, as amended) has enabled the trading of emissions allowances and the distribution of a certain amount of free emissions allowances with effect as of January 1, 2013. Although we seek to limit our exposure to the volatility of the market for emissions allowances by purchasing CO₂ emissions allowances in advance, we may need to purchase additional emissions allowances at times when the market price is higher than our budgeted expenses for such rights. Moreover, the market price for emissions allowances may be affected by external interventions. For example, in December 2013, the European Parliament and the Council adopted Decision No. 1359/2013/EU approving an amendment to the ETS Directive which clarifies that the timing of auctions may be changed to ensure the functioning of the carbon market. The Commission may adapt the timetable for the current trading period for emissions allowances representing at most 900 million metric tons of carbon credits, temporarily reducing the number of CO₂ emissions allowances in the carbon trading market. The details are subject to the implementation by the Commission through the adoption of an amendment to the Commission Regulation (EU) No 1031/2010 of November 12, 2010 on the timing, administration and other aspects of auctioning of greenhouse gas emission allowances pursuant to Directive 2003/87/EC of the European Parliament and of the Council establishing a scheme for greenhouse gas emission allowances trading within the Community (“Auctioning Regulation”). Such amendment is subject to participation of the Climate Change Committee as well as the European Parliament and Council, which is currently pending. In January 2014, the EU Commission presented a proposal for legislation to establish a market stability reserve after 2020 providing for an automatic adjustment of the supply of auctioned allowances downwards or upwards based on a pre-defined set of rules with the goal of enhancing market stability. This proposal does not constitute binding legislation and will be subject to further discussion before potentially being adopted.

Therefore, despite our efforts, volatility in the market price for commodities, including our fuel and emissions allowances, could have a material adverse impact on our business, financial condition, results of operations and cash flows. See “—Risks related to governmental regulations and laws—We are exposed to changes in the way emissions allowances are allocated, including the conditions attaching to free allocations and the allocation of emissions allowances, as well as volatility in the market prices of emissions allowances that we need to acquire.”

Mining

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

expiration of our current contracts or in the context of new mined resources which we acquire or begin to develop on our current sites in future.

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

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

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

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

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

Shale gas and liquefied natural gas

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

Energy supply and trading

Prices in the European energy markets in which we operate through our trading activities are not subject to general price regulation. Thus, price fluctuations occur in the wholesale energy market, as well as in the CO₂ emissions allowances market and impact our Energy supply and trading segment. These fluctuations are particularly significant when there are major tensions and volatility in the energy markets. Any shortage of products or lack of liquidity could limit our ability to reduce our exposure to risk quickly in the energy market. In addition, these markets remain in part partitioned by country, largely as a result of a lack of transmission interconnections, and may experience significant increases or decreases in price movements and liquidity crises that are difficult to predict. Any such fluctuations in the wholesale energy markets could have a material adverse effect on our business, financial condition, results of operations and cash flows.

A significant portion of SSE's expenses are its costs of purchasing electricity and, to a much smaller degree, gas, which are heavily influenced by prices in the world market for electricity, gas and fuel oil and other commodities, such as coal or uranium. The prices for such commodities have historically been volatile and there is no guarantee that prices will remain within projected levels. In order to manage the volatility, SSE implements a hedging and risk management strategy as described in note 3 to SSE's audited consolidated accounts for the year ended December 31, 2012. However, there can be no assurance that these measures will be effective at all times to manage the risk of material changes in gas and electricity prices, and SSE could experience significant price fluctuations which are not adequately hedged and which can adversely affect its financial position and results of operations.

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

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

Moreover, private individuals and the public have the right to comment upon the process, raise objections to proposed permits and initiate court proceedings to intervene and prevent the granting of requested permits. In addition, environmental organizations, residents or other third parties may raise objections to our current or proposed activities or file suits challenging our operations and the granting or existence of permits and licenses to conduct our operations.

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

With respect to our newly acquired company, HSR, the license to operate Buschhaus is currently aligned with the remaining life of the adjacent brown coal mine, which will be exhausted at the end of 2016. We will therefore need to apply for a new license to operate the power plant before the current license expires. We currently plan to apply for a new license in 2015, and while we do not expect any difficulties in obtaining such license, there is no guarantee that we will be able to obtain the license and to operate Buschhaus after 2016.

If any of our licenses or permits is revoked, withdrawn or amended, or if we have difficulty renewing a license or permit, we may experience delays in our operations which could adversely impact our business, financial condition, results of operations and cash flows.

With respect to our mining operations, the threat of challenges to our permits has increased in recent years as open-pit mining has recently become the subject of growing public criticism by environmental activists due to the large carbon footprint of coal-fired energy generation. Moreover, in May 2011, the European Court of Justice declared illegal existing German regulations which had limited the right of environmental associations to file environmental impact lawsuits. Affected statutory provisions of German law have since been amended in order to ensure compliance with the European Court of Justice's ruling. In addition, the German Federal Constitutional Court (*Bundesverfassungsgericht* ("BVerfG")) has, in a ruling in December 2013, strengthened and emphasized the fundamental right to property of affected third parties and their rights to take legal action against permits for open-pit mining. These decisions and changes in law could result in an increase in lawsuits in Germany challenging open-pit mining, thus jeopardizing our ability to obtain the permits and licenses necessary to operate our mines. Additional public concerns relating to the mining industry, such as recent landslides at former mines not operated by us, could also impact the ability to obtain or renew mining permits in the future. Accordingly, the permits we need may not be issued, maintained or renewed, or may not be issued or renewed in a timely fashion, or may involve requirements that restrict our ability to conduct our mining operations. An inability to conduct our operations pursuant to applicable permits would reduce our production, cash flows, and profitability.

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

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

In the ordinary course of our business, we are exposed to the risk of disruptions in the supply of coal, gas, power or other raw materials or transportation. Our generation operations depend upon obtaining deliveries of adequate supplies of raw materials on a timely basis and are therefore vulnerable to changes in the supply of these raw materials, in particular brown coal. In our Mining segment, we are also dependent on the availability of trucking and rail services to transport our brown coal to certain of our customers. In our Energy Supply and Trading segment (including SSE), a significant proportion of our supplied electricity is purchased. SSE does not operate any material electricity or gas generation facilities. SSE purchases a significant proportion of its electricity from

Slovenské elektrárne, a.s., the dominant Slovak electricity producer. Any significant shortages or interruption in the supply of raw materials or transportation services or amendments to laws and regulations affecting such supply or services could disrupt our operations and increase our costs, which could have a material adverse effect on our business, financial condition, results of operations and cash flows. For example, we may be forced to meet our fuel requirements by purchasing fuel at market prices, exposing us to market price volatility and the risk that fuel and transportation may not be available during certain periods at any price. Furthermore, as certain of our power plants are calibrated to run on certain ranges of grades of brown coal and other fuel, in many cases it may be difficult to find a replacement supplier that is immediately able to meet our raw material specifications, especially if any such replacement supplier were to have to seek licenses to access additional fuel reserves.

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

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

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

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

For example, our brown coal supply contract with Czech Coal, a Czech mining company which supplied brown coal to our EOP facility, was originally scheduled to terminate at the end of 2015, but was terminated early by Czech Coal and became the subject of a legal dispute between Czech Coal and us. Although we recently concluded the dispute with Czech Coal by signing an out-of-court settlement, and have replaced the coal from Czech Coal with supplies from MIBRAG, we also have other large brown coal supply contracts under which we could face similar disputes. Should any similar dispute arise in the future, it could result in a shortfall in the supply of brown coal required to operate our heat and power plants. We would attempt to cover any such shortfall through supplies from other suppliers or increased production at MIBRAG. However, MIBRAG's ability to address any additional shortfalls will be limited, especially from 2017 onwards, when we expect to provide all of

Buschhaus's brown coal supplies through MIBRAG. As the brown coal we may receive from alternative suppliers (including MIBRAG) may differ in quality from the brown coal we are currently using, additional capital expenditures may be required in order to refit our power plants to accept a different grade of brown coal. Furthermore, the location of any alternative sources (including MIBRAG) could make transporting brown coal from such mines to other power plants more expensive than our current transportation costs. Switching to a different grade of brown coal may result in a reduction of installed capacity and higher SOx emissions at our power plants, which could have an adverse effect on our business, financial condition, results of operations and cash flows. As we are increasingly using MIBRAG coal to supply our power plants, this may increase the risks above as we will become reliant on even fewer suppliers.

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

The Czech wholesale power generation market is characterized by a limited number of participants. From time to time, this market and other markets in which we operate are scrutinized by regulatory authorities, including the European Commission, to ensure competitive behavior. The European Commission and other regulatory authorities are empowered to undertake investigations and invoke financial penalties and other sanctions on companies with respect to alleged anti-competitive activities. For example, in July 2011, the European Commission publicly announced the initiation of proceedings against the state incumbent, ČEZ, in relation to concerns that ČEZ was allegedly preventing the entry of competitors into the wholesale power generation market. Additionally, in May 2010, the European Commission initiated formal proceedings against Energetický a průmyslový holding, a.s. ("EPH"), the EPE's parent company, and EP Investment Advisors, s.r.o. ("EPIA"), an affiliated company, for potential breach of their procedural obligations during the on-site inspection in November 2009 undertaken as part of an antitrust investigation. As a result of the proceeding, on March 28, 2012, the European Commission imposed a fine of €2.5 million on EPH and EPIA. EPH and EPIA are jointly and severally liable for the fine and have recorded provisions on their respective balance sheets. In June 2012, EPH and EPIA appealed the European Commission's decision, and a hearing is scheduled for March 6, 2014. We cannot assure you that the EU Commission or other regulatory authorities will not make similar challenges in the future, including against us.

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

For 2014, EOP increased its price for heat, and this price increase was challenged by one of its customers and submitted for review by the ERO. The ERO has initiated an investigation into EOP's compliance with relevant legislation. Although we believe we are fully compliant, a finding otherwise would result in a downward price adjustment, which would have an adverse effect on our business, financial condition, results of operations and cash flows.

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

We rely on a limited number of customers to purchase all or a significant portion of our brown coal. For example, for the nine months ended September 30, 2013, MIBRAG generated 78.7% of its revenue (determined in accordance with German GAAP) in respect of three key power plants: Lippendorf, Schkopau and Chemnitz. Although these long-term agreements may only be terminated for cause upon a breach of MIBRAG's obligations under the contracts during the initial contract term, they do not contain express exclusivity provisions, nor do they guarantee the volumes of brown coal sold. Moreover, if these agreements were terminated, we might not be able to enter into replacement agreements on the same terms as our existing agreements, or at all. If we were unable to enter into replacement agreements, we would attempt to sell our brown coal to other customers, which may result in lower sales prices and/or lower volumes of brown coal sold. In particular, due to the high costs for transporting brown coal, replacement customers may be difficult to find and may demand lower prices to compensate for the higher transportation costs. In addition, if one or more of the long-term agreements with our major customers were renegotiated to our detriment or terminated or if any of our major customers were to significantly reduce their purchases of brown coal from us or were unable to pay us, our business, financial condition, results of operations and cash flows could be materially adversely affected. Some of our long-term agreements allow for the review of the pricing terms of the applicable agreement. In addition, notwithstanding the terms of our contracts, our significant customers may attempt in the future to renegotiate their existing long-term agreements for a variety of reasons outside of our control, and depending on our options at the time, we may decide to enter into alternative contractual relationships with these customers which may require us to balance our maximum short-term benefit against our desire to ensure we retain our long-term contractual relationships with our significant customers, which could lead to our business, financial condition, results of operations and cash flows being materially adversely affected.

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

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

We recurrently experience problems meeting the agreed quality specifications for the brown coal delivered to Schkopau. A higher than contracted ash content in our brown coal has caused significant additional expenditures for the operation of Schkopau. However, in May 2013 we were able to reach an agreement with E.ON on this matter, under which we are required to make an annual compensation payment if we do not meet the contractual specifications of ash content in the brown coal we deliver to Schkopau. Such compensation payment is calculated on the basis of brown coal delivered per year and the actual average ash content of delivered brown coal. If the quality of

delivered brown coal should exceed the contractual requirements, we would be entitled to a bonus payment. For the coal delivered in 2012, however, we had to make a compensation payment amounting to approximately €0.90 million. We expect to continue to make similar compensation payments to Schkopau in the future.

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

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

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

In December 2013, EPH contributed shares in EPH Fin II, the holding company for its recently acquired 49% interest in SSE, to us, and we completed the acquisition of HSR. Although these businesses have been operated by E.D.F. International and E.ON, respectively, for many years, there is no guarantee that we will be able to successfully integrate the new businesses into the EPE Group or fully benefit from the anticipated synergies related to further matching our production volumes with the volume of power we sell to end customers that led us to acquire these businesses.

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

In addition, acquired businesses may not achieve the levels of revenue, profit or productivity we anticipate or otherwise perform as we expect. We cannot be sure that our past or future acquisitions will be accretive to earnings or otherwise meet our operational or strategic expectations. For

example, there was generator damage at Buschhaus in September 2013. Such damage led to a shutdown of the power plant, substantial loss of revenues for HSR and unexpected repair costs, which were partly assumed by E.ON under a settlement agreement. If we are not able to successfully integrate and/or manage any acquired company and its respective personnel, the transaction may fail to achieve the desired benefits. Certain of our new acquisitions may present exposure to new risks, or greater risks than we currently face, such as increased exposure to wholesale electricity prices following any significant purchase of a power plant operating primarily in condensation mode. We may be unable to manage these risks and management's attention may be diverted away from ongoing business concerns. Any occurrence of the aforesaid risks could adversely affect our business, financial condition, results of operations and cash flows.

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

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

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

We may enter into joint venture arrangements where we grant protective rights to minority holders or otherwise hold interests in entities in which we own less than a majority of the equity or which we do not manage or otherwise control. In these cases we may be dependent on our joint venture partners to operate such projects or entities, and they may not have the level of experience, technical expertise, human resources, management or other attributes necessary to operate these projects or entities optimally. The approval of such partners may also be required for us to receive distributions of funds from the projects or entities or to transfer our interest in projects or entities. Any current or future joint ventures and/or minority investments may also involve our making significant cash investments, issuing guarantees or incurring substantial debt. In addition, we may enter into joint venture arrangements or otherwise hold interest in entities alongside public entities, such as national and municipal governments, or other entities with divergent interests from us. For example, we share ownership of PT with the City of Prague, which holds a 24.3% interest, alongside EPE Group's 73.3% interest as well as several smaller shareholders, and the NPF holds 51% of the shares of SSE, alongside EPE Group's 49% interest. Such public entities or other joint venture partners may have divergent and at times competing interests that are not always dependent on purely commercial considerations. We therefore face the risk that the operations and management of any joint ventures or entities in which we hold interests alongside such entities may be adversely affected by political and/or social considerations. Any occurrence of these risks could have an

adverse affect on the success of the joint venture arrangement or on our interest therein and, in turn, on our business, financial condition, results of operations and cash flows.

In relation to SSE, although we have management control over SSE, the Slovak Republic may influence or block certain decisions of SSE. The Slovak government's objectives may conflict with our objectives as a commercial enterprise. For example, the Slovak government's key objective is to ensure the stable supply of electricity and gas to the country's residents and businesses at affordable costs rather than the optimization of SSE's revenue and profits (and payments of dividends to its shareholders). The Slovak Republic attempted to strengthen its influence over public utilities (such as SSE) in 2008 by way of special legislation that provided that price regulation proposals by public utilities to the RO must be approved by a general meeting. The special legislation was revoked in 2011, but it was reintroduced in August 2012. Annual tariff negotiations held with the RO play a key role in determining our revenues. There can be no assurance that negotiations will be favorable or that the government will not amend the legislation or take other action to further its own objectives which may be in conflict with our interests or the interests of the holders of the Notes in the future.

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

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

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

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

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

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

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

As of September 30, 2013, we employed approximately 4,347 full-time equivalent employees in our operations, not including employees of SSE and HSR, which employed 1,599 and 487 full-time equivalent employees at that date, respectively. Many of our employees are unionized or represented by works councils and may possess certain bargaining or other rights. These employment rights may require us to expend substantial time and expense in altering or amending employees' terms of employment or making staff reductions. For example, our employees' works councils generally must approve changes in conditions of employment, including salaries and benefits. This requires us to enter into tariff negotiations with the trade union to conclude collective agreements that normally last between 12 and 18 months. For example, on July 18, 2012, we concluded a collective remuneration agreement for employees employed by MIBRAG, effective from September 1, 2012 until at least March 31, 2014, with effect as of this date and at any time thereafter it is terminable with one-month notice. We have entered negotiations again as the contract term is nearing its end. While our tariff negotiations have been successful in the past, this may not be the case in the future.

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

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

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

Although EPE currently reports its results in Czech crowns, we conduct a significant portion of our business in euro and we are subject to risks associated with currency fluctuations. Our German and Slovak operations are all euro denominated and our Czech operations are denominated in Czech crowns, except for power sales and CO₂ purchases, which are euro denominated, and a significant proportion of the Group's debt is denominated in euro, including the Notes and the SSE Acquisition

Credit Facility. While EPE expects to change its reporting currency to euro beginning with its financial statements for the year ended December 31, 2013, we will continue to conduct a significant portion of our business in Czech crowns. We will continue to be subject to risks associated with currency fluctuations. Therefore, our results of operations may be affected by both the transaction effects and the translation effects of foreign currency exchange rate fluctuations. We are exposed to transaction effects when one of our subsidiaries incurs costs or earns revenue in a currency different from its functional currency. We are exposed to the translation effects of foreign currency exchange rate fluctuations when we convert currencies that we receive for our products into currencies required to pay our debt, or into currencies in which we purchase raw materials, meet our fixed costs or pay for services, any of which could result in a gain or loss depending on such fluctuations. In particular, a large proportion of our cost of sales and our selling, general and administrative expenses are incurred in euro, reflecting the nature of our industries and the location of our mining operations in Germany and SSE's operations in the Slovak Republic. At the same time, although many of our sales are invoiced in euro, EPE's consolidated revenues are reported in Czech crowns. Beginning with EPE's financial statements for the year ended December 31, 2013, the reverse will be true. Therefore, EPE's financial results in any given period may be materially and adversely affected by fluctuations in the value of the Czech crown relative to the euro.

Furthermore, on November 7, 2013, the Czech National Bank implemented a currency intervention measure by which the Czech Crown was artificially devalued to an exchange rate of CZK 27 per Euro. This represented an almost 10% change from the former market exchange rate of CZK 25 per euro. According to the Czech National Bank, the Czech Crown will continue to be artificially devalued at or around an exchange rate of CZK 27 per euro until at least 2015 as a matter of monetary policy in order to, among other things, stabilize inflation. Public response to the Czech National Bank's intervention has been unusually negative and we cannot anticipate nor predict possible unforeseen ramifications of the currency intervention measure on the Czech economy as a whole.

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

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

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

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

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

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

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

The financial information included in this Report comprises the unaudited consolidated financial statements for the EPE Group as of and for the nine months ended September 30, 2013. In addition, we include in this Report the EPE Group’s unaudited pro forma income statement for the year ended December 31, 2012, the nine months ended September 30, 2012, the nine months ended September 30, 2013 and the twelve months ended September 30, 2013.

While we believe that the financial statements and financial information included in this Report provide a meaningful accounting presentation of the businesses currently owned and operated by the EPE Group, they are not comparable across the periods presented because of, among other things, the acquisition of various subsidiaries or additional interests in such subsidiaries and the disposition of certain subsidiaries. The lack of comparable data may make it difficult to evaluate the EPE Group’s results of operations and future prospects. Before EPE’s formation, many of the current subsidiaries of EPE were subsidiaries of the EPE’s ultimate parent, EPH, but because the EPE Group has grown steadily through acquisitions, these entities have been under common control for only a short period of time. A significant part of EPE’s current subsidiaries were acquired in 2012 (including agreements with respect to MIBRAG and PT that permit full consolidation of these entities from July 1, 2012) and 2013.

In addition, the EPE Group pro forma financial statements are necessarily based on certain assumptions and may not reflect the financial condition, results of operations or cash flows that the EPE Group would have achieved had the EPE Group as it is currently structured been formed as of January 1, 2012 or those that may be achieved in the future. The adjustments made in order to present the unaudited pro forma consolidated financial information have been made based on available information and assumptions that our management believes are reasonable. However, with respect to the acquisition of Saale Energie, although the purchase price allocation adjustments are reflected in the pro forma financial information as if the whole purchase price allocation process was performed on January 1, 2012, the related simulated amortization charges related to the intangible assets revalued during the purchase price allocation process were reflected from August 1, 2012

only, as amortization charges relating to these intangible assets are not linear over the useful life of the contracts and approximation of any impact on pro forma financial information is, therefore, impracticable and not reliable. Additionally, with respect to the acquisition of our 49% interest in SSE, our purchase price allocation has not yet been completed, and, therefore, no purchase price allocation adjustments are reflected in the pro forma financial information. Moreover, the pro forma financial information does not include the results of HSR. Further, following the acquisition of our 49% interest in SSE through our wholly-owned subsidiary, EPH Fin II, we will fully consolidate the results of SSE in accordance with IFRS, and SSE's results will be fully consolidated for purposes of our pro forma presentation. The unaudited pro forma consolidated financial information is for informational purposes only and does not necessarily present what our results would actually have been had the transactions described therein occurred on January 1, 2012, nor should it be used as the basis of projections of our results of operations, cash flows or financial condition for any future period.

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

We maintain an amount of insurance protection that we consider adequate in the ordinary course of operations, but we cannot provide any assurance that our insurance will be sufficient or provide effective coverage under all circumstances and against all hazards or liabilities to which we may be exposed. For example, only some elements of SSE's distribution network are insured, namely transformation stations and substations. Specifically, SSE's insurance does not cover its power lines. Damages or third party claims for which we are not fully insured could materially and adversely affect our business, financial condition, results of operations and cash flows.

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

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

We have designed and continue to design our internal controls with the objective of providing reasonable assurance that (i) our transactions are properly authorized; (ii) our assets are safeguarded against unauthorized or improper use; and (iii) our transactions are properly recorded and reported, all to permit the preparation of our consolidated financial information in conformity with applicable accounting principles. Any system of controls, however well designed and operated, can provide only reasonable, and not absolute, assurance that the objectives of the system are met. In addition, the design of any control system is based in part upon certain assumptions about the likelihood of future events. Because of these and other inherent limitations of control systems, there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions, regardless of how remote. In particular, the EPE Group does not have integrated information systems and each subsidiary has its own accounting platform and accounting methodologies. The EPE's subsidiaries prepare separate financial statements under Czech, German, Dutch, Polish and Slovak accounting standards for statutory purposes. Part of the IFRS financial

statements consolidation process is manual. It involves the transformation of the statutory financial statements of the EPE's subsidiaries into IFRS financial statements through accounting adjustments and a consolidation of all entities' financial statements. This process is complicated and time-consuming and involves significant manual intervention, all of which increases the possibility of error. In addition, this process requires significant attention from our senior accounting personnel. In addition, as we continue to integrate recently acquired businesses into our operating group, we may experience difficulties adapting our internal controls to these businesses, which could further exacerbate the risk of inaccuracies in our financial reporting. Any failure to maintain adequate internal controls or to be able to produce accurate consolidated financial information on a timely basis could increase our operating costs and materially impair our ability to operate our business, any of which could materially and adversely affect our business, financial condition, results of operations and cash flows.

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

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

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

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

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

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

A significant portion of our business is conducted in the Czech Republic, Germany and the Slovak Republic. Any changes in economic, tax, regulatory, administrative or other conditions or policies of the Czech, German or Slovak government, as well as political or economic developments in the Czech Republic, Germany or the Slovak Republic over which we have no control, could have a significant effect on the Czech, German or Slovak economy, which in turn could have a material and adverse effect on our business, financial condition, results of operations, cash flows or our ability to proceed with our business plan. With regard to the Czech Republic for example, in May 2012, the EU announced concerns over the management and control systems related to the use of funds it contributes to the Czech Republic and has requested that corrective measures be taken before any such funding continues. Although funding by the EU resumed in July 2012, any similar or other reduction in funding from the EU could result in increases in the country’s public finance deficits, which could potentially weaken the Czech crown against foreign currencies, increase inflation and increase the borrowing costs of the Czech Republic and for us, and could have a material and adverse effect on our business, financial condition, results of operations or cash flows. The Slovak Republic has also faced similar problems. Although funding for certain operational programs (i.e., transport and environment) has been reinstated, such funding was temporarily suspended by the EU for several months as a result of administrative defects in the drawdown of the EU funds. Furthermore, as of the end of 2013, the Slovak Republic’s share in the drawing of the allocated EU funds was slightly above 50.0%, which is low compared to other EU countries’ drawdown. The drawing shortfalls could have a negative impact on the country’s public finances as a reduction in EU funds could result in increases in the country’s public finance deficits and increase the borrowing costs of the Slovak Republic, and could have a material and adverse effect on our business, financial condition, results of operations or cash flows.

We may not successfully implement our key strategies.

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

Risks related to mining operations

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

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

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

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

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

The reserves in our mines in Central Germany are estimated by Independent Mining Consultants, Inc. ("IMC") to last until approximately 2030, in the case of the Profen mine, and approximately 2040, in the case of the Vereinigtes Schleenhain mine, in each case based on current production plans. If we increase production, including to potentially supply newly acquired power plants and our currently owned power plants with MIBRAG brown coal, the reserves are estimated to be depleted earlier. The success of our plans to extend the life of our mines depends, among other factors, on our ability to expand existing mining fields and to make new mining fields accessible. This may require extensive and costly infrastructure measures such as the relocation of industrial facilities or residential communities and may lead to compensation obligations; for example, in November 2012, a framework agreement on the relocation of the district of Pödelwitz was signed with the city of Groitzsch. As of December 31, 2013, MIBRAG has closed acquisition and relocation agreements with

28 out of 42 households (approximately 67% of total households) residing in Pödelwitz on the basis of this framework agreement. We currently estimate compensation payments to be paid by MIBRAG to the city of Groitzsch and the land owners and residents of Pödelwitz and related expenditure to amount to approximately €40 million, for part of which a provision was made in 2013. Approximately 20% of the €40 million has already been paid in accordance with the signed relocation agreements. The compensation payments and related expenditure may exceed this estimation and the relocation could be delayed, depending on the further process to agree on the exact conditions of the relocation which is planned to be completed in 2018. If this additional field is included in our Main Operating Plan (Hauptbetriebsplan), our reported proven reserves could increase to include the 12 million tons currently classified as probable reserves in the Report, as well as up to 13 million additional tons that are subject to confirmatory surveys, but we cannot be sure whether and, if so, when the new mining field will be included in the Main Operating Plan. In addition to general mining permit requirements, relocation measures may require administrative or judicial proceedings or other legal procedures to enforce the relocation, particularly if agreement on relocation is not reached with affected parties. With such proceedings we risk an unfavorable decision that may delay, complicate or impede projects to expand existing or develop new mining fields. The BVerfG has emphasized in its ruling dated December 17, 2013 that parties affected by such a compulsory acquisition of land must have the possibility of seeking legal protection by challenging the framework operating plan (*Rahmenbetriebsplan*) and not only the permit for the compulsory acquisition of land. In the same ruling, the BVerfG pointed out that a compulsory acquisition of land may only be permitted on the basis of an overall assessment of the interests of the mining operator, the affected land owner and common interests, including, without limitation, aspects of landscape protection, monument preservation, water management, spatial planning and urban development. According to the BVerfG, private parties affected can make a claim for these interests to be considered in a decision of the competent authority pertaining to the compulsory acquisition of land. If we cannot expand existing or acquire new mining fields and make them accessible to increase our reserves, this may adversely affect our business, financial condition, results of operations and cash flows. Our mines will require additional capital expenditures in the future in order to fully exploit these reserves as projected. In addition, since we attempt, where practical, to mine our lowest-cost reserves first, we may not be able to mine all of our reserves at a cost similar to our current operations.

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

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

Additional factors affecting our ability to successfully exploit our coal reserves, particularly in new areas of our mines, include the ability to acquire new land, gather geological data, obtain reserve assessments, acquire approvals, consents, licenses and permits from the relevant authorities, work with environmental groups, work with unions, secure the availability, terms, conditions and timing of

acceptable arrangements for mining, ensure successful transportation and construction and the performance of engineering and construction contractors and secure the services of mining contractors, suppliers and consultants. Exploitation permits that have already been granted may later be restricted or limited by the competent authorities. The authorities may make permits subject to new conditions provided these conditions still allow for an economically reasonable exploitation. A delay in obtaining required land plots and gathering information necessary for an application for, or the denial of, an allowance, approval, consent, license or permit or other delays in permitting procedures may harm our business, financial condition, results of operations and cash flows. There can be no guarantee as to when our development projects will receive the appropriate approval and whether the necessary project infrastructure will be completed, whether the resulting operations will achieve the anticipated production volumes or whether the costs in developing these projects, including additional costs necessary to comply with conditions imposed by the relevant authorities, will be in line with those anticipated.

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

MIBRAG's brown coal reserves and resources data with respect to our mines, on which our production and capital investment program are based, are estimates that were provided by us and reviewed and substantiated by IMC. We reported our brown coal reserves in accordance with the 2004 JORC Code.

Our brown coal reserve and mineral resource estimates are inherently uncertain and depend on geological assumptions, cost assumptions and statistical inferences which may ultimately prove to have been unreliable. Consequently, brown coal reserve estimates are often regularly revised based on actual production experience or new information and could change. For example, a landslide in one of our mines in 2012 reduced our reserves by covering a portion of our existing reserves with unstable land, making it both unsafe and uneconomical to mine. Furthermore, should we encounter mineralization or formations different from those predicted by past drilling, sampling and similar examinations, the volume or quality projections of our brown coal reserve estimates may have to be adjusted and mining plans may have to be altered in a way that might adversely affect our operations.

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

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

In addition, a new edition of the Code was published on December 20, 2012 and came into effect on December 1, 2013 (the "2012 JORC Code"). Although IMC has found our reported reserves estimate to be consistent with the 2012 JORC Code, any future changes in the JORC Code could materially change our reported reserves.

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

IMC has received the reserve and resource statements for MIBRAG compiled by us in accordance with the criteria for internationally recognized reserve and resource categories as included in the 2004 JORC Code. These reserve and resources estimates are disclosed on a different basis than those disclosed in registration statements and other documents filed by other companies with the U.S. Securities and Exchange Commission (the “SEC”). The disclosure rules and practices that are the basis for IMC’s report (which are based on the 2004 JORC Code) differ in several significant respects from the SEC Industry Guide 7 (“Guide 7”), which governs disclosures of mineral reserves in registration statements and reports filed with the SEC. In particular, Guide 7 does not recognize classifications other than proven and probable reserves, and the SEC does not permit mining companies to disclose mineral resources estimates other than proven and probable reserves in SEC filings.

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

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

Although we own the land where we are actively mining, this ownership position does not automatically grant us the right to exploit and use any brown coal located there as in Germany the ownership of land does not automatically include ownership of the mineral resources located on or under the relevant piece of land. Ownership of the brown coal will be legally acquired only with its extraction. Such extraction again requires a mining right in the form of an exploitation permit (*Bewilligung*) or mining property (*Bergwerkseigentum*) granted by the competent Mining Authority. In return, mining companies are generally required to make royalty payments. In Germany, a two-tiered royalty system for brown coal-mining companies exists. Under the system, the federal law provides for the general principle of the payment of royalties, but the local state governments are entitled to enact ordinances further specifying the procedures for determination of the amounts of royalty fees to be paid and for the details of payment of such royalty fees. Although the guideline royalty rate under the Federal Mining Act (*Bundesberggesetz* (“BBergG”)) of 1980 is 10% of the market value of brown coal production and a statutory cap for a maximum royalty rate of 40% of the market value of brown coal production applies, levies are in many cases waived by the relevant state governments. So-called old mining rights (*alte Gewinnungsrechte*), generally including mining rights granted under the laws of the former German Democratic Republic, are permanently exempt from royalty payment obligations and approximately 72.6% of our MIBRAG brown coal reserves (excluding HSR) are covered by this general exemption. Approximately 1.1% of our MIBRAG brown coal reserves (excluding HSR) are currently covered by rolling exemptions pursuant to ordinances on mining royalty fees of the Federal States of Saxony and Saxony-Anhalt (in both cases until December 31, 2015, *Verordnung des Sächsischen Staatsministeriums für Wirtschaft, Arbeit und Verkehr über Feldes- und Förderabgaben* and *Verordnung des Landes Sachsen-Anhalt über die Feldes- und Förderabgabe*). The remaining 26.3% of our MIBRAG brown coal reserves (excluding HSR) are currently subject to a royalty fee. Although we still have valid exemptions at this time and most of the exemptions have been extended in the past, there always remains an uncertainty whether this will be the case in the

future or whether existing exemptions will be revoked or not be extended. There have been in the past proposals by certain political parties in Germany for a reform of the BBergG, which would have led to the discontinuation of the above described exemptions from royalty fees of mining rights granted under the laws of the former German Democratic Republic. While such legislative proposals have not been supported by a parliamentary majority and have not been implemented so far, it is possible that political majorities may change in the future and such changes may be adopted. In addition, at the federal state level, the Board of Auditors (*Landesrechnungshof*) of the Federal State of Saxony has criticized exemptions relating to mining royalties and considers them to be state aid. Thus, there is not only a risk that existing exemptions will not be extended but also that mining royalty fees will have to be paid retroactively. If rolling exemptions are not renewed in the future or the permanent statutory exemption for so-called old mining rights is cancelled, we would be subject to additional royalty payments on a portion, or all, of our currently exempted brown coal reserves. See “Risks related to each of our business segments—Our mining and heat and power generation operations are heavily dependent upon the extraction and use of brown coal as a primary fuel source, which produces significantly more emissions than other forms of fuel, and exposes us to the risk that our operations will become politically unpopular or the subject of restrictive regulations or private legal action.”

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

As one of the prerequisites for obtaining a permit to mine a designated mining area, we are required by the German mining authorities to provide a reclamation plan (*Rekultivierungsplan*) which obligates us to restore the mining site in accordance with specific standards. As part of this reclamation plan, we are required to create, and annually adjust, non-cash reserves to cover these future reclamation costs, which are calculated by discounting estimated costs under the reclamation plan to their present value. The IMC Competent Persons Report (the “IMC Report”) estimates reclamation costs of approximately €344 million, which is based on a 2010 expert opinion. In late 2012, MIBRAG obtained an updated expert opinion regarding estimated reclamation costs of both the Profen and Vereinigtes Schleenhain mines, and on that basis the latest estimate of such reclamation costs is €307.8 million. As of September 30, 2013, MIBRAG had a CZK 5,909 million (€229.56 million) non-cash ecological provision for restoration and decommissioning booked as a liability included in the consolidated EPE balance sheet pursuant to IFRS and CZK 2,345 million (€91.1 million) booked as a liability on the MIBRAG balance sheet pursuant to German GAAP, respectively, and no cash reserves. Changes to the assumptions used to estimate the present value of the provisions, for example, the discount rate, the inflation rate and the estimated future cash costs related to reclamation, can have a substantial impact on such provisions, and can also have an impact on financial results for the EPE Group. Reclamations with respect to MIBRAG’s Profen mine are currently planned to begin in 2030 and with respect to MIBRAG’s Vereinigtes Schleenhain mine in 2040. We expect to fund the Profen mine reclamation plan with cash from the ongoing operations. We expect to begin accumulating substantial cash reserves to fund the Vereinigtes Schleenhain mine reclamation plan after 2030. We may be required to accumulate cash reserves earlier. We currently incur cash costs of approximately €2-3 million per year for ongoing reclamation and other measures.

Based on a third-party evaluation opinion dated June 26, 2013, HSR recorded total mine reclamation provisions of €60.2 million according to German GAAP as of September 30, 2013. For the Schöningen mine, our main reclamation actions are expected to begin in 2017 with the greatest impact on cash flow occurring from 2017 to 2020 (expected to be up to €10 million per annum). Reclamation of the old exhausted mines is already ongoing at an annual expenditure of approximately €2 million, and together with Schöningen the reclamation activities will continue beyond 2020, mainly due to the necessary flooding of future end lakes. In addition to its reclamation provisions, HSR also has certain

personnel-related provisions, including for social plan obligations of €30.0 million according to German GAAP as of September 30, 2013, which are reflected in the purchase price of HSR.

Currently, the Federal State of Saxony-Anhalt is considering requesting collateral for estimated reclamation costs from mining operators, and similar requests could be made by other states in which we have mining operations. This could affect MIBRAG in connection with the new Main Operating Plan (*Hauptbetriebsplan*) for years 2015 to 2017.

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

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

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

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

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

and cash flows. The PA and the BvS Settlement Agreement are subject to strict confidentiality provisions imposed by BvS, which limit our ability to disclose the details of these obligations to anyone.

Risks related to heat and power generation and distribution

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

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

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

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

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

The distribution of electricity to SSE's distribution networks is dependent upon the infrastructure of the Slovak transmission system. SSE has no control over the operation of this transmission system and it is entirely reliant on the transmission system operator in the Slovak Republic, which is a state-owned entity. Any failure of the Slovak transmission system, including as a result of natural disasters, insufficient maintenance or inadequate development, could prevent SSE from distributing electricity to its end consumers, which in turn could have a material adverse effect on our business, results of operations and financial condition.

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

In 2012, PT sold Energotrans, a heat generating company, to ČEZ, a.s. As part of the sale, PT continues to have an important long-term heating supply contract with Energotrans, valid through 2036, whereby PT buys heat from Energotrans to distribute through PT's heat distribution network in Prague. In connection with the sale, the parties obtained competition clearance to supply heat through 2021. The sale and purchase agreement provides for remedies in the event that the heating supply contract is breached or challenged by either party or invalidated or otherwise terminated by the courts or authorities. For minor breaches or challenges to the contract, PT may be forced to adjust certain commercial terms of the contract. In the worst case scenario, PT could be forced to repurchase Energotrans from ČEZ, a.s. at a predefined price to be determined by an agreed-upon formula. Such purchase price could be substantial and in certain cases (in particular if the repurchase is triggered due to material breaches by PT) represent a premium to PT's original sale price. There can be no guarantee that PT will have sufficient funds or access to outside funding to fulfill those obligations. Any such challenge, and any resulting changes to our contract with Energotrans or the reversal of the sale to ČEZ, a.s., could have an adverse effect on our business, financial condition, results of operations and cash flows.

Risks related to renewables

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

Our renewable energy projects are subject to substantial risks. Projects of this nature are relatively new and have been developed through advancement in technologies that may not be proven or are unrelated to our core businesses. Although renewable energy in the Czech Republic is currently supported by various governmental subsidies, the government has expressed a desire to cancel such subsidies in the future. In addition, in 2010, with effect as of January 1, 2011, a withholding tax in the Czech Republic in the amount of (i) 26% of the income corresponding to the feed-in tariff or (ii) 28% of the income corresponding to a "green bonus" was imposed on solar power facilities commissioned in 2009 and 2010, which negatively affected three of our solar power facilities that began operating between 2009 and 2010 and are therefore subject to the withholding tax. Such withholding tax was in effect until December 31, 2013. Effective as of January 1, 2014, a withholding tax in the Czech Republic in the amount of (i) 10% of the income corresponding to the feed-in tariff or (ii) 11% of the income corresponding to a "green bonus" was imposed on solar power facilities commissioned between January 1, 2010 and December 31, 2010, impacting Greeninvest Energy, a.s. with installed capacity of 4 MW. Such tax burden shall apply starting from January 1, 2014 and continuing for the duration of the period during which the respective facility has the right to claim the subsidy. However, we cannot predict any legal developments in respect thereof. See "—Risks related to governmental regulations and laws—We could incur unforeseen taxes, tax penalties and sanctions or could lose tax exemptions and benefits, which could adversely affect our business, financial condition, results of operations and cash flows."

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

In Germany, renewable energy production is generally privileged as there is a priority feed-in right into the grid as well as a guaranteed remuneration for feed-in from renewable energy sources under the EEG. There are different rates of feed-in remuneration applicable depending on the source of renewable energy and, at least for some renewable energy sources such as wind, photovoltaic and hydroelectric power, on the date of commissioning of the relevant renewable energy installation. These tariffs may be increased if certain retrofitting or repowering measures are conducted in accordance with statutory requirements. The feed-in tariffs have repeatedly been adjusted in the past, both upwards and downwards. Such adjustments have so far only been applied to new installations leaving the guaranteed feed-in tariffs for existing installations at the time unaltered. The applicable renewable energy feed-in tariffs may be subject to further changes in the future. The feed-in tariffs for renewable energy projects essentially depend on when an installation has been or will be commissioned and on the feed-in tariffs applicable under statutory law at a certain time. It is possible that feed-in tariffs applicable to existing installations may be adjusted in the future. The coalition parties forming the newly elected German Federal Government envisage cutting and continuously decreasing fixed feed-in tariffs for new installations, depending on the relevant renewable energy source, and making direct selling on the basis of the floating market premium obligatory for operators of new installations with a generation capacity of 5 MW and above. From 2017 onwards, the government envisages applying obligatory direct selling on the basis of the floating market premium to all renewable energy installations, irrespective of their generation capacity.

Any delays in the commissioning of planned projects and any amendments to the applicable feed-in tariffs scheme under statutory law could materially and adversely affect our business, financial condition, results of operations and cash flows.

Similar risks may arise in the Czech Republic, where the applicable renewable energy feed-in tariffs may also be subject to changes in the future. In January 1, 2013, a new act on the promotion of renewable energy sources entered into force (Act No. 165/2012 Coll., on Promoted Energy Sources, the “Czech Promoted Energy Sources Act”) which, among other changes, reduced support for certain types of renewable energy sources (for example solar installations), as well as reduced support (through lower feed-in tariffs and lower green bonuses) for new installations in order to combat what was considered to be excessive and unbalanced promotion of renewable energy sources. An amendment to the Czech Promoted Energy Sources Act has been recently enacted, which, among other things, provides that only facilities that obtained permits prior to October 2013 and are commissioned prior to December 31, 2015 have a right to a subsidy, with an exemption for small hydropower plants with installed capacity less than 10 MW.

Currently in the Slovak Republic, there is also feed-in support for renewable energy sources. Although the RO is currently safeguarding such support for existing renewable energy assets, including our 9.8 MW solar generation (at SSE) and 2.5 MW hydro generation (at SSE) assets, new renewable energy projects are facing a much more stringent approval process and less feed-in support, which has been scaled back to prevent speculative capital and uncontrolled building of decentralized generation assets. There have also been some discussions regarding the imposition of a special tax on renewable energy generation assets, inspired by the Czech market. Although no such tax has been imposed, we cannot guarantee that the Slovak government will not impose such a tax in the future. The imposition of such a tax or any similar tax or the withdrawal of renewable energy

feed-in support or any other support may adversely affect our business, financial condition, results of operations and cash flows.

We intend to further develop two wind park projects, one in the Czech Republic (VTE Moldava) and the other in Germany (on land owned by MIBRAG). If these two projects are commissioned, their total installed capacity would amount to up to 76 MW_e (VTE Moldava up to 54 MW_e and MIBRAG up to 22 MW_e). We expect the MIBRAG wind farm to be commissioned in 2014. The VTE Moldava wind park project is in the advanced stage of the permit process, and we believe that it is on track to be commissioned in 2015.

In addition, because these projects depend on technology outside of our areas of expertise in coal-fired power and heat generation, there are risks associated with our ability to develop and manage such projects profitably. At the development or acquisition stage, our ability to predict actual performance results may be hindered and the projects may not perform as predicted. Additionally, these projects can also be capital intensive and generally require us to obtain third party financing, which may be difficult to obtain. As a result, these capital constraints may reduce our ability to develop these projects in the time projected or at all, or at the costs projected. In addition, we only receive feed-in tariffs if our renewable energy assets are operational, and if the wind farm that we are currently developing in the Czech Republic (VTE Moldava) is not commissioned before the end of 2015, it will not qualify for existing governmental support. The development of VTE Moldava relies on numerous approvals with an undefined timeline, many elements of which are not within our control. In the event that our renewable energy assets are taken offline or do not qualify for feed-in tariffs, the loss or lack of the feed-in tariff may adversely affect our financial results. Any changes to government regulations and laws, increases in taxation, lack of legislative support or the availability of authorizations and permits or difficulty obtaining licenses/permits or the financing necessary for development of our renewable energy projects could materially and adversely affect our business, financial condition, results of operations and cash flows.

Risks related to energy supply and trading

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

Our trading business purchases and sells electricity and energy commodities in the wholesale market, including sales of electricity generated by us in our Heat and Power segment to our end-consumers through our supply business. Our trading business also sells and purchases CO₂ emissions allowances and purchases electricity for delivery by our power generation business at times when it is more economical for us to buy electricity for sale under our forward sale contracts rather than generate it ourselves. While the majority of our trades are conducted on a back-to-back basis, we also engage in limited opportunistic electricity and gas trading activities, mainly in relation to sales of electricity from our own production, where the result of such trading activity depends on movements of wholesale electricity prices. Additionally, in connection with the optimization of our supply and trading business, we are dependent on the liquidity of the wholesale market, and as a result, we may take limited open trading positions. These trades relate, for instance, to (a) speculation on seasonal differences in electricity and natural gas prices (such as the purchase of gas in the spring and summer with the intention of selling it at a higher price in the winter) and (b) speculation based on announcements relating to the availability of emissions allowances, as a reduction in the number of available emissions allowances will lead to an increase in emissions allowance prices and thus increasing power prices due to higher production costs. The maximum exposure we may take through proprietary trading is subject to limits setting the maximum risk of loss on trading portfolios. Under our current trading policies, EPET's potential open positions in electricity and gas over any period of time are limited by an aggregate mark-to-market value of €5 million in electricity and €1 million in natural gas. If we exceed these thresholds on our open positions, we are required by EPE Group policies to close out of our open positions to a value below these thresholds. Under the

current SSE risk policy, exposure to market price risk in electricity and natural gas trading is set by the limits on open financial positions for each trading year and each market segment and by value-at-risk limits for a 12-month horizon (€400,000 for electricity and €300,000 for natural gas) and four-year (portfolio) horizon (€900,000 for electricity and €500,000 for natural gas). However, despite our risk management policies and monitoring activities, we could be exposed to open positions in excess of those prescribed by our risk management policies if, for example, any of our traders makes trades in violation of our trading policies or changes thereto, or flaws in such policies emerge. Any failure to adhere to our risk management policies or weaknesses in the policies themselves could materially and adversely affect our business, financial condition, results of operations and cash flows.

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

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

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

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

We face competition in the energy supply market.

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

to remain competitive, it may have a negative impact on our business, financial condition, results of operations and cash flows.

We are exposed to increased competition in the electricity and gas markets in the Slovak Republic.

We are the natural monopoly distributor of electricity in the central part of the Slovak Republic and this activity generated 82.8% of SSE's EBITDA for the nine months ended September 30, 2013. However, with regard to the supply of electricity and gas, we operate in an increasingly competitive market.

We compete with up to 30 major suppliers of electricity and gas in the Slovak Republic and some of these companies may have greater financial or technical resources than us or other competitive advantages. In particular, our affiliate SPP, the dominant gas supplier in the Slovak Republic, has recently begun to supply electricity as well and is expected to gain a significant market share through its ability to cross-sell electricity to its existing gas supply customer base. In addition, both SE Predaj (a subsidiary of the dominant Slovak electricity producer, Slovenské elektrárne, a.s.) and ČEZ (a major regional energy group based in the Czech Republic) are actively seeking to enlarge their customer bases. Reflecting this increasing competition, the rate of customer churn in the Slovak electricity supply market has increased in recent years. In 2009, 0.4% of customers switched their electricity supplier and this number has increased in each year since 2009 to 2.5% in 2012. In the past, SSE experienced a loss of customers to competitors who offered below-market rates. If a significant number of SSE's electricity customers choose to switch their supplier, our supply business and results of operations could be significantly adversely affected.

Risks related to governmental regulations and laws

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

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

- price-setting for heat and power distribution;
- permitting and licensing requirements and limitations on land use;
- unauthorized profits from power and heat sales;
- employee health and safety;
- restrictions on related-party transactions in the co-generation industry;
- reclamation and restoration of mining properties;
- air quality standards and limits on CO₂ released into the atmosphere;
- protection of human health, plant life and wildlife and prevention of water pollution and the discharge of materials into the environment;
- the effects of mining on groundwater and its quality and availability;
- energy efficiency targets;
- grid congestion management and grid/network access;
- the decommissioning and operation of certain power plants (including potential obligations to continue operation and prohibitions on decommissioning certain power plants);

- promotion of renewable energy and/or combined heat and power, including costs due to burden-sharing mechanisms;
- use and implementation of CCS technology (carbon capture and storage);
- promotion of the construction of new power plants;
- supply and trading of energy and energy derivatives;
- provisions on security of supply and network stability; and
- tax laws.

The costs, liabilities and requirements associated with these and other laws and regulations may be extensive and may potentially delay commencement or continuation of production of brown coal and power and heat and distribution of power. Failure to comply with these regulations may result in the assessment of administrative, civil and criminal penalties, the imposition of cleanup and site restoration costs and liens, the issuance of injunctions to limit or cease operations, the suspension or revocation of permits and other enforcement measures that could have the effect of limiting production from our operations. We may also incur costs and liabilities resulting from claims for damages to property or injury to persons arising from our operations. We must compensate employees for work-related injuries. In the Slovak Republic, the Ministry of Labor, Social Affairs and Family promulgated decree no. 147/2013 Coll., which requires that work at heights or above open depths in areas not protected against weather conditions at which the temperature falls below -10°C must be suspended. Such work is necessary for power distribution system operators, including Stredoslovenská energetika -Distribúcia, a.s. The Ministry of Labor, Social Affairs and Family has prepared an amendment for comment by the Slovak distribution system operators and other utility companies, and we expect that the legislation will be amended. However, if it is not amended, we believe the Slovak Energy Act, which requires us to operate the system securely, reliably, safely and effectively and maintain the quality of electricity (and ancillary service) supply, supersedes the decree. Any such limitations on our operations and the incurrence of such costs and liabilities may adversely affect our business, financial condition, results of operations and cash flows.

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

The Third EU Energy Package was implemented in the Slovak Republic in 2012. SSE has managed to comply with the new regulatory regime and it continues to allocate adequate resources to achieve and maintain compliance with the Third EU Energy Package. However, the relevant authorities in the Slovak Republic and the European Union may enforce existing regulations more strictly than they have done in the past and may in the future impose stricter standards, or higher levels of fines and penalties for violations, than those which are in effect at present. For example, the RO amended legislation in September 2012 which focused on the regulation of quality to introduce automatic compensation payments to customers for any failure to comply with required quality standards after January 1, 2013, the amount of which depends on the type and duration of the violation. A general evaluation of quality standards is conducted at the end of every year to determine a distribution system operator's quality of service level. In 2011, after the introduction of quality standards for reporting and monitoring purposes only, SSE had the highest quality violation standard rate among the three distribution system operators in the Slovak Republic (measured as a percentage of events with respect to which a distributor system operator has failed to comply with RO requirements out of total count of monitored events). SSE has since changed the most affected processes to comply with

the quality standards. However, any material noncompliance in the future may have a material adverse effect on our business, financial condition, results of operations and cash flows.

Additionally, as a DSO, SSE's subsidiary, Stredoslovenská energetika—Distribúcia, a.s. ("SSE-D") is obliged to purchase electricity from renewable energy sources at regulated prices, which are higher than market prices. The DSOs are intended to be compensated for the incentive payments they make through system operation tariffs (SOT) collected from the final electricity consumers. The regulation currently states that any negative balance between the DSO's costs of mandatory purchase of electricity from renewable energy prices and the SOT revenues should be taken into account when assuming new tariffs with a view to providing such reimbursement within two years. As the reimbursement takes the form of tariffs paid to the DSOs set based on assumed distribution volumes, any failure in the assumptions used would impact the reimbursement rate. In addition, despite the stated aims in the current regulation, the RO may not implement the tariffs with only these aims in mind. SSE-D has in the past experienced imbalances between the costs incurred from purchasing renewable energy and the tariff payments received, partially due to inadequate estimates made by the RO. High volumes of production of solar sources in the region in which SSE operates, which may be the result of favorable weather conditions or new installations, the costs associated with this obligation to purchase renewable energy generally exceed the revenue associated with the reimbursement tariff. Although recently these volume increases have been growing at a slower rate, any further increases in the volume of solar energy production and any future changes to the regulatory scheme may cause greater payment imbalances. In addition, SSE-D may be unable to resell the excess electricity at the price at which it is required to resell it (the regulated price for electricity distribution losses) and therefore may experience further losses for which it may not be compensated. Any such increase in payment imbalances or loss-making resales of electricity may have a material adverse effect on our business, financial condition, results of operations and cash flows.

According to the Coalition Agreement, the coalition parties in Germany are considering amendments to the Federal Renewable Energy Act (*Erneuerbare-Energien-Gesetz* ("EEG")), the current regulation of network tariffs, the legal framework for grid congestion management, the Combined Heat and Power Act (KWKG) and the regulatory regime applicable to hydraulic fracturing, so-called *fracking*, and an obligation for operators of large renewable energy installations to guarantee part of their electricity production as base load feed-in. The Coalition Agreement is not a binding legal act to be relied upon by third parties but rather a political declaration of intent. It contains the relevant political parties' current plans for new regulations or amendments to existing law but it cannot be said with certainty whether and when changes announced in the Coalition Agreement will actually be adopted or enter into force. However, such adoption or enactment could have an adverse effect on our business, financial condition, results of operations and cash flow.

The impact of the new Czech Civil Code on businesses in the Czech Republic, including ours, is subject to significant uncertainty.

As of January 1, 2014, a broad reform of Czech private law came into effect. The Czech civil law was completely revised into a new Czech Civil Code (Act No. 89/2012 Coll., as amended) and the existing Czech Commercial Code was replaced by the new Czech Corporation Act (Act No. 90/2012 Coll., as amended). These changes will impact a wide variety of aspects of civil and corporate legal undertakings in the Czech Republic, including basic concepts of interpretation of legal acts, intentions of parties and contractual autonomy. There is no way to anticipate the application and interpretation of these new legal rules by Czech courts or other authorities. Relevant case law may not become available for a significant period of time, thus impacting legal certainty in the Czech Republic. The EPE cannot influence the aforementioned factors in any way and cannot guarantee that the political, economic or legal development in the Czech Republic will be favorable to its business undertakings.

Furthermore, Czech entities will be under a duty to bring several aspects of their operation, including but not limited to holding structures, controlling person restrictions, corporate documentation, management contracts and signatory authorizations into full compliance with the new Czech Civil Code and the Czech Corporations Act. Failure to do so within the legally defined implementation period may in certain cases result in sanctions. In particular, failure of a Czech entity to bring its corporate documentation into compliance with the Czech Corporations Act within the six month period commencing January 1, 2014 may, upon motion of the relevant court or anyone who has legal interest therein, ultimately lead to the forced termination and liquidation of such entity. The EPE cannot yet fully anticipate the logistical, legal or economic problems inherent in opting in or adopting the requirements of the new Czech Civil Code and the Czech Corporations Act.

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

Our operations are regulated by a wide range of environmental requirements in the Czech Republic, Germany, the Slovak Republic and the European Union, including those governing the discharge and emission of pollutants, the management and disposal of hazardous materials, the cleaning of contaminated sites, mine reclamation and worker health and safety. For example, we are subject to regulations that impose strict standards for CO₂, SO_x, NO_x, CO and solid particulate matter emissions, which may restrict our ability to supply additional power and heat, reduce demand for our brown coal or require us to modify our existing operations and increase our costs of doing business. We also could incur significant costs, including civil and criminal fines or sanctions, claims for environmental damages, remediation obligations, revocation of environmental authorizations or temporary or permanent closure of facilities, as a result of violations of liabilities under environmental requirements.

We have made, and expect to continue to make, expenditures to maintain compliance with environmental laws. For example, starting in 2016, the stricter emission targets set forth by the European Industrial Emissions Directive (IED) will apply for large combustion plants, including those that we operate, which we estimate will require additional capital expenditures in excess of €80 million for our power plants in the Czech Republic (predominantly at EOP and minor technology improvements at UE and PE), and an additional €6.5 million total for our Schkopau (primarily mercury-related) and MIBRAG power plants in Germany. In addition, the requirements of the Water Framework Directive (2000/60/EC), which have been implemented in Germany by amendments to the Federal Water Management Act (*Wasserhaushaltsgesetz* ("WHG")), in particular its phasing-out target regarding hazardous materials such as mercury, necessitate specific technical provisions in our brown coal fired power plants, which may require significant capital expenditures.

Our mining and mineral processing operations also have inherent risks and liabilities associated with damage to and contamination of the environment, particularly landscape, water resources and the disposal of waste products occurring as a result of mineral exploration, production and processing. We may be obliged in the future to improve the quality of our waste water discharges, which could result in higher waste water management costs. In general, the pressure on mining operators to improve their waste water quality has increased since the implementation of the Water Framework Directive (in Germany: by way of amendments to the WHG; in the Czech Republic: Act No. 254/2001 Coll., the Water Act, as amended; in the Slovak Republic: the Slovak Water Act), which regulates, among other things, old mine waste dumps that continue to produce Acid Mine Drainage (AMD) that causes elevated concentrations of iron, sulfates and other particles in groundwater. We are also subject to further significant regulation under German law relating to our mining operations, including groundwater use and discharge of waste water. In the past, we have not met target values (*Zielvorgabe*) for sulfate in the groundwater and have exceeded permitted water emission values and

iron levels in water. In addition, the Regulation (EC) No. 1907/2006 on Registration, Evaluation, Authorisation and Restriction of Chemicals ("REACH") introduced strict standards with regard to chemical substances which may only be put into the market if they are permitted as a consequence of being registered in accordance with REACH. This particularly limits our ability to market or use by-products from our power and heat generation such as ashes and slags. Pursuant to REACH, SSE is required to track chemical substances which are purchased and imported. Any failure to comply with applicable environmental, heritage or health and safety laws or regulations could result in a material interruption or restriction of the EPE Group's development or mining operations, and/or in the imposition of fines, penalties or other liabilities, which could have a material adverse effect on our business, financial condition, results of operations and cash flows.

SSE is subject to a range of environmental regulations, including regulations aimed at protecting soil and water from oil leakage from its transformer stations and birds from fatal injury resulting from its electricity network. SSE has implemented several measures to reduce the risk of liabilities arising from these regulations, including the installation of oil catching components at its transformer stations and consoles for birds. Additionally, SSE also has insurance coverage for environmental damages. See "—Our insurance coverage with respect to our operations may be inadequate and the occurrence of a significant event could adversely affect our business, financial condition, results of operations and cash flows" for information pertaining to risks associated with inadequate insurance coverage. Non-compliance with applicable environmental regulations may result in legal proceedings and penalties, which could have a material adverse effect on our business, financial condition, results of operations and cash flows.

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

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

Furthermore, many of the properties that we own or operate were used for coal mining and/or involved hazardous material usage before we took ownership or operating control. Some of the land which we own or on which we conduct our mining operations is contaminated, in particular, from historical operations, and we are addressing such contaminations at a number of locations in the

course of our normal business operations, such as by the removal of the contaminated soil. At some of our sites warfare material could be contained in the soil, such as an unexploded ordnance from military bombardment during World War II. Estimates on the ultimate cost of remediation efforts are difficult to accurately predict and depend on the relevant on-site investigations. If additional contamination is discovered or additional cleanup obligations are imposed at these or other locations, this could lead to interruptions in our operations and production losses or the total costs of remediation could be substantial, and if they are, could adversely affect our results of operations and cash flow.

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

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

Changes in regulated tariffs or the introduction of new obligations to pay regulated tariffs could have a material adverse effect on our business, financial condition, results of operations and cash flows.

In the Czech Republic, our heat business, which accounts for a significant portion of our sales, depends on regulated tariffs. Our renewables business in the Czech Republic also depends on regulated tariffs. Tariffs for heat, renewable energy, electricity distribution, electricity supply to certain types of customers and network access are also set by the regulatory authorities or legislatures of other countries in which we operate, including in respect of renewable energy, the Slovak Republic. With regard to Germany, tariffs for renewable energy are determined by law, and tariffs for network usage are determined by network operators on the basis of and in compliance with network tariff regulation. There is no regulation of prices for the supply of electricity and heat in Germany.

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

A significant portion of SSE’s revenue from electricity distribution and supply of electricity and gas in the Slovak Republic is derived from the regulated tariff rates charged to customers. Generally, the RO sets maximum prices or regulates rules for determination of maximum prices or tariffs depending on the manner of price regulation set forth by the applicable laws. The price regulation is adopted by the RO within a legal regulatory proceeding that commences on the basis of a proposal for a new price submitted to the RO by the respective regulated subject or *ex officio*. In this respect, the RO shall either approve the submitted proposal or determine the maximum price by individual decision.

82.8% of SSE's EBITDA for the nine months ended September 30, 2013 comes from its power distribution activities, which are regulated. SSE's power supply activities are also regulated within the household and mid-market categories, generating a small incremental percentage of EBITDA.

As a result, we are affected by the pricing decisions made by the RO for distribution tariffs and regulated electricity and gas supply prices in the Slovak Republic that are not foreseeable. The RO may delay or limit tariff rate increases or may decide to apply methodology for the calculation of regulated prices which is less favorable to us for various reasons. For example, the RO has discretion when determining certain variables in tariff calculation formulae, including the value of the regulatory asset base, technical lifetimes of assets and permitted return on the regulatory asset base. Although the RO is required to apply transparent and justifiable methodology and legal remedies might be available to us in some cases, any delays, mistakes or negative changes affecting the RO's pricing decisions could have an adverse effect on our business, results of operations and financial conditions. Additionally, during the approval process for regulated prices, the RO may request special downward adjustments to a power distributor's margin. Although such negotiations with the RO during this process are typical, in the future the RO may adopt stricter negotiating positions, which may have an adverse effect on our business, results of operations, revenue from regulated activities and financial conditions.

The legislative or regulatory authorities in the countries in which we operate may decide to limit or even block tariff increases, with no change to the quality of service, or may change the conditions of access to such regulated tariffs, including changes to the price setting mechanisms as a result of political interference. We cannot give any assurance that new tariffs would be set at a level which would allow us to preserve our short-, medium- or long-term profitability or our property interests, while ensuring a fair return on the capital invested in our power generation, distribution and supply assets. As a result, any changes in regulated tariffs, particularly those that may affect our revenues from power and heat distribution, could have a material adverse effect on our business, financial condition, results of operations and cash flows. Moreover, major changes to the regulatory regime tend to coincide with the start of a regulatory period, and the next regulatory period will begin in 2017 in the Slovak Republic and in 2015 in the Czech Republic.

The coalition parties of the Federal German Government are considering having power producers feeding electricity into the grid bear part of the costs of network infrastructure and network operation in the future (instead of such costs being borne solely by customers via the network tariffs). This could lead to additional costs being borne by us, which could have a material adverse effect on our business, financial condition, results of operations and cash flows.

As regards electricity for own consumption (*Eigenstromerzeugung*), producers may be obliged to pay a surcharge on the consumption of such electricity in the future. The EEG regulates a nationwide equalization scheme (*Ausgleichsmechanismus*) to compensate the TSOs for extra costs that arise as a consequence of the statutory feed-in remuneration to be paid to the operators of renewable energy installations. Under this equalization scheme end customers ultimately bear such costs by way of surcharge in a nationwide uniform amount (cent/kWh) (the "EEG Surcharge") that is passed on by energy supply companies. Companies with high electricity consumption pay a reduced EEG Surcharge. The European Commission has recently opened an in-depth state aid inquiry on these reductions of the EEG Surcharge. The coalition parties have stated in the Coalition Agreement that they intend to refine the exemption in an EU law-compliant way. Producers of electricity for their own consumption are, under certain conditions, exempt from the obligation to pay the EEG Surcharge. According to the Coalition Agreement, the coalition parties intend to extend the obligation to pay the EEG Surcharge to all new installations for electricity production for own consumption, while grandfathering is envisaged for old installations. Entities within the EPE Group currently utilize this exemption and intend to utilize this exemption in the future for the production of electricity for own consumption. In the event this privilege is no longer available or becomes

unavailable, we may experience a material adverse effect on our business, financial condition, results of operations and cash flows.

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

In 2005, the European Union introduced the EU ETS. Within the EU ETS, each greenhouse gas emitter is allocated a certain cap by the relevant national government, which is in turn allocated a national cap by the European Commission, within which it is allowed to emit greenhouse gases (such as CO₂). Any emissions in excess of this cap must be counterbalanced by emissions allowances acquired in the open market at a market price, otherwise the emitter is penalized. Allocations are fixed for a specific trading period. In 2011 and 2012, the allocation of emissions allowances without cost in the Czech Republic to CO₂ emission producers selling electricity to third parties was subject to a gift tax. We expensed tax of CZK 375 million in such tax for the year ended December 31, 2011 and CZK 204 million in such tax for the year ended December 31, 2012. Although this tax is currently only applicable for the years ended 2011 and 2012, any extension or amendment to such tax legislation or introduction of any similar tax in the future, could have a material adverse effect on our business, financial condition, results of operations and cash flows.

In the trading periods after 2012, the majority of, or potentially all emissions allowances for the power generation sector are sold in auctions rather than allocated for free. However, the Czech Republic has received a partial exemption from this change. The scope of this emissions allowance derogation is limited to installations that began power generation before December 31, 2008 or for which the investment process was “physically initiated” by that date. All our Czech power plants are covered by the derogation. The extension period will last from 2013 to 2019, and the free allowance extension is limited to no more than 70% of emissions for domestic electricity supply in 2013 and approximately 60% in 2014, declining annually thereafter to zero from 2020 onwards. The EU ETS Directive requires that installations benefitting from free allocations under the derogation invest in projects designed to modernize power generation in the Czech Republic. The value of these investments must mirror the value of the free allocation of emissions allowances, which we continue to achieve through our investments in our existing power plants, facilities and infrastructure to comply with this requirement. Different principles apply under the EU ETS Directive to heat; according to these principles, district heating CHP plants shall receive free allowances for heat supply from 2013 to 2027. The derogation is available to all Member States, but is limited in terms of eligibility and quantity. All district heating and highly efficient cogeneration plants are eligible, regardless of the commissioning date. However, the EU ETS Directive sets a limit of a maximum of 80% of free allowances in 2013 with a gradual decline in subsequent years to reach 30% in 2020. Further gradual decline will reach zero free emissions allowances in 2027. As this decline of free emissions allowances will lead to an increase in market demand, since market participants will likely need to increase the volume of the allowances purchased to meet their volume targets, prices will likely increase as well. Contrary to the free emission allocation extension granted for power generation in the Czech Republic, the EU ETS Directive does not require heating plants benefitting from the free allocation under the derogation to invest in any projects. Since January 1, 2013, we have had to buy emissions allowances on the market (especially for our German business operation), and over time the proportion of emissions allowance we are required to purchase will increase as available free allowances are gradually eliminated. Moreover, as the number of allowances gradually declines during the respective derogation periods, we expect the price of allowances on the market to gradually increase. As a result, our emission allowance allocation remains uncertain and our costs may increase significantly, which could have a material adverse effect on our business, financial condition, results of operations and cash flows. In addition, we will be more vulnerable to risks relating to volatility in the price of emissions allowances.

In December 2013, the European Parliament and the Council adopted Decision No. 1359/2013/EU, amending the ETS Directive proposed by the Commission which clarifies that the timing of auctions may be changed to ensure the functioning of the carbon market. The Commission may hold back emissions allowances representing in total 900 million metric tons of carbon credits which would be released at a later stage. This is expected to lead to a significant increase in the prices for emissions allowances. The details are subject to the implementation by the Commission through the adoption of an amendment to the Auctioning Regulation. Such amendment is subject to participation of the Climate Change Committee as well as the European Parliament and Council, which is currently pending. In January 2014, the EU Commission presented a proposal for legislation to establish a market stability reserve after 2020 providing for an automatic adjustment of the supply of auctioned allowances downwards or upwards based on a pre-defined set of rules with the goal of enhancing market stability. This proposal does not constitute binding legislation and will be subject to further discussion before potentially being adopted. See “—Risks related to each of our segments—Our revenues and margins of operations may be negatively impacted by volatile prices for power, heat, natural gas, hard coal and emission allowances for CO₂”.

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

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

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

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

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

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

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

- the implementation of energy or CO₂ taxes that have the effect of reducing end-use energy consumption,
- financing schemes and instruments or fiscal incentives that lead to the application of energy-efficient technology or techniques and have the effect of reducing end-use energy consumption,
- regulations or voluntary agreements that lead to the application of energy-efficient technology or techniques and have the effect of reducing end-use energy consumption,
- standards and norms that aim at improving the energy efficiency of products and services, including buildings and vehicles, except where these are mandatory and applicable in Member States under EU law,
- energy labeling schemes, with the exception of those that are mandatory and applicable in the Member States under EU law, and
- training and education, including energy advisory programs that lead to the application of energy-efficient technology or techniques and have the effect of reducing end-use energy consumption.

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

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

The Czech Renewable Energy Act requires distribution companies to purchase certain amounts of electricity from environmentally friendly “co-generation,” “small hydro,” “decentralized” or “renewable” facilities. This results in significantly higher state support for small generation sources. This support may be in the form of regulated subsidized prices or preferential access for these

generation sources to the distribution grid. While we believe that these purchases of electricity by the distribution companies and the preferential treatment of renewable sources will not substantially adversely affect the generation volumes of our conventional generation facilities, we cannot provide any assurance that this will in fact be the case or that the price at which we can sell our power to supply companies will not decrease, which could in turn have a material adverse effect on our business, financial condition, results of operations and cash flows.

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

The Slovak Republic currently operates a system of subsidies to support electricity generation from renewable energy sources and highly efficient cogeneration, such as combined heat and power production plants. We are obliged to purchase electricity from renewable energy sources which meet certain criteria at a price which is above the market price. We are also obliged to prioritize the supply of such electricity over supply from other sources. SSE is especially affected by this regime as it operates in a region of the Slovak Republic that has a high level of renewable energy production. The additional costs incurred by us in these activities are generally recoverable through a special tariff charged to the end consumers and self-producers, but the amount of such tariff and the time for its recovery depends on a number of conditions and factors, including approval by the RO and the degree of volatility in generation from renewable energy sources. Any deficit or surplus resulting from support for renewable energy sources should be compensated by the RO through a correction mechanism over two years, which can result in a cash flow disadvantage to us from time to time.

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

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

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

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

of sales prices for heat, energy, raw materials or services applied in such transactions, if they are not promptly and correctly adjusted to reflect such changes. In the event the tax authorities disagree with us on any interpretive matter or challenge the tax position of specific transactions, we may be subject to unexpected tax liabilities or penalties that may have an adverse effect on our business, financial condition, results of operations and cash flows.

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

Additional taxes for JTSD, MIBRAG, HSR, EP Germany, Saale Energie and their subsidiaries could also apply. For example, JTSD and MIBRAG (and certain of their subsidiaries) have entered into a German tax group for corporate income and trade tax purposes. Generally, German tax authorities apply a restrictive approach when assessing the valid formation and proper execution of a tax group. As several issues relating to, among others, the validity of the profit and loss transfer agreement between JTSD and MIBRAG (see “Management’s discussion and analysis of financial condition and results of operations—MIBRAG—JTSD—MIBRAG profit and loss transfer agreement”) and its proper execution, are not yet resolved by the German tax authorities and tax courts, there is a risk that the tax group consisting of JTSD, MIBRAG and certain of their subsidiaries will ultimately be rejected by the German tax authorities. If this were the case, taxable income of JTSD, MIBRAG and their relevant subsidiaries would not be pooled at the level of JTSD for German corporate income tax and trade tax purposes but would be taxable at the level of the respective entities on a stand-alone basis. An invalidation of the tax group between JTSD, MIBRAG and their relevant subsidiaries may not only apply for the year in which the tax group is challenged, but may also apply retroactively for previous years. We have also created a tax group for EP Germany and Saale Energie and have included HSR in the MIBRAG/JTSD tax group, pending administrative formalities. Invalidation may also apply to historical tax groups of MIBRAG prior to 2009 to the extent that the relevant periods have not yet been subject to a tax audit. In addition to the tax group, under German law our subsidiaries could also be subject to higher taxes in relation to intercompany financings. Further to that, there is a risk that the German tax law will be changed in a way that forces MIBRAG to reduce certain provisions for reclamation obligations in its tax balance sheet and recognize the gain resulting therefrom over a period of 15 years, which would lead to significantly higher taxes over the next 15 years. This may have an adverse effect on our business, financial condition, results of operations and cash flows.

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

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

In addition, operators of certain solar electricity producing facilities in the Czech Republic which were placed into operation between January 1, 2009 and December 31, 2010 were subject to a withholding tax in the Czech Republic in the amount of (i) 26% of the income corresponding to the feed-in tariff, or (ii) 28% of the income corresponding to a “green bonus.” Through our wholly owned subsidiary POWERSUN a.s., we own and operate three solar power facilities with an installed capacity of 3.2 MW_e and we own a 41.7% ownership interest in the Greeninvest Energy, a.s. solar facility, with an installed capacity of 4.0 MW_e in the Czech Republic. Three of these solar power facilities were placed into operation between 2009 and 2010 and are therefore subject to the withholding tax. This tax was only applicable for the years ended 2011, 2012 and 2013. Effective as of January 1, 2014, the operators of certain solar power facilities in the Czech Republic placed into operation between January 1, 2010 and December 31, 2010 are subject to a withholding tax in the Czech Republic in the amount of (i) 10% of the income corresponding to the feed-in tariff or (ii) 11% of the income corresponding to a “green bonus”. Such tax burden shall apply starting from January 1, 2014 and continue for the duration of the period during which the respective facility has the right to claim the subsidy. We cannot predict any future changes in the tax legislation, and any extension or amendment to such tax legislation or introduction of other similar tax in the future, could have a material adverse effect on our business, financial condition, results of operations and cash flows.

Additionally, MIBRAG currently benefits from an electricity tax reduction for the power producing industry under German law (*Spitzenausgleich für produzierendes Gewerbe*). In 2012 such electricity tax reduction resulted in income from the reimbursement to MIBRAG of the German electricity tax in the amount of €6.1 million pursuant to German GAAP. The electricity tax reduction is subject to an approval of the EU Commission under EU state aid rules which expired at the end of 2012. A new law setting up a successor regime, which is valid for a period of 10 years, became effective on January 1, 2013. The new regime follows demands made by the EU Commission requiring EU Member States to link electricity tax reductions to certain energy efficiency criteria including the adoption of energy management systems or environmental management systems. Companies must document their energy consumption and must determine the potential for efficiency improvements in a structured process. Although it suffices for a company to merely show that it has initiated the adoption of an energy management system or environment management system to claim the tax reduction until 2014, after that companies must demonstrate that they have achieved pre-defined goals of reducing total energy consumption in accordance with a sliding scale in comparison to the average consumption during the years 2007 to 2012. It is currently unclear whether or not and to what extent such successor regime will impact MIBRAG’s entitlement to an electricity tax refund.

Due to the recent economic crisis, the Slovak Republic has faced significant budget deficits and, as a result, has imposed, since September 1, 2012, a special levy on business in regulated activities, which includes the energy sector. The levy is payable if the revenues from regulated activities achieve at least 50% of the total revenues of the individual companies of SSE engaged in regulated activities in the Slovak Republic for the respective accounting period. In 2012, SSE incurred costs of €1.55 million in respect of this levy for the four-month period from September 1, 2012 to December 31, 2012 compared to €1.37 million for the nine-month period ended September 30, 2013.

Under the present provisions of the relevant legislation, the special levy should not apply after December 2016. However, it is possible that the special levy will be prolonged or similar taxes could be imposed in the Slovak Republic in the future, although none are currently proposed by the government to be approved in the parliament. The imposition of any such new taxes in the Slovak Republic could have an adverse effect on our business, results of operations and financial condition.

The imposition of any new taxes in the countries in which we operate, or changing interpretations or application of tax regulations by the tax authorities, harmonization of Czech and EU tax law and regulation, significant tax disputes with tax authorities, any change in the tax status of any member of our Group, extensive time periods relating to overdue liabilities and the possible imposition of penalties and other sanctions due to unpaid tax liabilities may result in additional amounts being

payable by us, which could have a material adverse effect on our business, financial condition, results of operations and cash flows.

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

Risks related to our financial profile

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

We are highly leveraged. As of September 30, 2013, we had total loans and borrowings of €1,135 million (this excludes (i) the debt under the SSE Acquisition Credit Facility of €231 million which was not included in the EPE Group after September 30, 2013, (ii) 100% of the debt at SSE of €71 million at December 31, 2013 and (iii) a loan from PTH to PTHI as of September 30, 2013 of CZK 3,876 million (€151 million), which is expected to be offset with dividends expected to be declared by PTH in 2014.).

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

- making it difficult for us to satisfy our obligations with respect to the Notes;
- increasing our vulnerability to, and reducing our flexibility to respond to, general adverse economic and industry conditions;
- requiring the dedication of a substantial portion of our cash flow from operations to the payment of principal of, and interest on, indebtedness, thereby reducing the availability of such cash flow for, and limiting the ability to obtain additional financing to fund, working capital, capital expenditures, acquisitions, joint ventures or other general corporate purposes;
- limiting our ability to borrow additional funds and increasing the cost of any such borrowing;
- restricting us from making strategic acquisitions or exploring business opportunities;
- limiting our flexibility in planning for, or reacting to, changes in our business and the competitive environment and the industry in which we operate; and
- placing us at a competitive disadvantage compared to our competitors, to the extent that they are not as highly leveraged or have greater financial resources.

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

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

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

The Indentures governing the Notes include covenants limiting our ability to:

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

In addition, we have certain financial maintenance covenants under the SSE Acquisition Credit Facility. Debt at our subsidiaries also include a variety of affirmative and negative covenants.

All these limitations are subject to significant exceptions and qualifications. The covenants to which we are subject could limit our ability to finance our future operations and capital needs and our ability to pursue business opportunities and activities that may be in our interest.

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

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

If an event of default occurs under the Indentures, the SSE Acquisition Credit Facility or any other of our debt instruments and is not cured or waived, borrowings under any other debt instruments that we have outstanding, including the Notes, that contain cross-acceleration or cross-default provisions may also be accelerated or become payable on demand, together with accrued and unpaid interest and other fees payable thereunder.

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

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

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

If our future cash flows from operations and other capital resources are insufficient to pay our obligations as they mature or to fund our liquidity needs, we may be forced to:

- reduce or delay our business activities and any capital expenditures;
- sell assets;
- discontinue specified operations;

- obtain additional debt or equity capital; or
- restructure or refinance all or a portion of our debt, including the Notes, on or before maturity.

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

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

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

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

The results of PT are fully consolidated in the financial statements of EPE and the results of SSE will be fully consolidated in the financial statements of EPE, however EPE owns less than a 100% ownership interest in each entity.

As of July 1, 2012, PT's financial results are fully consolidated in the consolidated income statement of the EPE Group; however, EPE owns only a 73.3% ownership interest in PT. The results of PT are fully consolidated, because the PT is a "subsidiary" of, and is controlled by, or it is controlled by, EPE. Because the results are fully consolidated, but EPE only owns a 73.3% interest, we have access to less than 100% of the EBITDA and net assets of PT. See Notes 34 and 5 to EPE's financial statements for the nine months ended September 30, 2013.

As of December 16, 2013, SSE's financial results are fully consolidated in the consolidated income statement of the EPE Group; however, EPE owns only a 49% interest in SSE. The results of SSE are fully consolidated because SSE is controlled by EPE through the shareholders' agreement with, inter alia, the NPF, the majority owner of SSE. Because the results are fully consolidated, but EPE only owns a 49% interest, we have access to less than 100% of the EBITDA and net assets of SSE.

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

As a result of the credit crisis in Europe, in particular in Greece, Italy, Ireland, Portugal and Spain, the European Commission created the European Financial Stability Facility (the "EFSF") and the European

Financial Stability Mechanism (the “EFSM”) to provide funding to Eurozone countries in financial difficulties that seek such support. In March 2011, the European Council agreed on the need for Eurozone countries to establish a permanent stability mechanism, the European Stability Mechanism (the “ESM”), to be activated by mutual agreement and to assume the role of the EFSF and the EFSM in providing external financial assistance to Eurozone countries after June 2013. In December 2011, the European Council and each Eurozone country agreed to a package of measures designed to restore confidence and address the continued tensions in financial markets, including (i) bringing forward implementation of the ESM from June 2013 to as soon as Member States representing 90% of the capital commitments to the ESM have ratified the ESM Treaty, which occurred on September 27, 2012 and (ii) a new fiscal compact between all 18 Eurozone countries and, subject to parliamentary vote, all other non-eurozone countries (except the United Kingdom) to put deficit restrictions on Member State budgets, with associated sanctions for those Member States who violate the specified limits. Despite these measures, concerns persist regarding the debt burden of certain Eurozone countries and their ability to meet future financial obligations, the overall stability of the euro and the suitability of the euro as a single currency given the diverse economic and political circumstances in individual Member States. These and other concerns could lead to the re-introduction of individual currencies in one or more Member States or, in particularly dire circumstances, the possible dissolution of the euro entirely. Should the euro dissolve entirely, the legal and contractual consequences for holders of euro-denominated obligations and for parties subject to other contractual provisions referencing the euro such as supply contracts would be determined by laws in effect at such time. These potential developments, or market perceptions concerning these and related issues could have adverse consequences for us with respect to our outstanding debt obligations that are euro-denominated, such as the Notes and, as we have a substantial amount of debt denominated in euro, our financial condition may be materially affected. Furthermore, the Indentures and the SSE Acquisition Credit Facility contain covenants restricting our and our subsidiaries’ corporate activities. See “—We are subject to restrictive debt covenants that may limit our ability to finance our future operations and capital needs and to pursue business opportunities and activities.” Certain of such covenants impose limitations based on euro amounts (e.g., the amount of additional indebtedness we or our subsidiaries may incur). As such, if the euro were to significantly decrease in value, the restrictions imposed by these covenants would become tighter, further restricting our ability to finance our operations and conduct our day-to-day business.

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

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

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 twelve-month period ended September 30, 2013, the EPE Group had pro forma total sales and pro forma consolidated EBITDA of CZK 67,522 million (€2,636.54 million) and CZK 15,506 million (€605.47 million), respectively. Pro forma EBITDA for the twelve months ended September 30, 2013 for the EPE Group reflects (a) the 2012 Non-Cash Reclamation Provision Effects, (b) the 2013 Non-Cash Overburden Effects, (c) the LTM Saale Energie Costs and (d) SSE Non-Controlling Interest Effect. 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") and EP ENERGY TRADING, a.s. ("EPET"). MIBRAG operates in the Mining segment, EOP, PT, Saale Energie and UE operate in the Heat and Power segment and EPET operates in the Energy Supply and Trading (going forward, "Power Distribution and Supply") segment. Together these subsidiaries accounted for 89.8% of revenues and 96.9% of the EPE Group's EBITDA for the twelve months ended September 30, 2013 (in each case after intercompany eliminations on the EPE Group level) and accounted for 62.6% of pro forma revenues and 73.6% of the EPE Group's pro forma EBITDA for the twelve months ended September 30, 2013 (in each case after intercompany eliminations on the EPE Group level).

On November 27, 2013, our parent company EPH completed its acquisition of a 49% equity stake (associated with management control) in Stredoslovenská energetika, a.s. ("SSE") from E.D.F. International. EPH contributed EPH Financing II, a.s., the holding company of the 49% share of SSE, and its related acquisition financing to EP Energy on December 16, 2013. EPH Financing II, a.s. and SSE will be included in the Power Distribution and Supply segment. SSE accounted for 14.8% of pro forma revenues and 11.8% of the EPE Group's pro forma EBITDA for the twelve months ended September 30, 2013 (in each case after intercompany eliminations on the EPE Group level).

On September 18, 2013, MIBRAG signed a share purchase agreement to acquire the Buschhaus brown coal-fired power plant (including the Schöningen mine in the Helmstedt mining district in Lower Saxony) from E.ON. The transaction was completed on December 31, 2013, and the assets are now part of the EPE Group. HSR, the entity which owns and operates the Buschhaus power plant and the Schöningen mine, and its subsidiaries will be included in the Heat and Power segment.

For a list of EPE's other subsidiaries and minority interests, see Note 34 to EPE's condensed consolidated interim financial statements for the nine months ended September 30, 2013.

EPE segments

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

“Mining” consists of JTSD Braunkohlebergbau GmbH (“JTSD,” the parent of Mitteldeutsche Braunkohlengesellschaft mbH (“MIBRAG”)), the MIBRAG Group (i.e., MIBRAG, MIBRAG Consulting International GmbH, GALA-MIBRAG-Service GmbH, Bohr & Brunnenbau GmbH Stedten (“B&B”), Mitteldeutsche Umwelt- und Entsorgung GmbH (“MUEG”), Fernwärme GmbH Hohenmölsen—Webau (“Webau”), Ingenieurbüro für Grundwasser GmbH (“IGB”), MIBRAG Neue Energie GmbH) except for (i) MIBRAG Neue Energie GmbH (“MNE”), which is in our Renewables segment and (ii) B&B, which was not part of the consolidated EPE Group for the years ended December 31, 2010, 2011 and 2012 (as it was acquired in December 2012), but it is now included as part of the consolidated EPE Group, including as of and for the nine months ended September 30, 2013. Although they are part of our Mining segment, MUEG, Webau and IGB are associates, and therefore their sales, cost of sales and EBITDA are not reflected in our Mining segment sales, cost of sales and EBITDA.

“Heat and Power” consists of Pražská teplárenská a.s., TERMONTA PRAHA a.s., Teplo Neratovice spol. s r.o., Energotrans SERVIS, a.s., Pražská teplárenská Holding a.s. (an associate), the United Energy Group (United Energy, a.s., EVO—Komořany, a.s., Severočeská teplárenská, a.s., United Energy Moldova, s.r.o., EKY III, a.s., United Energy Invest, a.s., PRVNÍ MOSTECKÁ a.s., PRVNÍ MOSTECKÁ Servis a.s.), the Elektrárny Opatovice Group (Elektrárny Opatovice, a.s., REATEX a.s., EOP & HOKA s.r.o., V A H O s.r.o.), Plzeňská energetika a.s., PT-Holding Investment B.V., NPTH, a.s., Areál Třeboradice, a.s. (an 85% interest in which was sold on June 28, 2013, leaving a 15% interest in the EPE Group), EP Germany GmbH, ROLLEON a.s., EBEH Opatovice, a.s and ENERGZET, a.s. Following the acquisition of Saale Energie GmbH by us in July 2012, Kraftwerk Schkopau GbR (an associate), Kraftwerk Schkopau Betriebsgesellschaft mbH (an associate) and Saale Energie GmbH are also included in this segment. Although they are part of the Heat and Power segment, Pražská teplárenská Holding a.s., Kraftwerk Schkopau GbR, Kraftwerk Schkopau Betriebsgesellschaft mbH are associates, and therefore their sales, cost of sales and EBITDA are not reflected in the Heat and Power segment sales, cost of sales and EBITDA.

The HSR Group (i.e. HSR and its subsidiaries Terrakomp GmbH and Norddeutsche Gesellschaft zur Ablagerung von Mineralstoffen mbH) were included in the Heat and Power upon completion of the acquisition of Buschhaus, however, none of the results of the HSR Group is included in the historical or pro forma financial information included herein.

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

“Energy Supply and Trading” (going forward, “Power Distribution and Supply”) consists of United Energy Coal Trading, a.s., UNITED ENERGY COAL TRADING POLSKA S.A., COOP Energy a.s. (which was sold in July 2013) and EP ENERGY TRADING, a.s. COOP Energy a.s. has immaterial operations and is not part of the consolidated EPE Group.

EPH Financing II, a.s. and its subsidiaries (including the 49% interest in SSE) were included in this segment upon the contribution of EPH Financing II, a.s. to the EPE Group from EPH on December 16, 2013, however none of the results of EPH Financing II, a.s. or its subsidiaries are included in the EPE Group financial information included herein. Financial statements for SSE and its consolidated subsidiaries for the nine months ended September 30, 2013 are included as separate files to this report. Beginning with the financial statements for the year ended December 31, 2013, this segment

will be renamed the “Power Distribution and Supply” segment to reflect the change in focus of the segment after the contribution of the 49% interest in SSE. Although the EPE Group only has a 49% interest in SSE, the EPE Group results will include, and the pro forma financial information presented herein includes, 100% of the results of SSE because the EPE Group has management control over SSE.

We have included principal administrative costs, such as costs relating to our headquarters, as well as costs relating to EP Energy, a.s. and AISE, s.r.o, such as personnel costs and overhead for those entities and EPE Group-level financing costs, under “Other.”

Data for all segments are aggregated and are presented in columns or rows entitled “Total segments”. Intersegment transactions, including intersegment revenues and expenses from intercompany loans, are not eliminated within a specific segment but only at the overall aggregate level, which is presented in columns or rows titled “Consolidated data”. References to the share of EPE Group consolidated EBITDA represented by an individual segment are before intersegment eliminations. The sum of these percentages does not equal 100% because the Other segment generally accounts for a small negative percentage of consolidated EBITDA in each period.

After the listing of the 2019 Notes on the Irish Stock Exchange, the EPE Group began to report segment information in accordance with IFRS 8. EPE uses segment reporting in accordance with IFRS, and all figures for the segments reflect segment reporting in accordance with IFRS. Because EPE did not previously report segment information through IFRS segment reporting, it may be difficult to compare EPE segment data with EPE “line of business” data previously reported in the offering memorandum for the 2019 Notes.

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

	Nine months ended September 30,	
	2012	2013
In million CZK		
Total sales		
Mining	5,439	8,129
Heat and Power	11,203	12,421
Renewables	112	121
Energy Supply and Trading	15,461	16,883
Other	46	53
Total segments	32,261	37,607
Intersegment eliminations	(4,580)	(3,932)
Consolidated data	27,681	33,675
Depreciation and amortization		
Mining	(1,355)	(2,234)
Heat and Power	(2,060)	(2,306)
Renewables	(48)	(67)
Energy Supply and Trading	(5)	(10)
Other	(1)	(1)
Total segments	(3,469)	(4,618)
Intersegment eliminations	0	0
Consolidated data	(3,469)	(4,618)
Negative goodwill		
Mining	2,540	0
Heat and Power	472	56
Renewables	0	0
Energy Supply and Trading	0	0
Other	0	0
Total segments	3,012	56
Intersegment eliminations	0	0

	Nine months ended September 30,	
	2012	2013
In million CZK		
Consolidated data	3,012	56
Profit/(loss) from operations		
Mining	3,189	1,341
Heat and Power	2,414	1,198
Renewables	38	18
Energy Supply and Trading	286	157
Other	(84)	(66)
Total segments	5,843	2,648
Intersegment eliminations	0	0
Consolidated data	5,843	2,648
EBITDA⁽¹⁾		
Mining	2,004	3,575
Heat and Power	4,002	3,448
Renewables	86	85
Energy Supply and Trading	291	167
Other	(83)	(65)
Total segments	6,300	7,210
Intersegment eliminations	0	0
Consolidated data	6,300	7,210

(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, B&B (for the years ended December 31, 2010, 2011 and 2012 and for the nine months ended September 30, 2012) and Helmstedter Revier GmbH and its subsidiaries). 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.

Our Mining segment accounted for 31.8% of consolidated EBITDA for the nine months ended September 30, 2012 and 49.6% of consolidated EBITDA for the nine months ended September 30, 2013, 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 nine months ended September 30,	
		2012	2013
Brown coal production	In Mt	13.6	14.2
Brown coal sold	In Mt	12.2	12.8
Reserves ⁽¹⁾	In Mt	— ⁽¹⁾	446.0

(1) Refers to proved and probable reserves excluding the Buschhaus reserves. The reserves for the nine months ended September 30, 2012 were not available.

Brown coal production and brown coal sold

For the nine months ended September 30, 2013, MIBRAG's brown coal sold increased by 0.6 Mt, or 4.9% to 12.8 Mt as compared to 12.2 Mt for the nine months ended September 30, 2012 and brown coal production increased by 0.6 Mt, or 4.4%, to 14.2 Mt as compared to 13.6 Mt for the nine months ended September 30, 2012, which was mainly due to higher demand from one of the power plants we supply.

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 and take into account the ownership share of the EPE Group in MIBRAG and its acquisition date.

		For the nine months ended September 30,	
		2012	2013
Total Sales	in CZK millions	5,439	8,129
	in € millions	216.35	315.69
EBITDA ⁽¹⁾	in CZK millions	2,004	3,575
	in € millions	79.71	138.83

(1) Represents Profit/(loss) from operations (nine months ended: September 30, 2012: CZK 3,189 million, September 30, 2013: CZK 1,341 million) plus Depreciation and amortization (nine months ended: September 30, 2012: CZK 1,355 million, September 30, 2013: CZK 2,234 million) less Negative goodwill (nine months ended: September 30, 2012: CZK 2,540 million, September 30, 2013: CZK 0 million).

EBITDA

EBITDA for the nine months ended September 30, 2013 for our Mining segment reflects the 2013 Non-Cash Overburden Effects.

EBITDA increased by CZK 1,571 million, or 78.4%, to CZK 3,575 million for the nine months ended September 30, 2013 as compared to CZK 2,004 million for the nine months ended September 30,

2012. This increase was mainly due to the inclusion of 100% of MIBRAG's performance for the entire nine-month period ended September 30, 2013, compared to the inclusion of 50% of MIBRAG's performance from January 1, 2012 to June 30, 2012 and the inclusion of 100% of MIBRAG's performance from July 1, 2012 to September 30, 2012. Additionally, effective from January 1, 2013 a new standard, IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine, became effective requiring mining companies to capitalize the costs connected with the removal of overburden (which increased EBITDA by CZK 566 million (€21.98 million) with no cash effect for the nine months ended September 30, 2013 compared to the prior period). The operational performance was very similar in both periods; a lower average brown coal sales price was balanced by a higher volume of brown coal sales.

Heat and Power

The Heat and Power segment accounted for 63.5% of consolidated EBITDA for the nine months ended September 30, 2012 and 47.8% of consolidated EBITDA for the nine months ended September 30, 2013, 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. 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, but exclude for all periods operating data for Energotrans, which PT sold in June 2012. These data also exclude the results of the HSR Group, as this business was acquired after September 30, 2013.

		For the nine months ended September 30,	
		2012	2013
Installed heat capacity.....	MW _{th}	4,105.0	4,105.0
Heat supplied	TJ	11,934.5	12,892.2
Installed cogeneration capacity	MW _e	500.0	500.0
Installed condensation capacity	MW _e	360.0	360.0
Certified grid balancing capacity ⁽¹⁾	MW _e	169.0	169.0
Cogeneration production.....	GWh	477.5	507.5
Condensation production	GWh	1,877.9	1,619.0
Grid balancing services.....	GWh	688.0	853.5
Saale Energie ⁽²⁾	MW _e	400.0	400.0

(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 remained at 4,105.0 MWth at September 30, 2013, and September 30, 2012.

Heat supplied

Heat supplied increased by 957.7 TJ, or 8.0%, to 12,892.2 TJ for the nine months ended September 30, 2013 as compared to 11,934.5 TJ for the nine months ended September 30, 2012. This increase in heat supplied was primarily due to colder weather in 2013 as compared to the same period in 2012.

Installed condensation capacity (excluding Saale Energie)

Installed condensation capacity remained at 360.0 MW_e at both September 30, 2013 and September 30, 2012.

Certified grid balancing capacity

Certified grid balancing capacity remained at 169.0 MW_e, at both September 30, 2013 and September 30, 2012.

Cogeneration production

Cogeneration production increased by 30.0 GWh, or 6.3%, to 507.5 GWh for the nine months ended September 30, 2013, as compared to 477.5 GWh for the nine months ended September 30, 2012. This increase in cogeneration production was primarily due to higher heat production due to colder weather during the nine months ended September 30, 2013 as compared to the same period in 2012.

Condensation production (excluding Saale Energie)

Condensation generation (excluding Saale Energie) decreased by 258.9 GWh, or 13.8%, to 1,619.0 GWh for the nine months ended September 30, 2013, as compared to 1,877.9 GWh for the nine months ended September 30, 2012. This decrease in condensation generation was primarily due to production profile optimization (lower electricity production and higher provision of grid balancing services).

Grid balancing services

Grid balancing services increased by 165.5 GWh, or 24.1%, to 853.5 GWh for the nine months ended September 30, 2013 as compared to 688.0 GWh for the nine months ended September 30, 2012. This increase in grid balancing services primarily reflects a higher success rate in winning tenders for grid balancing services organized by the Czech TSO CEPS.

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, specifically the acquisition of EOP in December 2010, and the acquisition of shares in PT in September 2010, the subsequent increase in ownership of PT in December 2010, and the full consolidation of PT from July 1, 2012. The data also include financial information in respect of ET, which we sold in June 2012 and Saale Energie from July 2012. The data excludes sales and EBITDA of the HSR Group, as this business was acquired after September 30, 2013.

		For the nine months ended September 30,	
		2012	2013
Heat sales.....	in CZK millions	4,091	5,557
	in € millions	162.73	215.81
Power generation and cogeneration sales	in CZK millions	6,861	6,501
	in € millions	272.91	252.46
Other sales	in CZK millions	251	363
	in € millions	9.98	14.10
Total sales.....	in CZK millions	11,203	12,421
	in € millions	445.62	482.37
EBITDA ⁽¹⁾	in CZK millions	4,002	3,448
	in € millions	159.19	133.90

(1) Represents Profit/(loss) from operations (nine months ended September 30, 2012: CZK 2,414 million, September 30, 2013: CZK 1,198 million) *plus* Depreciation and amortization (nine months ended September 30, 2012: CZK 2,060 million, September 30, 2013: CZK 2,306 million) *less* Negative goodwill (nine months ended September 30, 2012: CZK 472 million, September 30, 2013: CZK 56 million).

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, which leads to an overall increase in the volume of sales of electricity. However, with an increasing number of resales, total costs as a percentage of total sales increase as the margins realized on each subsequent optimization transaction tend to decline as the frequency of optimization transactions increases. 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 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). 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 for the nine months ended September 30, 2012 for the Heat and Power segment reflects the Part-Year 2012 Saale Energie Costs and EBITDA for the nine months ended September 30, 2013 for the Heat and Power segment reflects the 2013 Saale Energie Costs.

EBITDA decreased by CZK 554 million, or 13.8%, to CZK 3,448 million for the nine months ended September 30, 2013 as compared to CZK 4,002 million for the nine months ended September 30, 2012. This decrease was mainly due to a change in the scope of consolidation (i.e. the sale of Energotrans in June 2012, which was only partially offset by the full consolidation of PT from July 1, 2012 and the acquisition of Saale Energie in August 2012). Further factors that led to the decrease include lower power prices realized and lower power volumes sold in the nine months ended September 30, 2013 compared to the same period in 2012, as well as fewer allocated emissions

allowances in the nine months ended September 30, 2013 compared to the same period in 2012 and by lower deferred income released to profit as the value of free emissions rights declined at UE and EOP. The decrease was partially offset by an increase in EBITDA from the supply of heat due to colder temperatures in the nine months ended September 30, 2013 as compared to the same period in 2012 as well as the cancelation of the gift tax on emission allowances at PT, PE, UE and EOP.

Renewables

The Renewables segment accounted for 1.4% of consolidated EBITDA for the nine months ended September 30, 2012 and 1.2% of consolidated EBITDA for the nine months ended September 30, 2013, 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 nine months ended September 30,	
		2012	2013
Installed Capacity.....	MW _e	24.9	24.9
Power Production.....	GWh	30.6	28.1

Installed capacity

Installed capacity remained at 24.9 MW_e at September 30, 2013 and September 30, 2012.

Power production

Power production decreased by 2.5 GWh, or 8.1%, to 28.1 GWh for the nine months ended September 30, 2013 as compared to 30.6 GWh for the nine months ended September 30, 2012. This decrease was primarily due to worse wind and solar conditions throughout the first nine months of 2013 and temporary technical outage of one wind tower.

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 nine months ended September 30,	
		2012	2013
Total Sales	in CZK millions	112	121
	in € millions	4.45	4.70
EBITDA ⁽¹⁾	in CZK millions	86	85
	in € millions	3.42	3.30

(1) Represents Profit/(loss) from operations (nine months ended September 30, 2012: CZK 38 million, September 30, 2013: CZK 18 million) *plus* Depreciation and amortization (nine months ended September 30, 2012: CZK 48 million, September 30, 2013: CZK 67 million) *less* Negative goodwill (nine months ended September 30, 2012: CZK 0 million, September 30, 2013: CZK 0 million).

EBITDA

EBITDA decreased by CZK 1 million, or 1.2%, to CZK 85 million for the nine months ended September 30, 2013 as compared to CZK 86 million for the nine months ended September 30, 2012. This decrease in EBITDA was due primarily to lower production of power due to fewer sunny days and less favourable wind conditions where our renewable projects are located compared to the same period in 2012. This decrease was partially offset by the full-period EBITDA contribution at our Alternative Energy biogas power plant for the nine months ended September 2013, which because it was formally commissioned in May 2012, did not contribute to EBITDA during the entire nine months ended September 30, 2012.

Energy Supply and Trading (in future periods, to be renamed “Power Distribution and Supply”)

The Energy Supply and Trading segment accounted for 4.6% of consolidated EBITDA for the nine months ended September 30, 2012 and 2.3% of consolidated EBITDA for the nine months ended September 30, 2013, 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), as well as United Energy Coal Trading, a.s. and UNITED ENERGY COAL TRADING POLSKA S.A.

EPH Financing II, a.s. and its subsidiaries (including the 49% interest in SSE) were included in this segment upon the contribution of EPH Financing II, a.s. to the EPE Group from EPH on December 16, 2013, however none of the results of EPH Financing II, a.s. or its subsidiaries are included in the EPE Group financial information included herein. Financial statements for SSE and its consolidated subsidiaries for the nine months ended September 30, 2013 and for the year ended December 31, 2012 are included herein. Beginning with the financial statements for the year ended December 31, 2013, this segment will be renamed the “Power Distribution and Supply” segment to reflect the change in focus of the segment after the contribution of the 49% interest in SSE. Although the EPE Group only has a 49% interest in SSE, the EPE Group results will include, and the pro forma financial information presented herein includes, 100% of the results of SSE because the EPE Group has management control over SSE.

The table below shows a summary of key operating data for the Energy Supply and Trading segment. The operating data are based on the results of the whole entity regardless of the date when each entity joined the EPE Group or the ownership share of the EPE Group in each entity. The data excludes SSE, as this business was acquired after September 30, 2013.

		For the nine months ended September 30,	
		2012	2013
Power traded.....	GWh	8,672.0	9,381.0
Power supplied	GWh	1,366.0	1,538.0
Natural gas supplied	GWh	1,228.0	1,485.0

Power traded

Power traded increased by 709.0 GWh, or 8.2%, to 9,381.0 GWh for the nine months ended September 30, 2013 as compared to 8,672.0 GWh for the nine months ended September 30, 2012. This increase in power traded was primarily due to an increased resale of power purchased in connection with our energy production optimization process.

Power supplied

Power supplied increased by 172.0 GWh, or 12.6%, to 1,538.0 GWh for the nine months ended September 30, 2013 as compared to 1,366.0 GWh for the nine months ended September 30, 2012. This increase in power supplied reflects higher sales to commercial customers in the Czech Republic and industrial customers in the Slovak Republic.

Natural gas supplied

Natural gas supplied increased by 257.0 GWh, or 20.9%, to 1,485.0 GWh for the nine months ended September 30, 2013 as compared to 1,228.0 GWh for the nine months ended September 30, 2012. This increase in natural gas supplied was due to an increase in the number of off-take points and the colder winter season in 2013 as compared to the same period in 2012.

The table below shows a summary of key financial data for the Energy Supply and Trading 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. The data excludes sales and EBITDA of SSE, as this business was acquired after September 30, 2013.

		For the nine months ended September 30,	
		2012	2013
Total Sales.....	in CZK millions	15,461	16,883
	in € millions	615.00	655.65
EBITDA ⁽¹⁾	in CZK millions	291	167
	in € millions	11.58	6.49

- (1) Represents Profit/(loss) from operations (nine months ended September 30, 2012: CZK 286 million, September 30, 2013: CZK 157 million) *plus* Depreciation and amortization (nine months ended September 30, 2012: CZK 5 million, September 30, 2013: CZK 10 million) *less* Negative goodwill (nine months ended September 30, 2012: CZK 0 million, September 30, 2013: CZK 0 million).

EBITDA

As part of our power trading activities, EPET engages in sales of power generated by EPE Group companies, as well as resales of power purchased on the wholesale market in connection with our energy production optimization process, which leads to an overall increase in the volume of sales of power. However, with an increasing number of resales, total costs as a percentage of total sales increase as the margins realized on each subsequent optimization transaction tend to decline as the frequency of optimization transactions increases. Moreover, because our contracts with suppliers for our Heat 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 decreased by CZK 124 million, or 42.6%, to CZK 167 million for the nine months ended September 30, 2013 as compared to CZK 291 million for the nine months ended September 30, 2012. This decrease was mainly due to lower profitability in the Energy Supply and Trading segment and was partly due to differences caused by the effect of the accounting for financial derivatives, as discussed above.

Other

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

		For the nine months ended September 30,	
		2012	2013
Total sales	in CZK millions	46	53
	in € millions	1.83	2.06
EBITDA ⁽¹⁾	in CZK millions	(83)	(65)
	in € millions	(3.30)	(2.52)

(1) Represents Profit/(loss) from operations (nine months ended September 30, 2012: negative CZK 84 million, September 30, 2013: negative CZK 66 million) *plus* Depreciation and amortization (nine months ended September 30, 2012: CZK 1 million, September 30, 2013: CZK 1 million), *less* Negative goodwill (nine months ended September 30, 2012: CZK 0 million, September 30, 2013: CZK 0 million).

Factors affecting EBITDA for the Other segment for the nine months ended September 30, 2013

The main driver of the negative EBITDA in nine months ended September 30, 2013 was the other operating expenses of EP Energy in the amount of CZK 79 million. The costs were primarily associated with costs relating to outsourcing of various functions and costs for professional services at EP Energy.

Factors affecting EBITDA for the Other segment for the nine months ended September 30, 2012

The main driver of the negative EBITDA in nine months ended September 30, 2012 was the other operating expenses of EP Energy in the amount of CZK 96 million. 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.

Factors affecting the results of operations of the EPE Group

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

Acquisitions and divestitures and the structure of the EPE Group

The EPE Group was formed through a series of strategic acquisitions, bolt-ons and business combinations and we may continue to acquire additional subsidiaries in the future or divest

subsidiaries and interests in subsidiaries. This will affect our operations in the overall EPE Group's results. Our acquisitions and divestitures may affect our results of operations and the period-to-period comparability of EPE's financial statements. We have recently added new businesses to the EPE Group and have made and may make acquisitions in the future. Newly added or acquired businesses may not be integrated or managed successfully, and we may fail to realize the anticipated synergies, growth opportunities and other benefits expected from these additions or acquisitions.

One of our strategies has been, and continues to be, expanding the vertical integration of the EPE Group. Although we believe that this strategy is key to the EPE Group's future success, increased vertical integration can result in positive results in one segment and corresponding negative results in another segment. For example, going forward, we expect that the Mining segment will benefit from increased sales of brown coal to the Heat and Power segment. This increase in sales of the Mining segment will not, however, result in a one-for-one corresponding improvement in the EPE Group results because sales by the Mining segment of brown coal to the Heat and Power segment will result in an increase in cost of sales for the Heat and Power segment (primarily due to increased transport costs).

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

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

Before our formation, many of our current subsidiaries were subsidiaries of EPH, but because the EPE Group has grown steadily through acquisitions and contributions from equity holders, these entities have been under common control for only a short period of time. The acquisition of various subsidiaries or additional interests in such subsidiaries and the disposition of certain subsidiaries 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 our principal subsidiaries that were contributed to EPH in 2010 or later or were acquired by us in 2010 or later are included in the EPE Group's consolidated financial statements:

Periods presented in the EPE Group's consolidated IFRS financial statements						
Subsidiary	Year ended December 31,			Nine months ended September 30,		Basis for stand-alone presentation
	2010	2011	2012	2012	2013	
EOP	Balance sheet—fully consolidated at December 31, 2010*	Fully consolidated	Fully consolidated	Fully consolidated	Fully consolidated	Czech GAAP unconsolidated financial statements for the year ended December 31, 2012 (with 2011 as a comparison period)
	Income statement— not included					
PT	Balance sheet—Proportionate consolidation (73.0%)* Income statement—equity consolidated (24.3%) from September 2010	Proportionate consolidation (73.0% through June 30, 2011; 73.3% thereafter)	Balance sheet—Fully consolidated Income statement—Proportionate consolidation (73.3%) through June 30, 2012; fully consolidated thereafter	Balance sheet—Fully consolidated Income statement—Proportionate consolidation (73.3%) through June 30, 2012; fully consolidated thereafter	Fully consolidated	Czech GAAP unconsolidated financial statements for the year ended December 31, 2012 (with 2011 as a comparison period)
JTSD/MIBRAG	None	Proportionate consolidation (50%) from July 1, 2011	Balance sheet—fully consolidated (100%) Income statement—Proportionate consolidation (50%) through June 30, 2012; fully consolidated thereafter	Balance sheet—fully consolidated (100%) Income statement—Proportionate consolidation (50%) through June 30, 2012; fully consolidated thereafter	Fully consolidated	German GAAP unconsolidated annual financial statements for the year ended December 31, 2012 (including comparative financial information for the year ended December 31, 2011)
Saale Energie	None	None	Balance sheet—fully consolidated (100%) Income statement—fully consolidated beginning August 1, 2012	Balance sheet—fully consolidated (100%) Income statement—fully consolidated beginning August 1, 2012	Fully consolidated	German GAAP unconsolidated annual financial statements for the year ended December 31, 2012 (including comparative financial information for the year ended December 31, 2011)

* Restated in 2011.

EPE restated its 2010 financial results in its 2011 financial statements to reflect the acquisition of EAST BOHEMIA HOLDING LIMITED (EOP and additional share of PT) as of December 31, 2010 (the date on which EAST BOHEMIA ENERGY HOLDING LIMITED was acquired by our parent, EPH), and as

such its 2010 financial results included in its 2011 financial statements differ from those in its 2010 financial statements.

EPE's consolidated financial statements as of and for the years ended December 31, 2012, December 31, 2011 and December 31, 2010, include the financial results of Energotrans, a.s. for the time during which PT owned Energotrans, a.s. (i.e., until June 2012). As of December 31, 2011, assets held for sale totaling CZK 11,980 million and liabilities held for sale totaling CZK 2,124 million were fully represented by Energotrans, a.s. (at that time, a subsidiary of PT). On July 28, 2011, a share purchase agreement (the "SPA") was signed, under which PT sold a 100% interest in Energotrans, a.s. ("ET") to the ČEZ, a.s. ("ČEZ") group. This concluded long-running business negotiations between PT and ČEZ about the sale of ET. The transaction was settled on June 28, 2012. In connection with this transaction, EAST BOHEMIA ENERGY HOLDING LIMITED (the parent company of NPTH, a.s., which holds a 50.07% share in PT) received an advance payment from ČEZ. The advance payment totaling CZK 11,963 million as of December 31, 2010 was received before EAST BOHEMIA ENERGY HOLDING LIMITED was acquired by EPE Group (December 31, 2010). As of December 31, 2011 the advance payment increased to CZK 12,767 million. The net identifiable assets and liabilities disposed during the transaction totaled CZK 10,629 million. As a result, the EPE Group gained a profit of CZK 2,590 million, and cash flow from investing activities increased by CZK 13,219 million. Simultaneously with the sale, the advance payment from ČEZ was settled, which resulted in an off-setting cash outflow from operating activities of CZK 12,767 million.

In addition, these financial statements only include 50% of MIBRAG from July 1, 2011 and do not reflect our acquisition of the second 50% that we acquired in June 2012 until July 1, 2012. The financial statements only include the results of Saale Energie from August 1, 2012. Going forward, our results will be further impacted by the acquisitions of the HSR Group and the 49% interest in SSE on December 31, 2013 and December 16, 2013, respectively.

Factors impacting the results of our Mining segment

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

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

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

brown coal-fueled power plant customers, which could have an adverse impact on our business, financial condition, results of operations and cash flows in the future.

In addition to the merit position, brown coal sales are driven by energy demand of the ultimate off-takers. Our two biggest brown coal customers provide heat and power to industrial customers. Both global, and more importantly, regional, economic conditions can thus have an impact on our brown coal sales. See “Risk factors—Risks related to each of our segments—Our revenues and margins of operations may be negatively impacted by volatile prices for power, heat, natural gas, hard coal and emission allowances for CO₂.”

Technical conditions of customer power plants

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

Regulation

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

Forward contracts

We have historically contracted our sales of brown coal under long-term agreements with our principal customers. These provide pricing formulae which set the price of the brown coal purchased under these contracts. Under our arrangements with Schkopau whereby we supply brown coal for the offtake of energy by Vattenfall, we have secured a fixed revenue stream per month which is based on capacity, not utilization, and we receive the same amount per month regardless of Schkopau’s actual usage of brown coal to supply energy to Vattenfall. The coal supply contract with Vattenfall does not terminate until 2020. We have recently renegotiated the price terms of the Vattenfall contract, and the agreed fixed price component for brown coal for the remaining life of the contract is lower than the fixed price component we received for brown coal sold in 2012, to mainly reflect higher emissions costs for Vattenfall from 2013 onwards. With respect to the Lippendorf coal off-take contractual arrangement, at the end of 2012 we negotiated a fixed capacity pricing for a part of the expected annual brown coal off-take until December 31, 2014. Our other brown coal supply contracts do not guarantee offtake volumes or fixed streams of revenue, and therefore do not require that the customers buy a certain volume each year or pay us a fee for such volume. Therefore, our results of operations are partially dependent upon our customers’ actual demand.

Amendments to the current long term contracts or execution of new long term contracts with current or prospective customers influence significantly our results from operations. See “Risk factors—Risks related to our businesses and industries—Risks related to each of our segments—Our revenues and margins of operations may be negatively impacted by volatile prices for power, heat, natural gas, hard coal and emission allowances for CO₂.”

Factors influencing power generation in our power plants

The power plants in the MIBRAG Group are primarily intended to supply power needed for our own consumption in the mines. CO₂ related costs are subject to potential market price fluctuations. Such fluctuations may be a consequence of market developments as well as of changes in the European Union and national legislation governing the allocation and trading of CO₂ emissions allowances. We seek to mitigate these effects by forward purchases of CO₂ allowances.

The power production exceeding our own consumption in the mines is sold to the market subject to the same factors as are discussed below under “Factors impacting the results of our Heat and Power segment.”

Factors impacting the results of our Heat and Power segment

Our Heat and Power segment sells the following key products to our customers: (a) heat (used for heating and hot water), (b) power, (c) grid balancing services and (d) energy generation by-products (such as ash and fly ash). Factors impacting our top line are typically specific for each of these products, while factors influencing the cost are typically general to all of these products. With the exception of certain facilities at PT (certain facilities at PT only produce heat and do not produce electricity) and Buschhaus’ facilities (which only operate in condensation mode and do not produce heat), all production facilities are combined heat and power facilities, operating in both, highly efficient cogeneration mode, which is an ecological form of conversion of primary energy in fuel, supported by both national and EU legislation, and in condensation mode. Although Schkopau can operate in both cogeneration or condensation mode, we have a beneficial use right over 400 MW in condensation mode. Substantially all of our production is based on brown coal, the cheapest fossil fuel available on the market, which further significantly contributes to our competitiveness.

Weather condition fluctuations

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

Customer demand

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

to come. The effect of insulation has a less significant effect on customer demand than do weather condition fluctuations.

Regulation

Heat and power generation and supply activities are generally liberalized in the Czech Republic, Germany and elsewhere throughout the European Union, although heat supply is regulated in the Czech Republic and heat distribution, due to its network nature, generally has high barriers to entry (in each territory there is only one distribution network, and the construction of a new distribution network by a competitor would involve large capital investments and costs) and is regulated. Accordingly, heat and power generation and supply activities are exposed to competition, even though the degree of that exposure in practical terms differs from country to country. Nevertheless, individual countries and the European Commission apply various rules and utilize various schemes through which they try to influence the behavior of individual market participants, particularly with respect to heat and power generation activities. Examples of these measures include various support schemes designed to encourage heat and power generation by renewable sources and CHP, promotion of efficient district heating and cooling, an EU-wide CO₂ allowance trading scheme, emission limits, regulation of access to the heat and power transmission and distribution grids and measures aimed at increasing interconnections between national power transmission grids, as well as cross-border interconnections.

Our Heat and Power segment, which comprised 77.8%, 79.3% and 52.5% of our consolidated EBITDA for the years ended December 31, 2010, 2011 and 2012, respectively (in each case, before intersegment elimination at the group level), is not entirely liberalized throughout the European Union, and in the Czech Republic the regulators may influence the maximum prices that may be charged for heat distribution and/or supply. We are therefore exposed to pricing decisions of the regulators in those jurisdictions. See “Risk factors—Risks related to governmental regulations and laws—Our operations are subject to significant government regulation and laws and our business, financial condition, results of operations and cash flows could be adversely affected by changes in the law or regulatory schemes.” In the Czech Republic, the ERO defines the framework for determining the price that can be charged for supplying heat. The regulation of heat prices is based on economically justified costs necessary for production and distribution of heat, an “appropriate” profit margin for producers and VAT. The appropriate profit margin is set individually for each company and is based on historical margins both for the individual company as well as for its peer companies. See “Risk factors—Risks related to governmental regulations and laws—Changes in regulated tariffs could have a material adverse effect on our business, financial condition, results of operations and cash flows”.

Forward contracts

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

and results of operations are dependent on the continued ability of customers and suppliers to meet their obligations under the relevant power sales contract or fuel supply contract, respectively.

The “Clean Spread”

A major driver of our profitability is attributable to the fluctuating spread between the prices at which we can sell power on the one hand and the major costs of power production on the other—namely the cost of primary fuel sources, in our case predominantly brown coal and to a small degree also natural gas and to an even smaller degree hard coal, and CO₂ emissions allowances—the “Clean Spread.” Our power production operations are flexible, allowing us to activate production opportunistically when the Clean Spread is high, and to reduce it when the Clean Spread is low. A higher Clean Spread allows us to increase power production at a higher margin of profitability. While both power prices and the cost of CO₂ emissions allowances have fallen recently (and the price of brown coal has remained relatively stable), the price of power has fallen at a greater rate, lowering the Clean Spread. This, coupled with our increasing need to purchase CO₂ emissions allowances as a result of the gradual discontinuation (in the Czech Republic) and the termination (in Germany) of the free allocation of such allowances is expected to have a negative impact on our future results. See “—Factors affecting the results of operations of the EPE Group—Acquisitions and divestitures and the structure of the EPE Group.”

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

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

shutdown of nuclear reactors in Germany. In 2013, prices decreased to approximately €40/MWh, primarily due to the declining price of emissions allowances, which fell from the level of approximately €8-10/tCO₂ to the current level of €4-5/tCO₂, as well as due to increasing production from renewable sources. Power prices remain at approximately €40/MWh, with the potential for further downward pressure in the future. As a result of the recent decreases in power prices, the prices we have locked-in for sales in 2014 are generally lower than those for sales in 2013 and expect this to have a corresponding negative effect on our results, although we believe the diversification in the EPE Group will dilute the adverse effects from lower power prices. See “Risk Factors—Risks related to our businesses and industries—Risks related to each of our segments—Our revenues and margins of operations may be negatively impacted by volatile prices for power, natural gas, hard coal and emissions allowances for CO₂ and volatility in the revenues we receive from heat sales.”

Fuel. As part of our power production activities, we purchase and consume large quantities of brown coal, and smaller quantities of hard coal, natural gas and other alternative fuels. Approximately 2.6 million metric tons in 2010, 3.0 million metric tons in 2011 and 3.2 million metric tons in 2012, or 100% in 2010, 99.9% in 2011 and 96.1% in 2012, of the brown coal we use to produce heat and power and 100% of our other fuel needs is purchased from external providers, including Severoceske doly, Emeran 1860, Sokolovska uhelna, and Pragoplyn. Our relationship with Czech Coal, a former supplier of brown coal to the EPE Group, has now terminated, and starting this year, we expect to supply a majority of the brown coal required by our EOP facility and a large share of the brown coal required by our UE facility with MIBRAG brown coal. Additionally, we have begun supplying MIBRAG brown coal to the power plant Buschhaus, which we acquired through the acquisition of the HSR Group on December 31, 2013, and will supply all of its brown coal needs from 2017, when the reserves at the adjacent Schöningen mine (also part of the HSR Group) are depleted. In addition, MIBRAG supplies its own needs for brown coal for its cogeneration and power generation operations. Our external fuel costs make up (and, even with increased brown coal from our own sources, will in the future make-up) a large proportion of our overall costs and therefore price increases for fuel may lead to a significant impact on our results. Access to brown coal to fire our cogeneration plants in the Czech Republic is key to our business operations. However, due to the vertical integration with MIBRAG, we believe that we are now in a better position to cover potential shortages of brown coal by deliveries from MIBRAG, reducing our exposure to supply risks, with excess capacity to cover potential shortages of brown coal within the EPE Group, which will decrease as we expand our intra-group supply of brown coal as described above. After 2017, when we begin to supply all of Buschhaus’ brown coal needs, there will be little excess capacity at MIBRAG. See “Risk Factors—Risks Related to Our Businesses and Industries—Risks related to each of our segments—We frequently engage a very small number of suppliers, particularly in our power and heat businesses, which significantly magnifies the risk of disruptions in the supply of coal, natural gas and other necessary raw materials and services we receive from third parties.”

Emissions allowances. In 2005, the European Union introduced an emissions allowance trading scheme governed by the EU ETS Directive which was later revised in 2009. In accordance with the regulations of the EU ETS Directive, we were allocated free emissions allowances by the Czech and German governments according to their respective National Allocation Plans until December 31, 2012. We acquire emissions allowances through governmental allocations as well as purchase emissions allowances on the open market, if needed to offset our actual emissions. We sell any excess emissions allowances not used in our production activities on the open market. Although the free allocation of allowances under the EU Emissions Allowances Trading System was largely discontinued effective January 1, 2013, on July 6, 2012, the European Commission announced in MEMO/12/530 that it had authorized the Czech Republic’s request for a continued free allocation of emissions allowances to the Czech power sector beyond the end of 2012. The scope of these allowances is limited to installations that started to generate power before December 31, 2008 or for which the investment process was “physically initiated” by that date. All our Czech power plants are covered by the derogation. The extension period will last from 2013 to 2019, and the free allowance

extension is limited to no more than 70% of emissions for domestic power supply in 2013 and no more than 60% of emissions for domestic power supply in 2014, with the percentage declining each year to 0% in 2020. The EU ETS Directive requires that installations benefitting from free allocations under the derogation invest in projects designed to modernize power generation in the Czech Republic. The value of these investments must mirror the value of the free allocation of emissions allowances, which we continue to achieve through our investments in our existing power plants, facilities and infrastructure to comply with this requirement.

Different principles apply under the EU ETS Directive regarding heat. In compliance with Article 10a of the EU ETS Directive as revised in 2009, District Heating and CHP high efficiency plants shall receive free allowances for heat supply from 2013 to 2027. The derogation is available to all Member States, but is limited in terms of eligibility and quantity. All district heating and highly efficient cogeneration plants are eligible, regardless of the commissioning date. However, the Directive requires a maximum of 80% of free allowances in 2013 and approximately 73% in 2014 with a gradual decline in subsequent years to reach 30% in 2020. Further gradual decline will reach zero free allowances in 2027. Contrary to the free emissions allocation extension granted for power, the Directive does not require heating plants benefitting from the free allocation under the derogation to invest in any projects.

Our ability to secure sufficient emissions allowances is essential to our results of operations. Our power generation operations in Germany, at MIBRAG and now at Buschhaus, are required to purchase emissions allowances, as are certain of our power and heat operations in the Czech Republic. In the Czech Republic, the amount we 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. Although the price of emissions allowances has decreased, we will need to buy increasingly larger amounts of emissions allowances as free allowances in our operations are phased out by 2020 for power and 2027 for heat. See “Risk factors—Risks related to governmental regulations and laws—We are exposed to changes in the way emissions allowances are allocated, including the conditions attaching to free allocations and the allocation of emissions allowances from 2013, as well as volatility in the market prices of emissions allowances that we need to acquire.”

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

Grid balancing services

In the Power Generation division of our Heat and Power segment, we provide grid balancing services to ČEPS, the Czech transmission system operator (“TSO”), and we also provide balancing services (i.e., decreases or increases in power supply on a short-notice basis (e.g., in some cases within 30 seconds)) to the TSO in order to help the TSO maintain a reliable transmission system. EPE is one of the certified providers of grid balancing services in the Czech Republic. EPE’s market share in the provision of grid balancing services in the Czech Republic was approximately 4.7% in 2011, 7.9% in 2012 and 9.1% in 2013. We generate two separate streams of revenues from the provision of grid balancing services, derived from two distinct fee arrangements: Capacity Fees and Activation Fees. Capacity Fees are those paid by the TSO for providing the service regardless of whether the power is actually provided, as we have reserved the required capacities for such services. Activation Fees, in contrast, are paid by the TSO for energy produced within the provided services, and are dependent

on the TSO's decision to request the service. The majority of our revenues from grid balancing services come from Capacity Fees. The volume of grid balancing services that we provide has an effect on the results of our Heat and Power segment.

Factors impacting the results of our Renewables segment

Regulation

In the European Union and, in particular, in the Czech Republic and Germany, there is significant focus on the importance of renewable energy. This focus has led to significant governmental intervention designed to incentivize the production of renewable energy in chosen sectors. However, supportive government policy can change rapidly if a government deems that it has given too much support to a particular sector or when there are unintended negative financial or other negative consequences. For example, in 2005 the Czech Republic enacted laws and regulations designed to promote the use of renewable energy. In 2007, the Czech regulator significantly increased off-take prices for solar energy, which led to distortive behavior and significantly increased the volume of solar energy generated. As the 2005 Czech Act on Promotion of Renewable Energy imposed a legal obligation on energy distributors to financially support (by means of obligatory purchases of energy produced from renewable sources) the owners of solar power plants, the increased off-take price was paid by the energy distributors who passed the higher off-take prices on to the end customers, ultimately resulting in an increase in the price of power for the end customer. In 2010, the Czech Parliament approved significant changes in the law to counteract this price increase and the potentially destabilizing effects to the transmission network (for example through grid congestion, which could by itself impact the feed-in from our power plants), for example by significantly reducing eligibility for support, imposing a withholding tax on operators of solar facilities commissioned between January 1, 2009 and December 31, 2010 and abolishing an income tax exemption. In Germany, statutory law obligates grid operators to pay predetermined remuneration to operators of renewable energy plants for their feed-in to the grid. The costs of such remuneration are ultimately borne by the end customers as they are passed on via a so-called EEG surcharge and are paid as a part of the general electricity price. The applicable amount of feed-in remuneration differs depending on the respective renewable energy source. Once commissioned, the remuneration in general remains fixed for 20 years plus the year of commissioning. However, the amount of remuneration for feed-in from plants newly commissioned is subject to constant changes in the statutory law. For example, the Federal Parliament (Bundestag) together with the Council of the Federal States (Bundesrat) significantly reduced the feed-in remuneration for electricity from photovoltaic installations in 2012 and further amendments to the remuneration scheme for all other renewable energy sources are under discussion, and the new coalition forming the Federal Government in Germany in 2013 aims to quickly and fundamentally revise the act regulating renewable energy in Germany. These shifts in legislative strategy illustrates the potential that regulation has to significantly impact our results of operations if we make investments in certain kinds of renewable energy based on governmental policy, because the government can withdraw its support at any time. We are also the beneficiary of renewable energy subsidies at the EU, Czech and German levels and therefore are reliant on this type of continued financial support for renewables, something that we cannot control.

Project execution

The success of a renewables project is significantly influenced by external factors associated with obtaining required permits and approval processes. This mainly involves obtaining permits under applicable environmental protection legislation from the competent authorities, often including approval of an Environmental Impact Assessment ("EIA"), changes in land zoning plans, approval of all authorities and private parties affected by the planned project, and obtaining a land use decision by the state authority to satisfy zoning requirements, a construction permit and a usage permit. An EIA study has already been prepared or is under preparation for the projects we are currently

planning. A negative ruling (or the absence of a ruling or the delay in receiving a ruling) by state administrative and government authorities or other legal entities can result in a delay or suspension of a project. Conditions imposed by authorities may negatively influence the timing or profitability of a project. During project development, obstacles can occur that we can not anticipate and that are not known to us at the time of project implementation. A project can also be negatively influenced by failure to reach agreement with a key land owner, as the project construction, including connection to energy mains, may need to pass through the land of a number of owners, so it is essential to obtain easements on the land concerned.

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

Factors impacting the results of our Energy Supply and Trading segment

Wholesale power prices

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

Commodity supply and trading

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

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

While our power and natural gas trading policies require that the majority of our trades are conducted on a back-to-back basis, i.e., we typically only purchase commodities on the market when

we have an offsetting sales contract, and we do not maintain large open positions which expose us to downside risk, we also engage in limited opportunistic power and gas trading activities. These trades primarily relate to (a) speculation on seasonal differences in power and natural gas prices, i.e., we purchase gas in the spring and summer with the intention of selling it at a higher price in the winter; and (b) speculation based on announcements relating to the availability of emissions allowances, as a reduction in the number of available emissions allowances typically leads to an increase in emissions allowance prices and thus increasing power prices due to higher production costs. Additionally, in connection with the optimization of our supply and trading business, we are dependent on the liquidity of the wholesale market, and as a result, we may take limited open trading positions, i.e. not match a sale with a purchase until there is more liquidity in the market, or if prices are falling, wait to make the matching purchase transaction. Nevertheless, such opportunistic trading activity is fairly limited, and the maximum exposure we may take through proprietary trading is subject to limits that set the maximum risk of loss on trading portfolios. Under our current policies, EPET's open positions in power and gas over any period of time are limited by an aggregate mark-to-market value of €5 million in power and €1 million in natural gas. If we exceed these thresholds on our open positions, we are required by EPE Group policies to close out of our open positions to a value below these thresholds. Under the current SSE risk policy, exposure to market price risk in electricity and natural gas trading is set by the limits on open financial positions for each trading year and each market segment and by value-at-risk limits for a 12-month horizon (€400,000 for electricity and €300,000 for natural gas) and four-year (portfolio) horizon (€900,000 for electricity and €500,000 for natural gas).

Acquisition of SSE

On November 27, 2013, our parent company EPH completed its acquisition of a 49% equity stake (including management control) in the Slovak power distribution and supply company Stredoslovenská energetika, a.s. ("SSE") from E.D.F. International for a purchase price of approximately €400 million. EPH contributed EPH Financing II, a.s., the holding company for the minority interest in SSE and the related acquisition financing, to EP Energy on December 16, 2013 in exchange for equity.

Beginning with the financial statements for the year ended December 31, 2013, the Energy Supply and Trading segment will be renamed the "Power Distribution and Supply" segment, to reflect the change in focus in the segment after the acquisition of the 49% interest in SSE. Although SSE is only 49% owned by the EPE Group, it will be fully consolidated in EPE Group financial statements because the EPE Group has management control, and therefore full consolidation is provided for under IFRS. See "Risk factors—Risks related to our financial profile—The results of PT are fully consolidated in the financial statements of EPE and the results of SSE will be fully consolidated in the financial statements of EPE, however EPE owns less than a 100% ownership interest in each entity."

The table below summarizes Revenues, EBITDA and capital expenditures for each segment of SSE (“Distribution”, “Supply” and “Other”) (including historical financial statements for 2011 and 2012):

	For the year ended December 31,		For the nine months ended September 30,	
	2011	2012	2012	2013
In € millions				
Revenue				
Distribution segment.....	433.71	445.27	325.49	357.47
Supply segment.....	408.28	316.79	230.05	221.27
Other segment.....	31.62	19.02	14.60	10.38
Intersegment eliminations.....	(0.60)	(0.59)	(0.42)	(0.49)
Total Revenue at SSE	873.01	780.49	569.72	588.63
EBITDA				
Distribution segment ⁽¹⁾	146.63	97.11	49.96	80.17
Supply segment.....	17.56	13.04	11.82	7.19
Other segment.....	12.75	10.96	10.53	9.43
Intersegment eliminations.....	—	—	—	—
Total EBITDA at SSE.....	176.94	121.11	72.31	96.79
Capital expenditures				
Distribution segment.....	59.00	34.69	21.76	25.20
Supply segment.....	10.75	8.97	5.39	3.19
Other segment.....	0.83	0.39	0.16	—
Intersegment elimination	—	—	—	—
Total capital expenditure at SSE	70.58	44.05	27.31	28.39

- (1) Includes SOT balance (i.e., the aggregate system operation tariffs received by SSE’s distribution subsidiary from the final customers *less* the aggregate incentive payments paid by SSE’s distribution subsidiary in connection with its purchases of electricity from renewable sources) of €5.76 million for the year ended December 31, 2011, negative €22.87 million for the year ended December 31, 2012, negative €35.66 million for the nine months ended September 30, 2012 and negative €20.09 million for the nine months ended September 30, 2013.

For the nine months ended September 30, 2013, the Distribution segment of SSE reported EBITDA of €80.17 million, which was a 60.5% increase from EBITDA reported for the nine months ended September 30, 2012 of €49.96 million. The key reason for the increase in EBITDA was an increase in regulated revenues from distribution of electricity due to positive tariff development as well as a volume increase. Also, there was a lower negative balance between the system operation tariffs (“SOT”) Stredoslovenská energetika—Distribúcia, a.s. (“SSE-D”) received from the final consumers and the incentive payments paid by SSE-D in connection with its purchases of electricity from renewable energy sources. Operating expenses remained relatively stable during the periods.

For the year ended December 31, 2012, the Distribution segment of SSE reported EBITDA of €97.11 million, which was a 33.8% decrease from EBITDA reported for the year ended December 31, 2011 of €146.63 million. The primary reason for the decrease in EBITDA was the higher negative balance between the SOTs SSE-D received from the final consumers and the incentive payments paid by SSE-D in connection with its purchases of electricity from renewable energy sources. In addition, an increase in other operating expenses in 2012 as compared to 2011 contributed to an overall decrease in EBITDA, which was mainly due to a release of a legal claims provision in 2011 that was higher than the release in 2012, further accompanied by a larger build up of a provision for bad debt

in 2012. In terms of regulated activities, regulated revenues from distribution of electricity in 2012 remained stable as compared to the same period with only a small decrease in distribution margin caused by volume variations and the mix effect of tariffs.

Certain results of operations for SSE for the nine months ended September 30, 2013 compared to the nine months ended September 30, 2012 and the year ended December 31, 2012 compared to the year ended December 31, 2011 are discussed below:

For the nine months ended September 30, 2013, SSE reported revenue of €588.63 million, which was a 3.3% increase from revenue reported for the nine months ended September 30, 2012 of €569.72 million. The primary reasons for the increase in revenue were an increase in sales and distribution of electricity to industrial and commercial customers due to a higher unit price for distribution and the SEPS tariff, an increase in revenues from sales of gas (sales of which commenced in April, 2012), other revenue from fees charged for, among other things, new connections, and from the provision of ancillary services and a reclassification of income from reserved capacity (tertiary regulation for SEPS) from other operating income to revenue in the nine months ended September 30, 2013. The increase was partially offset by a decrease in sales and distribution of electricity to households due to a lower unit price and a decrease in sales of electricity through trading sales, foreign trading, spot trading.

For the nine months ended September 30, 2013, SSE reported purchases of electricity and related fees, distribution fees of €446.14 million, which was a 1.5% decrease from that reported for the nine months ended September 30, 2012 of €453.04 million. The primary reason for the decrease was a lower market purchase price of electricity, which was partially offset by greater SSE purchases due to increased consumption by our industrial and commercial customers, as well as by an increase in fees paid to SEPS (i.e. system service fees, fees for network operation, fees for access to the distribution network and other fees) and increases in gas purchases.

For the nine months ended September 30, 2013, SSE reported personnel expenses of €29.02 million, which was a 15.1% increase from personnel expenses reported for the nine months ended September 30, 2012 of €25.21 million. The primary reason for the increase in personnel expenses was due to the impact of severance and retirement payments connected with a staff reduction at SSE.

For the nine months ended September 30, 2013, SSE reported depreciation, amortization and impairment of €22.93 million (of which €0.14 million was impairment charges), which was a 3.8% increase from depreciation, amortization and impairment reported for the nine months ended September 30, 2012 of €22.10 million (of which €0.01 million was impairment charges). The primary reason for the increase in depreciation, amortization and impairment was that new distribution assets and IT projects were completed and put into operation.

For the nine months ended September 30, 2013, SSE reported material and consumables used of €4.27 million, which was a 42.1% decrease from material and consumables used reported for the nine months ended September 30, 2012 of €7.37 million. The primary reasons for the decrease in material and consumables used were lower consumption of gas in the SSE gas-fired power plant commissioned in March 2010 for ancillary services in the grid (tertiary regulation) and lower consumption of construction material in connection with decreased revenues from construction activities.

For the nine months ended September 30, 2013, SSE reported other operating income of €5.09 million, which was a 28.9% decrease from other operating income reported for the nine months ended September 30, 2012 of €7.16 million. The primary reason for the decrease in other operating income was a reclassification of other operating income from reserved capacity (tertiary regulation for SEPS) to revenue in the nine months ended September 30, 2013.

For the nine months ended September 30, 2013, SSE reported other operating expenses of €17.36 million, which was a 8.4% decrease from other operating expenses reported for the nine months ended September 30, 2012 of €18.96 million. The primary reasons for the decrease in other operating expenses were savings in IT services, a decrease in forest cutting relating to the maintenance of overhead power lines, a decrease in subcontracted construction work and lower creation of provisions for legal claims.

For the nine months ended September 30, 2013, SSE reported operating profit of €74.00 million, which was a 47.4% increase from operating profit reported for the nine months ended September 30, 2012 of €50.20 million. The primary reasons for the increase in operating profit were an increase in margin from power distribution and the provision and activation of ancillary services as well as a decrease in other operating expenses.

For the nine months ended September 30, 2013, SSE reported income tax expense of €16.72 million, which was a 80.4% increase from income tax expense reported for the nine months ended September 30, 2012 of €9.27 million. The primary reasons for the increase in income tax expense were a higher profit before income tax and an increase in the tax rate from 19% set for the nine months ended September 30, 2012 to 23% for the nine months ended September 30, 2013. SSE was subject to a special levy on business in the regulated sector applicable in Slovak Republic from September 2012.

For the year ended December 31, 2012, SSE reported revenue of €780.49 million, which was a 10.6% decrease from revenue reported for the year ended December 31, 2011 of €873.01 million. The primary reasons for the decrease in revenue were a decrease in sales of electricity and distribution to industrial customers, commercial customers and households due to lower production by industrial and commercial customers and a warmer winter in 2012 compared to 2011, as well as decreases in sales of electricity through trading sales, foreign trading, spot trading, and decreases in revenue from construction work due to completion of the solar power plant for a third party in 2011 and other revenue from connection and testing fees and from the provision of ancillary services to SEPS. The decrease was partially offset by an increase in compensation by SEPS for green energy purchases and the introduction of revenues for gas sales after the launch of the gas marketing business in 2012.

For the year ended December 31, 2012, SSE reported purchases of electricity and related fees, distribution fees of €594.45 million, which was a 5.7% decrease from that reported for the year ended December 31, 2011 of €630.07 million. The primary reasons for the decrease were a decrease in electricity purchased through long-term contracts and in imported electricity from abroad due to the loss of customers in both the regulated and non-regulated businesses (from 4,882 GWh in 2011 to 4,197 GWh in 2012) and a decrease in fees paid to SEPS (i.e. system service fees, fees for network operation, fees for access to the distribution network and other fees). This decrease was partially offset by an increase in purchases of electricity from spot agreements and costs of deviation settlement (i.e. energy balancing) and from renewable resources, as well as by the initiation of gas purchases.

For the year ended December 31, 2012, SSE reported depreciation, amortization and impairment of €29.37 million (of which €0.01 million was impairment charges), which was an 11.3% increase from depreciation, amortization and impairment reported for the year ended December 31, 2011 of €26.39 million (of which €0.95 million was impairment charges). The primary reason for the increase in depreciation, amortization and impairment was higher capital expenditures mainly due to information technology investments into its CRM (customer and relationship management) system and into its SAP IS-U (sales and information system for utility companies) system.

For the year ended December 31, 2012, SSE reported material and consumables used of €10.15 million, which was a 45.8% decrease from material and consumables used reported for the year ended December 31, 2011 of €18.72 million. The primary reason for the decrease in material and consumables used was the construction of a solar power plant for a third party in 2011. The decrease

in material and consumables used corresponds with lower construction revenues for the year ended December 31, 2012 as compared to the year ended December 31, 2011.

For the year ended December 31, 2012, SSE reported other operating expenses of €25.82 million, which was a 39.9% increase from other operating expenses reported for the year ended December 31, 2011 of €18.46 million. The primary reasons for the increase in other operating expenses were an increase in the provision for legal claims due mainly to the larger release of provisions for legal claims in the year ended December 31, 2011 (in the amount of approximately €(12) million) as compared to the year ended December 31, 2012 and an increase in the provision for bad debt. The increase was partially offset by a decrease in consultancy costs and subcontracted construction work expenses due to higher subcontracted construction costs in 2011 related to the construction of a solar plant for a third party.

For the year ended December 31, 2012, SSE reported operating profit of €91.73 million, which was a 38.7% decrease from operating profit reported for the year ended December 31, 2011 of €149.60 million. The primary reason for the decrease in operating profit was the factors above relating to the decrease in revenue.

For the year ended December 31, 2012, SSE reported income tax expense of €22.07 million, which was a 15.3% decrease from income tax expense reported for the year ended December 31, 2011 of €26.06 million. The primary reason for the decrease in income tax expense was a lower profit before tax, partially offset by the payment of a special levy on business activities in regulated sectors and the impact of the change in the income tax rate from 19% to 23% on deferred tax. See “Risk factors—Risks related to governmental regulations and laws—We could incur unforeseen taxes, tax penalties and sanctions or could lose tax exemptions and benefits, which could adversely affect our business, financial condition, results of operations and cash flows.”

Neither the results of operations nor the financial position of SSE is included in any of the EPE Group financial statements included herein, however please see the financial statements for SSE for [the year ended December 31, 2012 and] the nine months ended September 30, 2013 included as an attachment to this Report for more information.

Capital expenditures at SSE are necessary to maintain and improve the operations of the SSE facilities and meet operating standards dictated by governmental regulations. We expect that capital expenditures at SSE in the near future will be generally maintenance capital expenditures.

Total capital expenditures at SSE increased by €1.08 million, or 4.0% to €28.39 million for the nine months ended September 30, 2013 from €27.31 million for the same period in 2012.

Capital expenditures relating to the Distribution segment increased by €3.44 million, or 15.8%, to €25.20 million for the nine months ended September 30, 2013 from €21.76 million for the same period in 2012. The increase in capital expenditures was primarily due to higher investments into metering equipment as well as into transformation stations and sub-stations.

Capital expenditures relating to the Supply segment decreased by €2.20 million, or 40.8%, to €3.19 million for the nine months ended September 30, 2013 from €5.39 million for the same period in 2012. The decrease in capital expenditures was primarily due to fewer vehicle purchases and decreased spending on construction projects in the nine months ended September 30, 2013 as compared to the nine months ended September 30, 2012. In the nine months ended September 30, 2013, while there were building projects at the office buildings in Žilina, there was no spending on the reconstruction of regional maintenance offices, while in the nine months ended September 30, 2012, SSE made capital expenditures for the reconstruction of the regional maintenance office in Beluša.

Total capital expenditures at SSE decreased by €26.53 million, or 37.6% to €44.05 million for the year ended December 31, 2012 from €70.58 million for the year ended December 31, 2011.

Capital expenditures relating to the Distribution segment decreased by €24.31 million, or 41.2%, to €34.69 million for the year ended December 31, 2012 from €59.00 million for the year ended December 31, 2011. The decrease in capital expenditures was primarily due to the purchase of a substation from Slovenske elektrárne, a.s. in 2011. While the purchase price was spread over three years, the entire purchase price was booked in 2011.

Capital expenditures relating to the Supply segment decreased by €1.78 million, or 16.6%, to €8.97 million for the year ended December 31, 2012 from €10.75 million for the year ended December 31, 2011. The decrease in capital expenditures was primarily due to fewer vehicle purchases and decreased spending on construction projects in the year ended December 31, 2012 as compared to the year ended December 31, 2011. In 2012, SSE made capital expenditures for the reconstruction of the regional maintenance office in Beluša, while in 2011 SSE made capital expenditures for a new office building in Žilina, the reconstruction of the regional maintenance office in Beluša and the reconstruction of the office building in Liptovský Mikuláš

Other factors impacting the results of the EPE Group

Capital expenditures

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

The table below summarizes our capital expenditures for our Mining segment:

	For the nine months ended September 30,	
	2012	2013
In CZK millions		
Capital expenditures relating to tangible fixed assets	587	924
Capital expenditures relating to intangible fixed assets excluding emission rights	17	15

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

Capital expenditures relating to tangible fixed assets increased by CZK 337 million, or 57.4%, to CZK 924 million in the nine months ended September 30, 2013 from CZK 587 million in the nine months ended September 30, 2012. This increase in capital expenditures in the nine months ended September 30, 2013 is mainly related to the effect of inclusion of the remaining 50% ownership interest in MIBRAG, which was reflected in our financial statements from July 1, 2012. 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:

	For the nine months ended September 30,	
	2012	2013
In CZK millions		
Capital expenditures relating to tangible fixed assets	476	455
Capital expenditures relating to intangible fixed assets excluding emission rights	5	7

Capital expenditures relating to tangible fixed assets decreased by CZK 21 million, or 4.4%, to CZK 455 million in the nine months ended September 30, 2013 from CZK 476 million in the nine months ended September 30, 2012. This decrease in capital expenditures in the nine months ended September 30, 2013 is related to lower capital expenditures at PT and UE due to normal fluctuations in capital expenditures from year to year, which is offset with increased capital expenditures at EOP due to normal technical maintenance.

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:

	For the nine months ended September 30,	
	2012	2013
In CZK millions		
Capital expenditures relating to tangible fixed assets	60	15
Capital expenditures relating to intangible fixed assets excluding emission rights	0	0

Capital expenditures relating to tangible fixed assets decreased by CZK 45 million, or 75.0%, to CZK 15 million in the nine months ended September 30, 2013 from CZK 60 million in the nine months ended September 30, 2012. This decrease in capital expenditures in the nine months ended September 30, 2013 is mainly related to the fact that the Alternative Energy biogas power plant was formally commissioned in May 2012 and there were no major capital expenditures in the nine months ended September 30, 2013.

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

	For the nine months ended September 30,	
	2012	2013
In CZK millions		
Capital expenditures relating to tangible fixed assets	3	0
Capital expenditures relating to intangible fixed assets excluding emission rights	9	10

Capital expenditures in our Energy Supply and Trading segment for the nine months ended September 30, 2012 and 2013 were not material due to the nature of operations of this segment. Going forward, with the inclusion of SSE in this segment, we expect capital expenditures in this segment to be significant.

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

	For the nine months ended September 30,	
	2012	2013
<i>In CZK millions</i>		
Capital expenditures relating to tangible fixed assets	1	1
Capital expenditures relating to intangible fixed assets excluding emission rights	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, 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 EPE’s interim unaudited consolidated financial statements for the nine months ended September 30, 2013 (which include financial information for the nine months ended September 30, 2012 as a comparison) and should be read in conjunction with and is qualified in its entirety by reference to these financial statements, including the notes thereto.

Results of operations of the EPE Group: the nine months ended September 30, 2013 compared to the nine months ended September 30, 2012

The following table sets forth our historical income statement data derived from EPE’s interim consolidated financial statements for the nine months ended September 30, 2013, prepared in accordance with IAS 34, 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”.

For the nine months ended September 30,				
	2012		2013	
	Restated			
	(in CZK millions)	%	(in CZK millions)	%
Sales: Energy.....	26,548	95.9	32,012	95.1
of which: Electricity	15,778	57.0	17,315	51.4
Heat.....	4,167	15.1	5,692	16.9
Gas	2,507	9.0	3,537	10.5
Coal.....	4,096	14.8	5,468	16.3
Sales: Other	1,133	4.1	1,663	4.9
Total sales		100.		100.
	27,681	0	33,675	0
Cost of sales: Energy	(17,115)	61.8	(20,630)	61.3
Cost of sales: Other	(284)	1.0	(435)	1.3
Total cost of sales.....	(17,399)	62.8	(21,065)	62.6
	10,282	37.2	12,610	37.4
Personnel expenses.....	(2,510)	9.1	(3,466)	10.3
Depreciation and amortization	(3,469)	12.5	(4,618)	13.7
Repairs and maintenance.....	(236)	0.9	(270)	0.8
Emission rights, net	113	0.4	(675)	2.0
Negative goodwill	3,012	10.9	56	0.2
Taxes and charges	(299)	1.1	(193)	0.6
Other operating income	492	1.8	1,313	3.9
Other operating expenses	(1,542)	5.6	(2,109)	6.2
Profit/(loss) from operations.....	5,843	21.1	2,648	7.9
Finance income	333	1.2	550	1.6
Finance expense	(1,283)	4.6	(2,063)	6.1
Profit/(loss) from derivative financial instruments	(143)	0.5	(201)	0.6
Net finance income/(expense)	(1,093)	3.9	(1,714)	5.1
Share of profit/(loss) of equity accounted investees, net of tax	10	0.0	(138)	0.4
Gain/(loss) on disposal of subsidiaries, special purpose entities, joint ventures and associates	4,484	16.2	5	0.0
Profit/(loss) before income tax	9,244	33.4	801	2.4
Income tax expenses.....	(380)	1.4	(458)	1.4
Profit/(loss) for the period	8,864	32.0	343	1.0
Other comprehensive income for the period, net of tax.....	49	0.2	(52)	0.2
Total comprehensive income for the period	8,913	32.2	291	0.8
Profit/(loss) attributable to:				
Owners of the Company	8,938	32.3	329	1.0
Non-controlling interest	(74)	0.3	14	0.0
Profit/(loss) for the period	8,864	32.0	343	1.0
Total comprehensive income attributable to:				
Owners of the Company	8,989	32.5	277	0.8
Non-controlling interest	(76)	0.3	14	0.0
Total comprehensive income for the period	8,913	32.2	291	0.8

Key line items

Sales: Energy

Sales: Energy increased by CZK 5,464 million, or 20.6%, to CZK 32,012 million for the nine months ended September 30, 2013 as compared to CZK 26,548 million for the nine months ended September 30, 2012.

Sales of electricity

Sales of electricity increased by CZK 1,537 million, or 9.7%, to CZK 17,315 million for the nine months ended September 30, 2013 as compared to CZK 15,778 million for the nine months ended September 30, 2012. This increase in sales of electricity reflects the acquisition of the 100% ownership interest in Saale Energie in July 2012, which was only reflected in our income statement from August 1, 2012, and therefore included in the full nine-month period ended September 30, 2013, but only included in part of the same period in 2012. The increase was also due to a significant increase in sales and trading of electricity by EPET (including PEAS, which was merged with and into EPET on January 1, 2013) due to a larger customer base at EPET and a higher volume of trading due to favorable market conditions. The increase was partially offset by the decrease in electricity sales by EOP due to a reduction of trading by EOP in the context of the EPE Group's energy production optimization in the nine months ended September 30, 2013 as compared to the same period in 2012 and PT due to the sale of Energotrans by PT in June 2012.

Sales of heat

Sales of heat increased by CZK 1,525 million, or 36.6%, to CZK 5,692 million for the nine months ended September 30, 2013 as compared to CZK 4,167 million for the nine months ended September 30, 2012. This increase in sales of heat was primarily due to the full consolidation of PT in our income statement from July 1, 2012, and, to a lesser extent, due to higher heat volumes at EOP, UE and PT due to colder weather in the first nine months of 2013 compared to the same period in 2012.

Sales of gas

Sales of gas increased by CZK 1,030 million, or 41.1%, to CZK 3,537 million for the nine months ended September 30, 2013 as compared to CZK 2,507 million for the nine months ended September 30, 2012. This increase in sales of gas was primarily due to increased gas sales by EPET due to higher trading activity on the whole-sale gas market (back-to-back contracts) and an increase in the supply of gas to end customers.

Sales of coal

Sales of coal increased by CZK 1,372 million, or 33.5%, to CZK 5,468 million for the nine months ended September 30, 2013 as compared to CZK 4,096 million for the nine months ended September 30, 2012. This increase in sales of coal was primarily due to the effect of inclusion of the remaining 50% ownership interest in MIBRAG, which was reflected in our income statement from July 1, 2012. To a lesser extent, the increased sale of coal was also affected by increased number of contracts concluded by our subsidiary United Energy Coal Trading ("UECT") for the sale of MIBRAG brown coal and PG Silesia (a subsidiary of EPH not part of the EPE Group) hard coal.

Sales: Other

Sales: Other increased by CZK 530 million, or 46.8%, to CZK 1,663 million for the nine months ended September 30, 2013 as compared to CZK 1,133 million for the nine months ended September 30, 2012. This increase in Sales: Other was primarily due to the effect of inclusion of the remaining 50%

ownership interest in MIBRAG, which was reflected in our income statement from July 1, 2012. The increase was also due to the implementation of hedge accounting at EPET (the effect of foreign exchange derivatives through hedge accounting is displayed in the Sales: Other income statement line item).

Cost of sales: Energy

Cost of sales: Energy increased by CZK 3,515 million, or 20.5%, to CZK 20,630 million for the nine months ended September 30, 2013 as compared to CZK 17,115 million for the nine months ended September 30, 2012. This increase in Cost of sales: Energy was primarily due to the increase in volumes of power and gas sold by EPET (including PEAS, which was merged with and into EPET on January 1, 2013) and the increase in sales volumes at UECT. The increase in Cost of sales: Energy reflects also the following changes in scope: the full consolidation of PT in our income statement from July 1, 2012, the effect of inclusion of the remaining 50% ownership interest in MIBRAG, which was reflected in our income statement from July 1, 2012 and the acquisition of a 100% ownership interest in Saale Energie in July 2012, which was reflected in our income statement from August 1, 2012. The increase was partially offset by a reduction of trading by EOP in the context of the EPE Group's energy production optimization in the nine months ended September 30, 2013 as compared to the same period in 2012.

Cost of sales: Other

Cost of sales: Other increased by CZK 151 million, or 53.2%, to CZK 435 million for the nine months ended September 30, 2013 as compared to CZK 284 million for the nine months ended September 30, 2012. This increase in Cost of sales: Other was primarily due to the increase in Cost of goods sold by UECT POLSKA, which made increased purchases of material for PG Silesia, a subsidiary of EPH not part of the EPE Group, in the nine months ended September 30, 2013 as compared to the nine months ended September 30, 2012. The increase of Cost of goods sold also reflects the full consolidation of PT which was fully consolidated in our income statement from July 1, 2012.

Personnel expenses

Personnel expenses increased by CZK 956 million, or 38.1%, to CZK 3,466 million for the nine months ended September 30, 2013 as compared to CZK 2,510 million for the nine months ended September 30, 2012. This increase in personnel expenses was primarily due to the effect of inclusion of the remaining 50% ownership interest in MIBRAG, which was reflected in our income statement from July 1, 2012.

Depreciation and amortization

Depreciation and amortization increased by CZK 1,149 million, or 33.1%, to CZK 4,618 million for the nine months ended September 30, 2013 as compared to CZK 3,469 million for the nine months ended September 30, 2012. This increase in depreciation and amortization was primarily due to the two-step acquisition of MIBRAG and the purchase price allocation for the acquisition of MIBRAG, as well as the purchase price allocation for the acquisition of the additional ownership interest in PT and the acquisition of Saale Energie, that in each case increased the value of fixed assets.

Repairs and maintenance

Repairs and maintenance increased by CZK 34 million, or 14.4%, to CZK 270 million for the nine months ended September 30, 2013 as compared to CZK 236 million for the nine months ended September 30, 2012. This increase in Repairs and maintenance was primarily due to the increase of repairs and maintenance at PE and MIBRAG, the remaining 50% of which was reflected in our income statement from July 1, 2012. The increase was partially offset by repairs and maintenance savings at PT and EOP.

Emission rights, net

Emission rights, net decreased by CZK 788 million, or 697.3%, to negative CZK 675 million for the nine months ended September 30, 2013 as compared to CZK 113 million for the nine months ended September 30, 2012. This decrease in emission rights, net was primarily due to lower deferred income released to profit as the value of the grant of free emissions rights declined, as well as a decrease in profit from sale of emission allowances for the nine months ended September 30, 2013 as compared to the nine-month period ended September 30, 2012 due to a lower price for emissions allowances, and lower allocation of emissions rights. This decrease was partially offset by lower net creation of provisions for emissions rights due to the lower unit price of emissions allowances.

Negative goodwill

Negative goodwill decreased by CZK 2,956 million, or 98.1%, to CZK 56 million for the nine months ended September 30, 2013 as compared to CZK 3,012 million for the nine months ended September 30, 2012. Negative goodwill decreased due to a lower level of acquisitions activity in the nine months ended September 30, 2013 compared to the same period in 2012. Negative goodwill arising from the acquisitions in the nine months ended September 30, 2012 was represented by the acquisition of the remaining 50% ownership interest in MIBRAG in June 2012 and by the acquisition of a 100% ownership share in Saale Energie in July 2012. Negative goodwill arising from the acquisition in the nine months ended September 30, 2013 was represented by the acquisition of a 35.29% ownership share in PRVNÍ MOSTECKÁ, a.s.

Taxes and charges

Taxes and charges decreased by CZK 106 million, or 35.5%, to CZK 193 million for the nine months ended September 30, 2013 as compared to CZK 299 million for the nine months ended September 30, 2012. This decrease in taxes and charges was primarily due to a cancelation of the gift tax on emission allowances at PT, PE, UE and EOP. The decrease was also due to a one-off expense of real estate transfer tax at LIGNITE INVESTMENTS 1 LIMITED (which was merged with and into EP Energy effective November 4, 2013) in the nine months ended September 30, 2012 in respect of the acquisition of the remaining 50% of MIBRAG. This decrease was partially offset by an increase in electricity tax expense at MIBRAG in the nine months ended September 30, 2013 as compared to nine months ended September 30, 2012 mainly due to the effect of inclusion of the remaining 50% ownership interest in MIBRAG, which was reflected in our income statement from July 1, 2012.

Other operating income

Other operating income increased by CZK 821 million, or 166.9%, to CZK 1,313 million for the nine months ended September 30, 2013 as compared to CZK 492 million for the nine months ended September 30, 2012. This increase in other operating income is partly due to the effect of inclusion of the remaining 50% ownership interest in MIBRAG, which was reflected in our income statement from July 1, 2012. Furthermore, the application of the new accounting standard IFRIC 20 from January 1, 2013 resulted in the capitalization of expenses relating to overburden removal to inventories (CZK 566 million) in the nine months ended September 30, 2013 as compared to nine months ended September 30, 2012.

Other operating expenses

Other operating expenses increased by CZK 567 million, or 36.8%, to CZK 2,109 million for the nine months ended September 30, 2013 as compared to CZK 1,542 million for the nine months ended September 30, 2012. This increase in other operating expenses is primarily due to the effect of inclusion of the remaining 50% ownership interest in MIBRAG, which was reflected in our income statement from July 1, 2012. The increase also reflects the increased use of consulting and

outsourcing services by UE, and impairment losses of tangible assets under construction at EOP related to a project that we discontinued.

Finance income

Finance income increased by CZK 217 million, or 65.2%, to CZK 550 million for the nine months ended September 30, 2013 as compared to CZK 333 million for the nine months ended September 30, 2012. This increase in finance income was primarily due to the increase in interest income from loans and other receivables granted by EPE to EPH at the end of the third quarter of 2012 and in 2013. The increase was also related to the inclusion of Saale Energie in our income statement from August 1, 2012.

Finance expense

Finance expense increased by CZK 780 million, or 60.8%, to CZK 2,063 million for the nine months ended September 30, 2013 as compared to CZK 1,283 million for the nine months ended September 30, 2012. This increase in finance expense was primarily due to the increase in EPE's indebtedness in connection with the acquisition of MIBRAG and the acquisition of Saale Energie, as well as the issuance of the Notes and with the prepayment and cancelation of the 2012 Senior Credit Facility in the nine months ended September 30, 2013, which resulted in a release of capitalized fees to Finance expense. The increase in finance expense was also due to the fluctuation of foreign exchange rate and exchange rate losses incurred by EOP. The increase was partially offset by exchange rate gains recorded at PTHI.

Profit/(loss) from derivative financial instruments

Profit/(loss) from derivative financial instruments increased by CZK 58 million, or 40.6%, to a loss of CZK 201 million for the nine months ended September 30, 2013 as compared to a loss of CZK 143 million for the nine months ended September 30, 2012. This change in profit/(loss) from financial instruments was primarily due to losses from the revaluation of currency derivatives for trading at EOP and UE, partially offset by a decrease in losses from commodity financial derivatives at EPET (including PEAS, which merged with and into EPET on January 1, 2013).

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

Share of profit/(loss) of equity accounted investees, net of tax decreased by CZK 148 million, or 1,480.0%, to a loss of CZK 138 million for the nine months ended September 30, 2013 as compared to a profit of CZK 10 million for the nine months ended September 30, 2012. This decrease in share of profit of equity accounted investees, net of tax was primarily due to a share of the loss of associates of MIBRAG (Mitteldeutsche Umwelt- und Entsorgung GmbH ("MUEG")), Fernwärme GmbH Hohenmölsen—Webau ("WEBAU"), and Ingenieurbüro für Grundwasser GmbH) for the nine months ended September 30, 2013. The decrease in share of profit/(loss) of equity accounted investees, net of tax also reflects the share of the loss of associates of Saale Energie, which was acquired in July 2012 and is reflected in our income statement from August 1, 2012.

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

Gain/(loss) on disposal of subsidiaries, special purpose entities, joint ventures and associates decreased by CZK 4,479 million, or 99.9%, to CZK 5 million for the nine months ended September 30, 2013 as compared to CZK 4,484 million for the nine months ended September 30, 2012. This decrease in gain on disposal of subsidiaries, special purpose entities, joint ventures and associates was primarily due to the decreased level of disposals in the nine months ended September 30, 2013 as compared to the same period in 2012, as well as the changes in the scope of consolidation. Gain on disposal of subsidiaries, special purpose entities, joint ventures and associates for the nine months ended September 30, 2013 represents only the sale of the EPE Group investment in COOP

ENERGY, a.s. in the amount of CZK 5 million. Gain on disposal of subsidiaries, special purpose entities, joint ventures and associates for the nine months ended September 30, 2012 represents a sale of Energotrans, a.s. a subsidiary of PT, in the amount of CZK 2,590 million, as well as the impact of gaining control in PT in the amount of CZK 866 million and the impact of the acquisition of the remaining 50% ownership share in MIBRAG in the amount of CZK 1,028 million.

Income tax expenses

Income tax expenses increased by CZK 78 million, or 20.5%, to CZK 458 million for the nine months ended September 30, 2013 as compared to CZK 380 million for the nine months ended September 30, 2012. This increase in income tax expenses was primarily due to the significant increase in the income tax for the current period recorded in MIBRAG for the nine months ended September 30, 2013 as compared to the nine months ended September 30, 2012 due to the loss of tax loss carry-forwards as a result of the acquisition of the remaining 50% of MIBRAG. The increase was partially offset by the decrease in the income tax for the current period at UE and EP Energy and by the decrease in the deferred tax at EOP and PT.

Other comprehensive income for the year, net of tax

Other comprehensive income for the year, net of tax, decreased by CZK 101 million to a negative CZK 52 million for the nine months ended September 30, 2013 as compared to CZK 49 million for the nine months ended September 30, 2012. This decrease in other comprehensive income for the period, net of tax, was primarily due to foreign exchange differences arising from the translation of the financial statements of foreign operations and changes in the fair value of cash flow hedges from derivative agreements under which the Czech crown equivalent of the purchase price of electricity and gas and commodity prices for electricity are hedged.

Total comprehensive income for the year

Total comprehensive income for the year decreased by CZK 8,622 million to CZK 291 million for the nine months ended September 30, 2013 as compared to CZK 8,913 million for the nine months ended September 30, 2012. This decrease in total comprehensive income for the period was due to the decrease in profit for the period ended September 30, 2013.

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. In the future, we intend to enter into one or more revolving credit facilities. However, the timing of such facilities is uncertain. Until such facilities are obtained, EPE intends to maintain cash balances at EPE to meet the Group's short-term liquidity needs, including working capital (which we intend to replenish periodically with cash from operations).

Cash flow

The following table summarizes our consolidated cash flows for the nine months ended September 30, 2012 and 2013.

	Nine months ended September 30,	
	2012 Restated (in CZK millions)	2013
Operating profit before changes in working capital	6,662	6,963
<i>Selected changes to working capital</i>		
Change in financial instruments in other than fair value...	(6,507)	(3,929)
Change in trade receivables and other assets	(513)	543
Change in inventories (including proceeds from sale)	(88)	(816)
Change in extracted minerals and mineral products.....	(11)	(34)
Change in trade payables and other liabilities.....	(15,459)	(122)
Change in assets held for sale and related liabilities	(1,929)	–
Cash flows generated from (used in) operating activities	(19,392)	655
Selected cash flows from (used in) investing activities		
Acquisition of subsidiaries and special purpose entities, net of cash acquired	887	–
Net cash inflow from disposal of subsidiaries and special purpose entities including received dividends	13,219	182
Cash flows from (used in) investing activities.....	13,023	(831)
Cash flows from (used in) financing activities	9,564	(1,584)
Total changes in cash flows	3,195	(1,760)

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

Operating Activities

Cash flows from (used in) operating activities changed by CZK 20,047 million to cash flows from operating activities of CZK 655 million for the nine months ended September 30, 2013, as compared to cash flows used in operating activities of CZK 19,392 million for the nine months ended

September 30, 2012. This change in cash flows from (used in) operating activities is primarily due to a decrease in working capital for the nine months ended September 30, 2013 as compared to the nine months ended September 30, 2012. The principal reason for the decrease in working capital was a negative change in the nine months ended September 30, 2012 in trade payables and other liabilities primarily due to repayments of the advance payment received by EBEH (the parent of EOP until November 4, 2013, when it merged with and into EP Energy) from ČEZ, a.s. (CZK 12,767 million), which was originally provided in connection with the acquisition of EOP in 2009 and fully repaid in June 2012, and the effect from the acquisition of the remaining 50% ownership interest in MIBRAG. Other factors that contributed to the decrease in working capital were the decrease in financial instruments at other than fair value and the decrease in assets held for sale and related liabilities. The decrease in assets held for sale and related liabilities is connected with the sale of ET in June 2012 and a non-cash settlement of deferred tax liability related to assets held for sale in PT. The main reason for the decrease in financial instruments at other than fair value is that loans to EPH from EP Energy were offset with the declaration of a non-cash dividend in 2013.

Investing Activities

Cash flows from (used in) investing activities changed by CZK 13,854 million to cash flows used in investing activities of CZK 831 million for the nine months ended September 30, 2013, as compared to cash flows from investing activities of CZK 13,023 million for the nine months ended September 30, 2012. This change in cash flows from (used in) investing activities is primarily due to the impact of the disposal of Energotrans (cash flows from investing activities of CZK 13,219 million) in the nine months ended September 30, 2012. A dividend of CZK 661 million representing primarily a dividend from PTH to PTHI received in the nine months ended September 30, 2013 was offset with cash flows used to acquire additional property, plant and equipment and intangible assets and with the effect from the increase of participation in existing subsidiaries and associates.

Financing Activities

Cash flows from (used in) financing activities changed by CZK 11,148 million to cash flows used in financing activities of CZK 1,584 million for the nine months ended September 30, 2013, as compared to cash flows from financing activities of CZK 9,564 million for the nine months ended September 30, 2012. This change in cash flows from (used in) financing activities is primarily due to borrowings made in 2013 under the 2012 Senior Credit Facility and the issuance of the 2018 Notes in April 2013, the proceeds of which were used to repay all amounts outstanding under the 2012 Senior Credit Facility and amounts owed by EPE to EPH, as well as a declaration of a dividend by PT where the portion attributable to minority shareholders and associate Pražská teplárenská Holding, a.s. was reported as dividends paid within cash flows used in financing activities. The change is also due to a loan from PTH to PTHI (in the amount of CZK 3,876 million as of September 30, 2013) representing the amount of dividends to be declared by PTH to PTHI in 2014. This loan will be offset in 2014 with a non-cash dividend to be declared by PTH to PTHI, and despite the fact that the loan is recorded as a liability in the EPE Group consolidated accounts because PTH is an associate of EPE Group and therefore the loan is not eliminated in consolidation, the loan represents our proportionate share of the anticipated dividend at PTH.

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 going forward 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 €80 million for our power plants in the Czech Republic (predominantly at EOP and minor technology improvements at UE and PE), and an additional €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 €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 €1.5 million/MW of installed capacity.

During the nine months ended September 30, 2012 and 2013, capital expenditures were as follows:

	As of and for the nine months ended September 30,	
	2012	2013
Capital expenditures for tangible fixed assets	1,127	1,395
Capital expenditures for intangible fixed assets excluding emission rights	31	32
Capital expenditures for emission rights	1,431	521
Total capital expenditures	2,589	1,948
Property, plant and equipment, at cost	47,138	50,252

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

Capital expenditures for tangible fixed assets increased by CZK 268 million, or 23.8%, to CZK 1,395 million for the nine months ended September 30, 2013 as compared to CZK 1,127 million for the nine months ended September 30, 2012. This increase in capital expenditures for tangible fixed assets was primarily due to the effect of the inclusion of the remaining 50% ownership in MIBRAG, which was reflected in our financial statements from July 1, 2012.

Capital expenditures for intangible fixed assets excluding emission rights increased by CZK 1 million, or 3.2%, to CZK 32 million for the nine months ended September 30, 2013 as compared to CZK 31 million for the nine months ended September 30, 2012.

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. See “Risk factors—Risks related to governmental regulations and laws—We are exposed to changes in the way emissions allowances are allocated, including the conditions attaching to free allocations and the allocation of emissions allowances, as well as volatility in the market prices of emissions allowances that we need to acquire.”

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

Allocation and consumption of emissions allowances for the EPE Group for the year ended December 31, 2013:

in tons⁽¹⁾	Allocated⁽²⁾	Consumed	Surplus (+) / Deficit (-)
EOP	1,424,22	2,248,692	(824,470)
UE	621,78	1,112,879	(491,094)
PE	321,32	360,161	(38,837)
MIBRAG	99,93	1,640,654	(1,540,720)
PT	249,12	186,194	62,929
Total	2,716,38	5,548,580	(2,732,258)

⁽¹⁾ One emissions allowance equals one ton.

⁽²⁾ Physical allocation for 2013 has not yet occurred, and is expected to occur in the first quarter of 2014.

Emissions allowances granted to EOP without payment for the year ended December 31, 2013 were lower than the number of emissions allowances required by 824,470, or 57.9%. Emissions allowances granted to UE without payment for the year ended December 31, 2013 were lower than the number of emissions allowances required by 491,094, or 79.0%. Emissions allowances granted to PE without payment for the year ended December 31, 2013 were lower than the number of emissions allowances required by PE by 38,837, or 12.1%. Emissions allowances granted to MIBRAG without payment for the year ended December 31, 2013 were lower than the number of emissions allowances required by 1,540,720, or by 93.9%. Emissions allowances granted to PT without payment for the year ended December 31, 2013 exceeded the emissions allowances consumed by PT by 62,929, or 25.3%. MIBRAG purchased the necessary emissions allowances to meet its shortfall based on forward contracts with an average purchase price of 6.67 €/ton (which was adjusted to reflect the effects of the purchase price allocation after the acquisition of the remaining 50% share of MIBRAG in June 2012). PE's shortfall in emissions allowances will be covered by emissions allowances PE had in reserves. UE will purchase emissions allowances in early 2014 to meet its shortfall based on forward contracts at an average purchase price of 9.5 €/ton. EOP purchased the necessary emissions allowances to meet its shortfall based on forward contracts with an average purchase price of 12.7 €/ton.

Contractual and other material financial obligations of the EPE Group

The table sets out our loans and borrowings as of December 31, 2012 and September 30, 2013.

	December 31, 2012	September 30, 2013
In CZK millions		
Loans payable to credit institutions	460	675
Loans payable to other than credit institutions	13,114	3,940
<i>of which owed to the parent company</i>	<i>12,664</i>	<i>58</i>
<i>of which owed to other related companies</i>	<i>—</i>	<i>3,882</i>
Bank overdraft.....	49	22
Notes	12,404	28,458
Liabilities from financial leases.....	6	5
Total	26,033	33,100
Non-current	16,436	32,295
<i>of which owed to the parent company</i>	<i>3,186</i>	<i>—</i>
<i>of which owed to other related companies</i>	<i>—</i>	<i>3,817</i>
Current	9,597	805
<i>of which owed to the parent company</i>	<i>9,478</i>	<i>58</i>
<i>of which owed to other related companies</i>	<i>—</i>	<i>65</i>
Total	26,033	33,100

Off-balance sheet arrangements of the EPE Group

The table below sets out EPE's financial commitments and contingencies as of December 31, 2012 and September 30, 2013.

	December 31, 2012	September 30, 2013
(in CZK millions)		
Granted pledges—securities ⁽¹⁾	42,670	41,576
Other contingent liabilities ⁽²⁾	40,075	59,034
Total	82,745	100,610

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

(2) Other contingent liabilities relate to pledged loans of CZK 41,812 million (December 31, 2012: CZK 24,838 million), pledged cash of CZK 4,164 million (December 31, 2012: CZK 3,001 million) and further pledges of CZK 13,058 million (December 31, 2012: CZK 12,236 million) that include pledged fixed assets of CZK 8,758 million (December 31, 2012: CZK 8,577 million), pledged inventories of CZK 620 million (December 31, 2012: CZK 329 million) and trade receivables of CZK 3,680 million (December 31, 2012: CZK 3,330 million); all were used as collateral for external financing. Total balance of pledged loans includes intercompany loans of CZK 31,723 million (December 31, 2012: CZK 11,048 million).

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 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 the EPE Group (the "Heating Transaction"), provided that the specified conditions will be met, inter alia, that the terms and conditions of the transaction will be agreed between the parties and the transaction will be approved by the respective corporate bodies of each relevant entity. If the Heating Transaction is not completed within the agreed period, EPH will use its best efforts to provide the Interested Party with a similar alternative asset (the "Alternative Transaction"). If the transaction is not completed by the extended deadline either, EPH will pay to the Interested Party compensation of approximately CZK 200 million.

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

EP Energy will loan €60 million to CE Energy, and EP Energy also expects that it will make further loans or distributions to CE Energy of approximately €90 million.

Quantitative and qualitative disclosures about market risk for the EPE Group

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

The following discussion and analysis only addresses our market risk and does not address other financial risks which we face in the normal course of business, including credit risk and liquidity risk.

Foreign exchange risk

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

Interest rate risk

Our operations are subject to the risk of interest rate fluctuations to the extent that interest-earning assets (including investments) and interest-bearing liabilities mature or re-price at different times or in different amounts. The length of time for which the interest rate is fixed on a financial instrument

indicates to what extent it exposes us to interest rate risk. We use interest rate swaps and other types of derivatives to reduce the amount of debt exposed to interest rate fluctuations and to reduce borrowing costs. These derivative contracts are normally agreed with a notional amount and maturity date lower than or equal to that of the underlying financial liability, so that any change in the fair value and/or expected future cash flows of these contracts is offset by a corresponding change in the fair value and/or the expected future cash flows from the underlying position.

Liquidity risk

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

Credit risk

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

Commodity risk

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

We manage the natural commodity risk connected with our electricity generation primarily by selling the power we expect to produce on an up to two-year forward basis. In addition, we purchase emission allowances on a forward basis.

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

We manage the commodity price risks associated with our proprietary trading activities by generally trading on a back-to-back basis, i.e., purchasing from the market where we have a customer in place to purchase the commodity. It is our trading policy not to maintain any large open positions. EPET's potential open positions in electricity and gas over any period of time are limited by an aggregate mark-to-market value of €5 million in electricity and €1 million in natural gas. Under the current SSE risk policy, exposure to market price risk in electricity and natural gas trading is set by the limits on open financial positions for each trading year and each market segment and by value-at-risk limits for a 12-month horizon (€400,000 for electricity and €300,000 for natural gas) and four-year (portfolio) horizon (€900,000 for electricity and €500,000 for natural gas).

Critical accounting policies of the EPE Group

The financial statements for the EPE Group, included elsewhere in this Report, are prepared in conformity with IFRS, which require us to make a number of estimates and assumptions. These estimates and assumptions affect the reported amounts of assets, liabilities, income and expenses, and the disclosure of contingent assets and liabilities. Estimates and assumptions may differ from actual future results. Our significant accounting policies are set out in full in Note 3 to EPE's consolidated audited financial statements for the years ended December 31, 2010, 2011 and 2012. Please also see Notes 2(b) and 2(c) to EPE's consolidated financial statements for the nine months ended September 30, 2013 for information on changes in accounting policies.

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

New debt facilities

SSE Acquisition Credit Facility

Overview

On October 23, 2013, EPH Financing II, a.s., ("EPH Fin II") then a subsidiary of EPH and not a part of the EPE Group, entered into a senior term facilities agreement (as amended, supplemented or modified from time to time, the "SSE Acquisition Credit Facility Agreement") among, *inter alios*, EP Fin II as borrower, UniCredit Bank AG, London Branch as agent and security agent, and the mandated lead arrangers party thereto, under which EPH Fin II borrowed €240,000,000 for the purpose of acquiring a 49% interest in SSE from E.D.F. International (the "SSE Acquisition"). On December 16, 2013, EPH Fin II was contributed to EP Energy, and on December 19, 2013, EPH Fin II became a guarantor of the 2019 Notes and the 2018 Notes and from that date the SSE Acquisition Credit Facility ranks *pari passu* with the 2019 Notes and the 2018 Notes with the same security and guarantees (the "Recollateralization Date").

The SSE Acquisition Credit Facility Agreement provides for two term loan facilities, one amortizing in an amount of up to €100 million ("Facility A") and one non-amortizing in an amount up to €140 million ("Facility B").

A commitment fee is payable on the available but unused amount of each facility, calculated as a percentage rate per annum equal to 35% of the margin applicable to that facility. The accrued commitment fee is payable on the later of the closing date of the SSE Acquisition and the first facility utilization date. Arrangement and agency fees are also payable pursuant to the SSE Acquisition Credit Facility Agreement.

Ranking

The SSE Acquisition Credit Facility ranks *pari passu* with the 2019 Notes and the 2018 Notes and any future *pari passu* indebtedness.

Interest

The interest rate under the SSE Acquisition Credit Facility is EURIBOR, *plus* mandatory costs and a margin initially set at 2.20% per annum for the first six months from the date of the agreement. After six months from the date of the agreement and after certain conditions have been met, including that the Recollateralization Date has occurred, the margin will be reviewed quarterly and will be set based on the leverage ratio of the EPE Group, with a minimum margin of 1.95% and a maximum margin of 3.25%. Because the Recollateralization Date has occurred, after six months the margin will be based on the leverage ratio of the EPE Group.

Maturity

Facility A is amortizing and is payable in installments of €16,700,000 on September 30 of each of 2014, 2015, 2016, 2017 and 2018. Facility A will terminate and a final installment of €16,500,000 is due on the date 72 months from the date of the agreement (the “Termination Date”). Facility B will terminate and be repayable in full on the Termination Date.

Guarantees and security

The SSE Acquisition Credit Facility is jointly and severally guaranteed on a senior secured basis by the Existing Notes Guarantors and EP Energy.

The SSE Acquisition Credit Facility and the related guarantees are secured by first ranking liens on the same assets that secure the 2019 Notes and the 2018 Notes (or, in the case of certain assets granted under German law, junior-ranking liens behind those that secure the 2019 Notes and the 2018 Notes, but are treated as *pari passu* under the intercreditor agreement that governs the relationship between the creditors under such debt).

Prepayment

The SSE Acquisition Credit Facility Agreement allows for voluntary prepayments, and will require mandatory prepayment in full or in part, in certain circumstances. These include (*inter alia*):

- the sale of all or substantially all assets of the group; and
- a change of control, *i.e.*, (i) a person or a group of affiliate persons acting in concert gains direct or indirect control of EP Energy or become, directly or indirectly, in aggregate beneficial holders of such a portion of the issued share capital of EP Energy which is greater than the portion of the issued share capital of EP Energy in aggregate beneficially held, directly or indirectly, by Petr Kellner, Daniel Křetínský, Patrik Tkáč, PPF Group N.V., J&T FINANCE GROUP, a.s. and/or any entity controlled by such persons (solely or jointly with other such persons) (together, the “Permitted Holders”), (ii) the majority of directors (or any equivalent officers of EP Energy) are not appointed or nominated, directly or indirectly, by the Permitted Holders or (iii) EPH Fin II ceases to be a wholly-owned subsidiary of EP Energy without prior consent of the majority lenders (subject to certain conditions), in each case subject to certain exceptions.

Covenants, representations and warranties and events of default

The SSE Acquisition Credit Facility Agreement contains representations and warranties and undertakings common to facilities of this type and includes customary operating and financial covenants, subject to certain agreed exceptions, including covenants that restrict the ability of EPH Fin II, each guarantor and each Material Company (as defined in the SSE Acquisition Credit Facility Agreement) to:

- create or permit to subsist any security interests over their assets;
- sell or dispose of their assets;
- substantially change the general nature of their business;
- merge with other companies;
- make or permit to subsist any loans or grant credit;
- engage in certain transactions on a non-arm’s-length basis;
- incur or have outstanding certain borrowings, financial indebtedness, guarantees, loans or treasury transactions;
- make certain acquisitions or investments, including certain joint ventures;

- declare or pay certain dividends or make certain other distributions to shareholders or share redemptions;
- repay or prepay, pay any interest or discharge the shareholder loans granted to EPH Fin II by EPH (the receivable for which was transferred to EP Energy) for the purpose of the SSE Acquisition; and
- make variations to the shareholder agreement between EPH Fin II and the majority shareholder of SSE or to the documentation governing the SSE Acquisition.

In each case these restrictions are subject to exceptions, some of which may be material.

The EPE Group's financial and operating performance is monitored by a financial covenant package that requires it to maintain the following ratios: (i) operating cash flow to debt service of not less than 1.10 to 1, (ii) total senior secured net debt to EBITDA of no greater than 3.25 to 1 and (iii) total net debt to EBITDA of no greater than 3.50 to 1, each in accordance with formulae set out in the SSE Acquisition Credit Facility Agreement.

The SSE Acquisition Credit Facility Agreement contains customary events of default (in relation to (variously) EPH Fin II, each guarantor and each Material Company including, among other things, non-payment, breach of financial covenants or other obligations set forth in the SSE Acquisition Credit Facility Agreement, misrepresentation in respect of a representation or statement made in the SSE Acquisition Credit Facility finance documents, unlawfulness or repudiation of obligations, certain insolvency, winding-up and related events, and cross default in relation to certain indebtedness not being paid when due or becoming due and payable before its specified maturity, the occurrence of each of which (subject to certain grace periods, *de minimis* thresholds and other exceptions) would allow the majority lenders under the SSE Acquisition Credit Facility to accelerate all outstanding loans and terminate their commitments under SSE Acquisition Credit Facility.

SSE-Solar—TB Loan Agreement

The following is a summary of the Loan Agreement dated August 17, 2010, between the company SSE-Solar, s.r.o. (a subsidiary of the SSE) as a borrower (the "SSE-Solar") and Tatra banka, akciová spoločnosť, an affiliate of the Raiffeisen Zentral Bank Group (the "Tatrabanka"), as a lender (the "SSE-Solar Loan Agreement").

The SSE-Solar Loan Agreement provides for a loan (the "SSE-Solar Loan") in the amount of €24,000,000 for the purpose of financing SSE-Solar's investment activities. The SSE-Solar Loan has been fully drawn down, and as of December 31, 2013, €16,800,000 of the principal amount of the loan was outstanding.

Interest

The interest rate under the SSE-Solar Loan Agreement is three-month EURIBOR plus 0.95% per annum payable in arrears every three months during the Drawing Period (as defined in the SSE-Solar Loan Agreement) and subsequently 2.60% per annum plus 0.95% per annum, both payable in arrears every three months.

Maturity

The SSE-Solar Loan matures on December 31, 2020.

Guarantees and security

The SSE-Solar Loan is secured by the Guarantee Agreement dated August 17, 2010 between Stredoslovenská energetika, a.s. as a guarantor and the Tatrabanka as a beneficiary, under which Stredoslovenská energetika, a.s. as a parent company of SSE-Solar agreed that in the event of the

SSE-Solar failing to fulfill its obligations under the SSE-Solar Loan Agreement, Stredoslovenská energetika, a.s. will satisfy Tatrabanka's claims in accordance with the SSE-Solar Loan Agreement.

Prepayment

The SSE-Solar Loan allows for voluntary prepayment of the loans in full with a lender's prior approval and in accordance with conditions set by the lender. Mandatory prepayment of the SSE-Solar Loan is required upon the occurrence of an event of default under the SSE-Solar Loan Agreement.

Covenants, representations and warranties and events of default

The SSE-Solar Loan Agreement contains representations and warranties and undertakings common to loans of this type and includes, among others, subject to certain exceptions, covenants that restrict the borrower's ability, without prior written consent of the lender, to:

- sell or dispose of its assets;
- sell or dispose of all or a part of the borrower's enterprise (this also applies in relation to the guarantor's enterprise);
- create any encumbrances over its assets;
- use alternative forms of financing;
- acquire financial indebtedness that would potentially be detrimental to the repayment of SSE Solar Term Loan Facility;
- merge with other companies;
- carry out payments using bank accounts in other banks.

Further, the SSE-Solar Loan Agreement contains covenants that, *inter alia*, require the borrower to maintain the entire turnover using bank accounts opened with the lender.

The SSE-Solar Loan Agreement contains customary events of default, including, *inter alia*, non-payment, insolvency, breach of certain obligations set forth in the SSE-Solar Loan Agreement, breach of certain obligations set forth in the Guarantee Agreement, misrepresentation of a representation or warranty, cross default, change of control without the consent of the lender, change in personnel in the borrower's bodies without the consent of the lender, unlawfulness, a worsening of the financial rating of Electricité de France (EDF) by Moody's Investor Service or a material adverse effect.

Occurrence of an event of default under the SSE-Solar Loan Agreement would allow the lender to accelerate SSE-Solar Loan and terminate its commitments.

SSE—SLSP Loan Agreement

The following is a summary of the Loan Agreement dated July 25, 2013 between Stredoslovenská energetika, a.s. ("SSE") as a borrower and Slovenská sporiteľňa (the "SLSP") as a lender (the "SSE SLSP Loan Agreement").

The SSE SLSP Loan Agreement provides for a loan (the "SSE SLSP Loan") in the amount of €25,000,000 for the purpose of financing of SSE's operational and investment needs. The SSE SLSP Loan has been fully drawn down, as of December 31, 2013, €25,000,000 of the principal amount of the loan was outstanding.

Interest

The interest rate under the SSE SLSP Loan Agreement is 2.25% per annum, payable quarterly in arrears.

Maturity

The SSE SLSP Loan matures on June 30, 2023.

Guarantees and security

The SSE SLSP Loan is neither guaranteed nor secured.

Prepayment

The SSE SLSP Loan allows for voluntary prepayment only with a lender's prior approval and with the payment of the breakage costs by the borrower.

Pursuant to the SSE SLSP Loan Agreement, the SSE SLSP Loan is subject to mandatory prepayment upon the request of the lender in the event of default of the Stredoslovenská energetika, a.s. as defined in SSE SLSP Loan Agreement. A change of control without the lender's prior approval other than the acquisition of SSE by the EPH group shall be deemed to be an event of default.

Covenants, representations and warranties and events of default

The SSE SLSP Loan Agreement contains representations and warranties and undertakings common to loans of this type and includes customary operating and financial covenants, subject to certain exceptions, including, among others, covenants that restrict the borrower's ability, without prior written consent of the lender, to:

- create any encumbrances over its assets the value of which exceeds €10,000,000;
- sell or dispose of its assets the value of which exceeds €10,000,000;
- make or receive any loans other than intra-group loans;

Further, the SSE SLSP Loan Agreement contains covenants that, *inter alia*,:

- require the borrower to maintain turnover on the bank accounts kept with other financing banks in a specified ratio to the provided amount of financing;
- require the borrower to maintain a *pari passu* ranking between the obligations under the SSE SLSP Loan Agreement and any other unsecured obligations except for obligations for which prior satisfaction is required by law.

The borrower's financial and operating performance will be monitored by two financial covenants, which require the borrower to maintain an equity ratio (as defined in the SSE SLSP Loan Agreement) of less than or equal to 60% and net debt to EBITDA ratio of less than or equal to 3.5. Both covenants are more fully described in the SSE SLSP Agreement and are tested annually.

The SSE SLSP Loan Agreement contains customary events of default, including, *inter alia*, non-payment, breach of other obligations of the borrower set forth in the SSE SLSP Loan Agreement, breach of a representation or warranty, cross default, insolvency, material adverse effect to the borrower or change of control without the prior lender's approval. Occurrence of an event of default under the SSE SLSP Loan Agreement would allow the lender to accelerate the SSE SLSP Loan and terminate its commitments.

SSE Project Development—KB Loan Agreement

The following is a summary of the Investment Loan Agreement dated June 23, 2008 between Stredoslovenská energetika—Project Development, s.r.o. as a borrower and Komerční banka, a.s. (acting through its organizational unit in Slovak Republic) (the "KB") as a lender (the "SSE Project

Development KB Loan Agreement”) as amended by the Amendments No. 1 dated December 22, 2009, the Amendment No. 2 dated November 30, 2010 and the Amendment No. 3 dated October 31, 2011.

The SSE Project Development KB Loan Agreement provides for a loan (the “SSE Project Development KB Loan”) in the amount of €21,600,000 for the purpose of financing of 80% of the costs related to the construction of a gas-fired power plant. The SSE Project Development KB Loan has been fully drawn down and as of December 31, 2013, €10,800,000 of the principal amount of the loan was outstanding.

Interest

The interest rate under the SSE Project Development KB Loan Agreement is one-month Euribor plus 0.75% per annum until June 30, 2010 and after June 30, 2010, a fixed rate of 5.16% per annum payable quarterly in arrears.

Maturity

The SSE Project Development KB Loan matures on December 29, 2017.

Guarantees and security

The SSE Project Development KB Loan is secured by a guarantee undertaking of Stredoslovenská energetika, a.s.

Prepayment

The SSE Project Development KB Loan allows for voluntary prepayment upon the 30 days prior notice, and the lender is entitled to the loss profit incurred by the lender due to the prepayment.

The SSE Project Development KB Loan is mandatorily prepayable upon the request of the lender upon an event of default under SSE Project Development KB Loan Agreement. Change of control without the prior lender’s approval shall constitute an event of default under the SSE Project Development KB Loan Agreement.

Covenants, representations and warranties and events of default

The SSE Project Development KB Loan Agreement contains basic representations and warranties and undertakings common to loans of this type and includes customary operating and financial covenants, subject to certain exceptions, including covenants that restrict the borrower’s ability, without prior written consent of the lender, to:

- create any encumbrances over its assets or provide any security with respect to its assets;
- sell or dispose of its property the value of which exceeds €50,000;
- make or receive any loans other than loans with Stredoslovenská energetika, a.s.;
- merge with other companies or divide.

and covenants, among others, that :

- require the borrower to maintain a *pari passu* ranking between the obligations under the SSE Project Development KB Loan Agreement and any other obligations;
- restrict the borrower from entering into intragroup contracts except on arm’s length terms;
- restrict the guarantor’s ability to sell any shares in the borrower; and
- restrict the guarantor’s ability to decrease its shareholding in Stredoslovenska energetika—Distribucia, a.s. and Stredoslovenska energetika—Vyroba, a.s. below 51%.

The borrower's financial and operating performance will be monitored by three financial covenants, which require the borrower to maintain a debt coverage ratio of greater than 1.1, a ratio of short-term receivables to short-term payables of greater than 1.0 and a ratio of liabilities over the sum of equity and liabilities to be less than 90%. All of the covenants are more fully described in the SSE KB Agreement and are tested quarterly.

The SSE Project Development KB Loan Agreement contains customary events of default, including, inter alia, non-payment, breach of other obligations set forth in the SSE Project Development KB Loan Agreement, insolvency, misrepresentation of a representation or warranty, cross default, material adverse effect, breach of the guarantor's obligations, repudiation of a finance document, decrease of the registered capital without the prior lender's approval or change of control without the prior lender's approval. Occurrence of an event of default under the SSE Project Development KB Loan Agreement would allow the lender to accelerate SSE Project Development KB Loan and terminate its commitments.

In addition, SSE has other committed loans of €23,000,000, with €17,750,000 outstanding. In October, PT entered into two facilities, each in an amount up to CZK 200 million.

Attachments:

Unaudited condensed consolidated interim statement of comprehensive income for the period from 1 July to 30 September 2013

Unaudited condensed consolidated interim statement of cash flows for the period from 1 July to 30 September 2013

Attachments that are available at <http://www.epenergy.cz/en/investors-2/reports/year2013/>

EP Energy, a.s. - Unaudited Condensed Consolidated Interim Financial Statements as of and for the nine-month period ended 30 September 2013 are presented in separate files as attachments to this report.

EP Energy, a.s. - Unaudited Pro Forma Consolidated Financial Statements as of and for the nine months ended September 30, 2012, the nine months ended September 30, 2013, the year ended December 31, 2012 and the twelve-month period ended 30 September 2013 are presented in separate files as attachments to this report.

Stredoslovenská energetika, a.s. - Unaudited Condensed Consolidated Interim Financial Statements as of and for the nine-month period ended 30 September 2013 are presented in separate files as attachments to this report.

Stredoslovenská energetika, a.s. - Consolidated Financial Statements as of and for the year ended December 31, 2012 are presented in separate files as attachments to this report.

EP Energy, a.s.
Unaudited condensed consolidated interim statement of
comprehensive income

For the period from 1 July to 30 September 2013

In millions of CZK ("MCZK")

	1 July to 30 September 2013	1 July to 30 September 2012
Sales: Energy	9 083	9 087
<i>of which: Electricity</i>	5 713	5 805
<i>Heat</i>	669	593
<i>Gas</i>	788	508
<i>Coal</i>	1 913	2 233
<i>Other energy products</i>	-	(52)
Sales: Other	560	592
Total sales	9 643	9 679
	-	-
Cost of sales: Energy	(6 128)	(6 366)
Cost of sales: Other	(151)	224
Cost of sales	(6 279)	(6 142)
	-	-
Gross profit	3 364	3 537
	-	-
Personnel expenses	(1 124)	(1 112)
Depreciation and amortization	(1 351)	(1 698)
Repairs and maintenance	(95)	(57)
Emission rights, net	(308)	181
Negative goodwill	-	472
Taxes and charges	(54)	(109)
Other operating income	533	271
Other operating expenses	(767)	(817)
Profit/(loss) from operations	198	668
	-	-
Finance income	123	87
Finance expense	(463)	(418)
Profit/(loss) from financial instruments	(92)	(41)
	-	-
Net finance income/(expense)	(432)	(372)
	-	-
Share of profit of equity accounted investees, net of tax	34	1
Gain/(loss) on disposal of subsidiaries, special purpose entities, joint ventures and associates	5	-
	-	-
Profit/(loss) before income tax	(195)	297
	-	-
Income tax expenses	9	112
Profit/(loss) for the period	(186)	409

EP Energy, a.s.
Unaudited condensed consolidated interim statement of
cash flows

For the period from 1 July to 30 September 2013

In millions of CZK ("MCZK")

	1 July to 30 September 2013	1 July to 30 September 2012
OPERATING ACTIVITIES		
Profit (loss) for the period	(186)	409
<i>Adjustments for:</i>		
Income taxes	(9)	(112)
Depreciation and amortization	1 351	1 698
Dividend income	-	24
Impairment losses on property, plant and equipment and intangible assets	52	10
Gain/Loss on disposal of property, plant and equipment, investment property and intangible assets	44	38
Gain / Loss on disposal of inventories	(3)	(2)
Emission rights	308	(181)
Gain on disposal of subsidiaries, special purpose entities, joint ventures, associates and non-controlling interests	(5)	-
Share of profit of equity accounted investees	(34)	(1)
Gain / Loss on financial instruments	92	41
Net interest expense	387	324
Change in allowance for impairment to trade receivables and other assets, write-offs	24	-
Change in provisions	(34)	295
Negative goodwill	-	(472)
Unrealized foreign exchange gains/(losses), net	(766)	139
Operating profit before changes in working capital	<u>1 221</u>	<u>2 210</u>
Change in financial instruments not at fair value	28	(3 180)
Change in trade receivables and other assets	(212)	402
Change in inventories (including proceeds from sale)	(337)	(141)
Change in extracted minerals and mineral products	(32)	(3)
Change in assets held for sale and related liabilities	-	186
Change in trade payables and other liabilities	369	(3 775)
Cash generated from (used in) operations	<u>1 037</u>	<u>(4 301)</u>
Interest paid	(118)	(624)
Income taxes paid	(218)	(91)
Cash flows generated from (used in) operating activities	<u>701</u>	<u>(5 016)</u>
INVESTING ACTIVITIES		
Received dividends	-	-
Proceeds from sale of financial instruments - derivatives	(3)	(49)
Acquisition of property, plant and equipment, investment property and intangible assets	(786)	(805)
Purchase of emission rights	(45)	33
Proceeds from sale of emission rights	-	212
Proceeds from sale of property, plant and equipment, investment property and other intangible assets	(8)	(8)
Proceeds from sale of inventories	-	-
Acquisition of subsidiaries and special purpose entities, net of cash acquired	-	(1 517)
Net cash (outflow)/ inflow from disposal of subsidiaries and special purpose entities including received dividends	-	933
Increase in participation in existing subsidiaries and special purpose entities	(188)	-
Proceeds from sale of participations with significant influence	6	-
Interest received	(12)	19
Cash flows from (used in) investing activities	<u>(1 036)</u>	<u>(1 182)</u>

FINANCING ACTIVITIES

Proceeds from issue of share capital	30	-
Proceeds from loans received	(3 521)	1 460
Repayment of borrowings	4 815	(1 308)
Proceeds from bonds issued (FX effect)	(605)	-
Payment of finance lease liabilities	-	-
Dividends paid	-	1
Cash flows from (used in) financing activities	<u>719</u>	<u>153</u>
<i>Net increase (decrease) in cash and cash equivalents</i>	<i>384</i>	<i>(6 045)</i>
Cash and cash equivalents at beginning of the period	-	-
Effect of exchange rate fluctuations on cash held	25	(24)
Cash and cash equivalents at end of the period	<u>409</u>	<u>(6 069)</u>