# Report on the first quarter of the year 2018 for EP Energy, a.s.

- ✓ Consolidated sales reached EUR 520 million
- ✓ Consolidated EBITDA totaled EUR 117 million
- ✓ Consolidated pro forma adjusted EBITDA for last twelve months amounted to EUR 366 million
- ✓ Indicative Net Consolidated Leverage Ratio amounted to 1.9x
- ✓ On May 1, 2018, EP Energy repaid EUR 598 million of bonds

EP Energy, a.s. (”group” or “Group” or “EPE” or “EPE Group“) is a vertically integrated energy utility that includes 56[1] companies. In 2018 the Group was the leading heat supplier in the Czech Republic, one of major power generators in the Czech Republic and the second largest electricity distributor in Slovakia. The Group benefits from relatively low exposure to market developments, as a significant majority of EBITDA is generated by regulated assets or assets with long term off take contracts. The Group’s key operations are located in the Czech Republic, Slovak Republic and Hungary.

[1] Number as at date of the report

## KEY FIGURES AT A GLANCE

### Consolidated financial results in EUR millions

| | 1-3 2017 | 1-3 2018 |
|---|---|---|
| Sales | 543 | 520 |
| EBITDA[1] | 141 | 117 |
| Pro forma Adjusted EBITDA (last twelve months)[2] | | 366 |
| Total net debt per financial statements[3] | | 689 |
| Indicative EP Energy Net Consolidated Leverage Ratio [4] | | 1.9x |
| Profit from operations | 106 | 83 |
| Profit before tax | 93 | 71 |
| Net profit /(loss) attrib. to EP Energy owners | 49 | 39 |
| Total assets | | 2,610 |
| CAPEX[5] | 8 | 10 |

### Operating highlights (EPE excluding SSE)[6]

| | 1-3 2017 | 1-3 2018 |
|---|---|---|
| Installed *cogeneration* Capacity..... $MW_e$ | 894 | 894 |
| Installed *condensation* Capacity .... $MW_e$ | 360 | 360 |
| Installed heat capacity[7] ..... $MW_{th}$ | 3,276 | 3,323 |
| Heat supplied ..... TJ[8] | 9,837 | 9,933 |
| Power produced..... GWh | 1,558 | 1,460 |
| Power traded[9] ..... GWh | 980 | 1,180 |
| Power supplied[9] ..... GWh | 532 | 614 |
| Natural gas supplied[9] ..... GWh | 848 | 832 |

### Operating highlights SSE[6,9]

| | 1-3 2017 | 1-3 2018 |
|---|---|---|
| Power distributed ..... GWh | 1,742 | 1,758 |
| Power traded ..... GWh | 1,689 | 1,703 |
| Power supplied ..... GWh | 1,105 | 1,130 |
| Natural gas supplied ..... GWh | 150 | 180 |
| Power produced ..... GWh | 4 | 3 |
| Installed capacity ..... $MW_e$ | 63 | 63 |

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

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

| | 4/2017 – 3/2018 |
|---|---|
| Actual IFRS EBITDA for the period January – March 2018 | 117 |
| Actual IFRS EBITDA for the period January – December 2017 | 380 |
| Actual IFRS EBITDA for the period January – March 2017 | (141) |
| **Simple EBITDA (last twelve months)** | **356** |
| Add back one-off impairment of Goodwill and PPE | 10 |
| **Pro forma Adjusted EBITDA (last twelve months)** | **366** |

*Amounts might not sum up due to rounding

To derive Pro forma Adjusted EBITDA for the period from April 1, 2017 to March 31, 2018, EPE utilized EPE Group IFRS consolidated financial statements as of and for the year ended December 31, 2017 (EBITDA of EUR 380 million) and EPE Group IFRS condensed consolidated interim financial statements as of and for the three-month period ended March 31, 2018 (EBITDA of EUR 117 million) with the three-month period ended March 31, 2017 (EBITDA of EUR 141 million) as comparatives.

Pro forma Adjusted EBITDA represents pro forma profit from operations plus pro forma depreciation of property, plant and equipment and pro forma amortization of intangible assets minus pro forma negative goodwill (if applicable) further adjusted to exclude one-off impairment of Goodwill and PPE recorded in March 2018 as a result of adjusting subsequent event (EBITDA effect of EUR 10 million).

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

(3) Total net debt balance is based on the consolidated financial statements (Total Loans and borrowings plus Total Financial instruments and financial liabilities less Cash and cash equivalents). The Total net debt included in this report does not represent the term Indebtedness as may be defined by any documentation for any financial liabilities of the EPE Group.

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

| | | 31.3.2018 |
|---|---|---|
| Loans and borrowings (non-current) | *add* | 515 |
| Financial instruments and financial liabilities (non-current) | *add* | 9 |
| Loans and borrowings (current) | *add* | 628 |
| Financial instruments and financial liabilities (current) | *add* | 6 |
| Cash and cash equivalents | *less* | 469 |
| **Net Debt** | | **689** |

(4) We include in this report the calculation of our "Indicative Net Consolidated Leverage Ratio" as of March 31, 2018, as defined in the EP Energy Indentures. The calculation of our Net Consolidated Leverage Ratio differs from any leverage ratio included in the offering memoranda for the senior secured notes or otherwise included herein, and consistent with the definition, is made on the basis of certain good faith judgments made by us.

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

(6) The operating data is based on the results of the respective entities on a 100% basis for the full period, regardless of the date when each entity joined the EPE Group or the ownership share of the EPE Group in each entity, however the data excludes SSE which is presented separately.

(7) Installed heat capacity on heat exchangers.

(8) 1 TJ = 0.2778 GWh.

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

## CONTENT:



**Attachments:**

EP Energy, a.s. - Unaudited condensed consolidated interim financial statements as of and for the three-month period ended March 31, 2018 are presented in a separate file as an attachment to this report

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

Dear investors, customers and partners,

In the first quarter 2018, the EP Energy Group achieved **revenues of EUR 520 million**, with **EBITDA reaching EUR 117 million.** Results and performance of EP Energy in first quarter 2018 were impacted by accounting for compensation of losses stemming from subsidies paid by the SSE Group to renewable energy producers and by one-off non-cash impairment of assets recorded by one of subsidiaries.

The *Heat Infra* segment generated in first quarter 2018 **revenues of EUR 221 million, with EBITDA of EUR 67 million**, down by EUR 9 million compared to the same period of previous year. However, excluding one-off effect of impairment booked in 2018 and profit from sale of unused land in 2017, the result of segment was up by EUR 7 million. Better result of Heat Infra core business was driven by higher heat offtakes due to favorable weather conditions and increasing prices of electricity.

EP Energy has remained the largest heat supplier to final consumers in the Czech Republic and one of the largest domestic electricity producers.

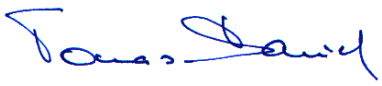
The *Power Distribution and Supply* segment reached **revenues of EUR 348 million** and **EBITDA of EUR 49 million**, down by EUR 15 million period-to-period, reflecting the negative effect of accounting for compensation of losses reported by the SSE Group due to subsidies paid by SSE Group to renewable energy producers, which are refunded to the SSE Group with a delay. The segment core business improved by EUR 4 million as consequence of better performance.

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

Let me also point out that on May 1, 2018, EP Energy repaid EUR 598 million of bonds. Repayment was funded by a combination of an intercompany loan from the parent company (EUR 250 million) and by own cash (EUR 348 million).

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

Yours faithfully,



Tomáš David
*Chairman of the Board and CEO*

## Economy and Market developments

**Economy development:**

According to the preliminary estimates of the Czech Statistical Office, the Czech gross domestic product adjusted for price, seasonal, and calendar effects increased by 4.5%, year-on-year, in the first quarter 2018 and rose by 0.5% in the first quarter 2018 compared to the previous quarter. The GDP growth in the first quarter 2018 was driven solely by an increasing domestic demand. An important increase in expenditure of households continued as well as investment expenditure of companies.

According to preliminary estimates of the Slovak Statistical Office, the Slovak gross domestic product adjusted for price, seasonal, and calendar effects rose by 3.6%, year-on-year, in the first quarter 2018 and increased by 0.9% in the first quarter 2018 compared to the previous quarter.

According to preliminary estimates of the Hungarian Central Statistical Office, the Hungarian gross domestic product adjusted for price, seasonal, and calendar effects rose by 4.7%, year-on-year, in the first quarter 2018 and increased by 1.2% in the first quarter 2018 compared to the previous quarter.

The outlook for the economy development remains rather positive - according to the Czech National Bank[2], the Czech GDP should increase by 3.9% in 2018 and the International Monetary Fund (also "IMF") expects[3] the Slovak GDP by 4.0% and Hungarian GDP should increase by 3.8% in 2018.

**Weather:**

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

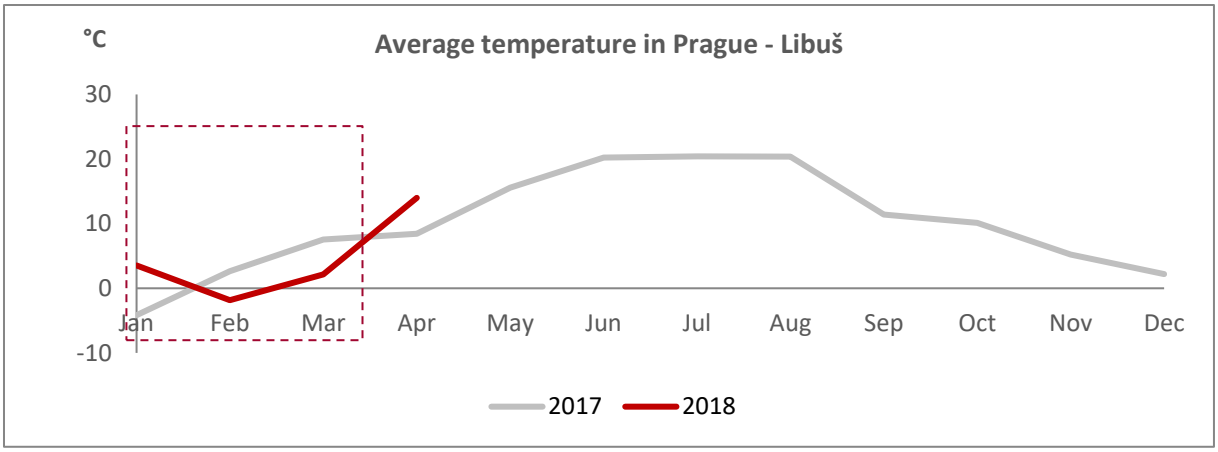
From the heating business perspective, the first quarter of the year 2018 was colder than the comparative period. Day-degrees, the metrics representing space heating needs during the given period[4], were in the areas in the Czech Republic and Hungary where we deliver heat year-on-year 2.3% higher, which translated into higher heat consumption.

For illustration, in Prague, where we deliver heat through our subsidiary PT, average temperature in the first quarter 2018 was at 1.3 °C, which is lower than 2.0 °C in the first quarter 2017.

[2] the most recent forecast published on May 3, 2018

[3] the most recent forecast published on April 9, 2018

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




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

**Heat market:**

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

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

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

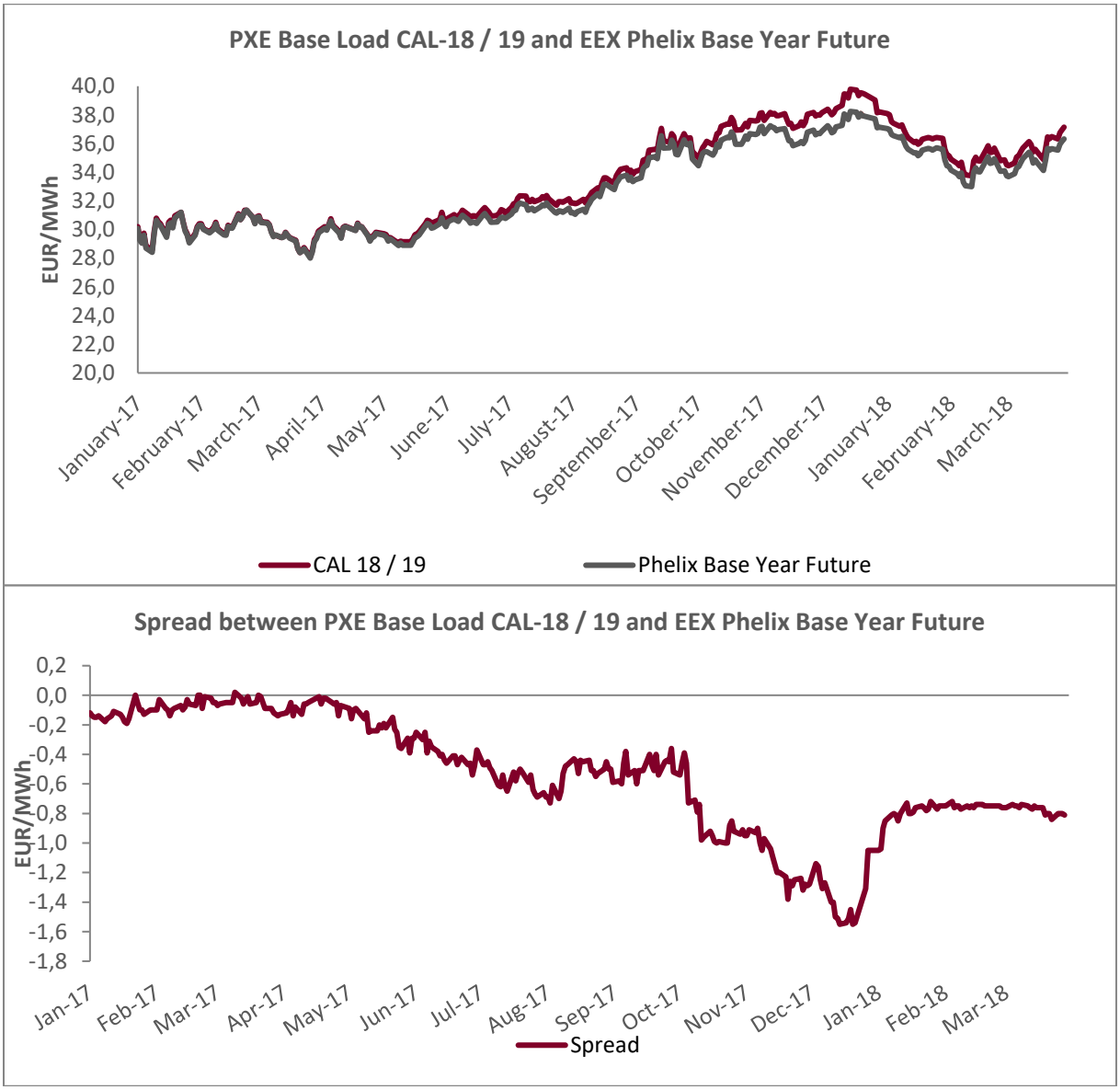
**Electricity and CO2 market:**

During the entire year 2017 power and EU Allowance ("EUA") prices remained under pressure due to low prices of hard coal driven by volume of Chinese imports and increasing subsidised renewable energy production, while power demand was rather stagnating. On the other hand, power prices in 2017 were positively influenced by temporary extensive closure of French nuclear reactors over safety and routine maintenance and substantial increase in hard coal prices. In the first quarter 2018 the 1-year forward electricity prices on the European Energy Exchange (also "EEX") increased in base load to EUR 35.0 per MWh (compared to EUR 29.9 per MWh year ago) and peak load increased to EUR 43.7 per MWh (compared to EUR 37.9 per MWh year ago), representing an increase for the base load and peak load prices of 17.1% and 15.3% respectively.[5]

[5] Source: Thomson Reuters: EEX Base Year Future and Peak Year Future (simple average of the daily price for 1 year forward prices calculated for the respective year)

EUA with spot delivery was traded at average around EUR 9.8 per ton in the first quarter 2018[6], which represents increase of the y-t-y prices by 89.1%.

As for the Czech market, the power prices follow the German market, as the two markets are physically well interconnected. The spread between German and Czech power prices was oscillating between negative 1.6 and positive 0.1 EUR/MWh during 2017 and oscillating around negative 0.8 EUR/MWh during the first quarter 2018. Negative spread (i.e. relative drop in German power prices compared to Czech power price), which can be observed recently after years of rather positive spread, is a consequence of intensified production in German offshore wind farms. Overall, the low spreads encourage cross border trading and, vice versa, the liquidity of the Czech market increases.

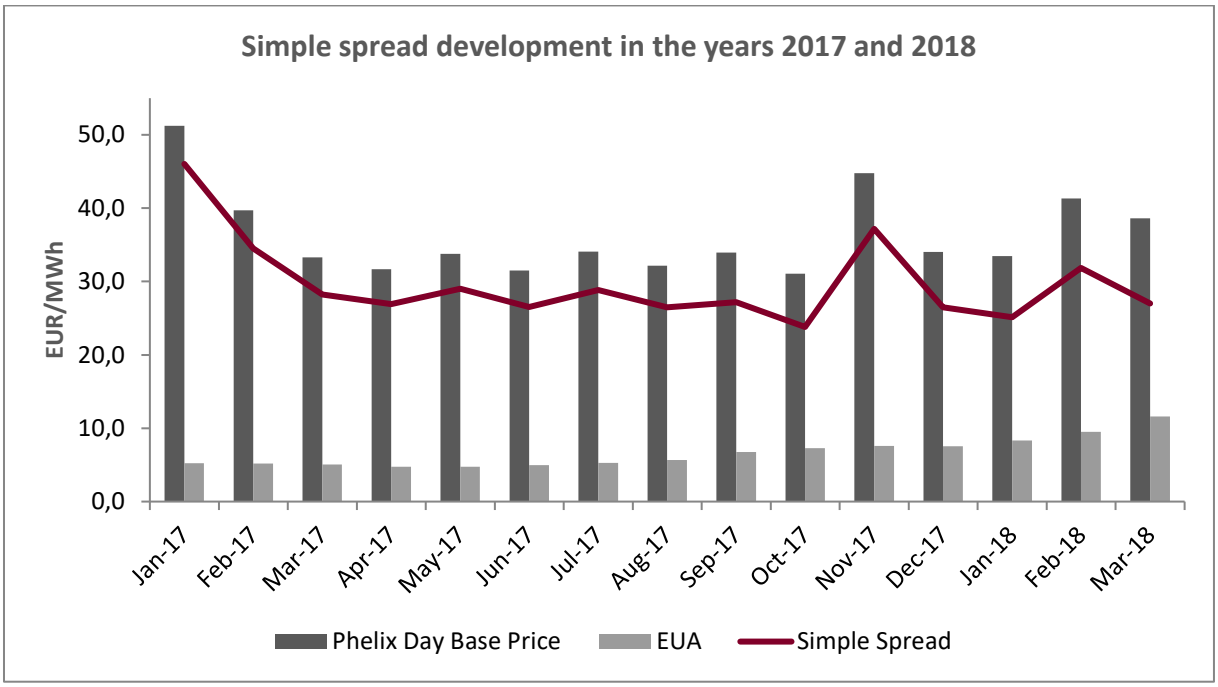



Source: PXE Base Load CAL18 and CAL19; EEX Phelix Base Year Future

[6]Source: Thomson Reuters: EEX-EUSP3-SPOT, simple average

On the Czech market, electricity production from cogenerating units benefits from regulatory support. The CZK 200[7] is received as subsidy for each MWh produced in highly efficient cogeneration mode. This subsidy accounted for EUR 2 million in the first quarter 2018 and in the first quarter 2017.

Besides relatively low share of power production on EBITDA and cash flow generation of the EPE Group, let us note that from the historical (and future) performance perspective in condensation-only part of power generation, EPE is exposed to the development of clean lignite spread (difference between power price and cost of fuel and corresponding amount of EUAs).




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

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

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

## Key developments in the first quarter of 2018

In January 2018 EP Energy settled deferred consideration of EUR 3 million related to acquisition of Budapesti Erömü Zrt. in 2015.

In January 2018 PT Real Estate, a.s. sold its 100% share in Pod Juliskou, a.s. for EUR 3 million.

In March 2018 the Group recognized one-off non-cash impairment of EUR 3 million to Goodwill and of EUR 7 million to PPE recorded by Plzeňská energetická based on the independent valuation made for purpose of a Share purchase agreement on sale of 100% PE´s share (see Subsequent events).

## Subsequent events

On 5 April 2018, EP Energy, a.s. ("the Company") granted a loan to VTE Pchery, s.r.o. that used the funds to repay its bank loan of EUR 2 million.

On 1 May 2018, the Company redeemed the bonds issued in 2013 in their principal amount of EUR 598 million using combination of own resources of EUR 348 million and a loan from parent company amounting to EUR 250 million.

On 9 May 2018, the Company signed a Share purchase agreement with its parent company, EP Infrastructure, a.s., ("EPIF") on sale of 100% shares in Plzeňská energetika, a.s. ("PE") for a consideration of EUR 41 million (CZK 1,058 million). The purchase price was ascertained by an independent valuation expert. As a result of the sale, PE ceases to be a guarantor of Company's 2019 Notes. Purchase price was settled on 10 May 2018 in cash and cash proceeds shall be used in compliance with the Indenture.

Except for the matters described above and elsewhere in the Report on the first quarter of the year 2018 for EP Energy, a.s. or in the condensed consolidated interim financial statements as of March 31, 2018, the Company's management is not aware of any other material subsequent events that could have a significant effect on the condensed consolidated interim financial statements as of March 31, 2018.

# EP Energy, a.s. (the "Company") Report on the first quarter of 2018

## Reporting

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

**Presentation of financial information**

This Report summarizes consolidated financial and operating data derived from the unaudited condensed consolidated interim financial statements of EP Energy, a.s. as of and for the three-month period ended March 31, 2018 prepared in accordance with IFRS as adopted by the European Union ("IFRS").

**Non-IFRS measures**

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

**Definitions of EBITDA, Pro forma Adjusted EBITDA**

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

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

To derive Pro forma Adjusted EBITDA for the period from April 1, 2017 to March 31, 2018, EPE utilized EPE Group IFRS consolidated financial statements as of and for the year ended December 31, 2017 (EBITDA of EUR 380 million) and EPE Group IFRS condensed consolidated interim financial statements as of and for the three-month period ended March 31, 2018 (EBITDA of EUR 117 million) with the three-month period ended March 31, 2017 (EBITDA of EUR 141 million) as comparatives.

Pro forma Adjusted EBITDA excludes an impairment to PPE and Goodwill made in March 2018 (EBITDA effect of EUR 10 million).

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

| | 4/2017 – 3/2018 |
|---|---|
| Actual IFRS EBITDA for the period January – March 2018 | 117 |
| Actual IFRS EBITDA for the period January – December 2017 | 380 |
| Actual IFRS EBITDA for the period January – March 2017 | (141) |
| **Simple EBITDA (last twelve months)** | **356** |
| Add back impairment of Goodwill and PPE | 10 |
| **Pro forma Adjusted EBITDA (last twelve months)** | **366** |

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

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

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

Although we believe EBITDA, Pro forma Adjusted EBITDA and other certain financial measures and ratios to be useful performance indicators for our group as a whole and certain of our segments, we believe that such measurements may not accurately reflect our results of operations, and may not serve as accurate performance indicators, of our Power Distribution and Supply segment due to the implementation of our power optimization strategy in this segment.

EBITDA, Pro forma Adjusted EBITDA and all the other non-IFRS measures presented herein have important limitations as analytical tools and you should not consider them in isolation or as substitutes for analysis of our results as reported under IFRS. We also note that differences in the consolidation scope as described in part of this Report "Key factors affecting comparability of the results of operations of the EPE group" are impacting the comparability of the financial data.

**Exchange rates**

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

- Three-month period ended March 31, 2017: CZK 27.020 per EUR 1.000
- Three-month period ended March 31, 2018: CZK 25.402 per EUR 1.000

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

- As of December 31, 2017: CZK 25.540 per EUR 1.000
- As of March 31, 2018: CZK 25.430 per EUR 1.000

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

**Forward-looking statements**

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

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

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

The EPE Group was formed through a series of strategic acquisitions and business combinations. The current EPE Group was originally formed with acquisitions of ownership interests in Pražská energetika ("PRE") in 2004 and in UE in 2005 by J&T Group, which is one of beneficial owners of EPH (our ultimate parent company). EPH was formed in 2009 and the ownership interests in PE, EOP, UE, EPET and PEAS were transferred to it by J&T Group. We were formed on December 16, 2010, but we have restated financial statements from August 2009, based on the results of our subsidiaries that were owned by EPH during that period. Before our formation, many of our current subsidiaries were subsidiaries of EPH, but because the EPE Group has grown steadily through acquisitions, these entities have been under common control for only a short period of time. The acquisition of various subsidiaries or additional interests in such subsidiaries and the disposition of certain subsidiaries mean that our results of operations necessarily differ before and after these acquisitions and dispositions and do not reflect a change in organic operating results but rather the impact of an acquisition or disposition.

Specifically, during 2016 activities and assets held by EP Infrastructure, a.s. – "EPIF" were reorganized in order to refocus on regulated and/or long-term contracted infrastructure-type assets.

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

| Periods presented in the EPE Group's consolidated IFRS financial statement | | |
|---|---|---|
| **Subsidiary** | **1-3 2017** | **1-3 2018** |
| Elektrárna Opatovice, a.s. | Fully consolidated | Fully consolidated |
| United Energy, a.s. | Fully consolidated | Fully consolidated |
| Pražská teplárenská a.s. | Fully consolidated | Fully consolidated |
| Plzeňská energetika a.s. | Fully consolidated | Fully consolidated |
| EP ENERGY TRADING, a.s. | Fully consolidated | Fully consolidated |
| Stredoslovenská energetika, a.s. | Fully consolidated | Fully consolidated |
| EP Cargo, a.s. | Fully consolidated | Fully consolidated |
| Budapesti Erömü Zrt | Fully consolidated | Fully consolidated |

We have recently added new businesses to the EPE Group and may have made and may make acquisitions in the future. Newly added or acquired businesses may not be integrated or managed successfully, and we may fail to realize the anticipated synergies, growth opportunities and other benefits expected from these additions or acquisitions. Our consolidated financial statements included in this Report may not be representative of our historical or future results of operations and may not be comparable across periods, which may make it difficult to evaluate our results of operations and future prospects.

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

The risk profile of the EPE Group has not materially changed since the last reporting date and the risk analysis provided in the Report for the year ended December 31, 2017[8] is still a valid indication of the key risks that the EPE Group faces. The Group continues to actively keep track of the risks and has dedicated staff to follow different risk areas.

[8] Published on March 29, 2018

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

### Overview of the EPE Group

We are a leading vertically integrated energy utility focusing on heat and power generation and distribution, as well as energy supply and trading. We generate a substantial percentage of our EBITDA in the Slovak Republic and the Czech Republic, where our principal operations are located. In addition, through the acquisition of BERT in December 2015 we entered the Hungarian market. For the first quarter 2018, the EPE Group had consolidated sales and EBITDA of EUR 520 million and EUR 117 million, respectively. A significant part of our business comes from regulated activities (*i.e.*, heat and power distribution and renewable energy), and business contracted through long-term agreements with a stable customer base (*i.e.,* grid balancing services as part of our power generation activities), which we believe provides us with resiliency of cash flows and future performance.

### Principal operating subsidiaries of the EPE Group

The EPE Group's principal operating subsidiaries are Elektrárny Opatovice, a.s. ("EOP"), Pražská teplárenská a.s. ("PT"), United Energy, a.s. ("UE"), Stredoslovenská energetika, a.s. ("SSE"), Stredoslovenská distribučná, a.s. ("SSD"), EP ENERGY TRADING, a.s. ("EPET"), and Budapesti Erömü Zrt ("BERT"). EOP, PT, UE and BERT operate in the Heat Infra segment and SSE, SSD and EPET operate in the Power Distribution and Supply segment. Together these subsidiaries accounted for the vast majority of the EPE Group's sales and EBITDA for the first quarter 2018.

For a list of EPE's other subsidiaries and minority interests, see Note 33 to EPE's unaudited condensed consolidated interim financial statements as of and for the three-month period ended March 31, 2018.

### EPE operating segments

We operate in the following reportable segments:

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

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

Until April 1, 2016 the Group also operated Mining segment which was disposed as part of the reorganization of EP Infrastructure, a.s. ("EPIF") in 2016.

***Heat Infra:***

The Heat Infra segment owns and operates three large-scale combined heat and power plants (CHPs) in the Czech Republic, represented primarily by: EOP, UE, Plzeňská energetika a.s. ("PE"), operated in highly efficient cogeneration mode and through its 98% subsidiary, PT, the most extensive district heating system in the Czech Republic, which supplies heat to the City of Prague. The EPE Group is the largest heat supplier in terms of heat supplied to final consumers in the Czech Republic. The heat generated in segment's cogeneration power plants is supplied mainly to retail customers through well-maintained and robust district heating systems that the EPE Group owns in most of the cases. The EPE Group also owns BERT, which is a leading heat and power producer in Hungary, operating three Combined Cycle Gas Turbine ("CCGT") plants in the Budapest area.

***Power Distribution and Supply:***

The Power Distribution and Supply segment consists of a Power Distribution division and a Supply division. The Power Distribution division, the major EBITDA contributor of this segment, reports distribution of electricity in the central Slovakia region and is represented by SSD, a subsidiary of SSE. The Supply division consists of activities involving supplies of power and natural gas to end-consumers that the EPE Group conducts through EPET in the Czech Republic and Slovakia and through SSE Group (other than SSD) in Slovakia. EPET and SSE Group also purchase and sell power, including sales in the wholesale market of electricity generated by the EPE Group in its Heat Infra segment and purchases of electricity and natural gas to supply customers as part of the division's supply activities.

***Renewables:***

The Renewables segment owns and operates three solar power plants and holds a minority interest in another solar power plant and a majority interest in one wind farm in the Czech Republic. The EPE Group also owns and operates two solar power plants and a biogas facility in Slovakia.

***Holding***

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

***Other***

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

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

| In million EUR | For the three-month period ended March 31, 2017 | 2018 |
|---|---|---|
| **Total sales** | | |
| Heat Infra | 211 | 221 |
| Renewables | 1 | 1 |
| Power Distribution and Supply | 381 | 348 |
| Other | - | - |
| **Total segments** | **593** | **570** |
| Holding | - | - |
| Intersegment eliminations | (50) | (50) |
| **Consolidated data** | **543** | **520** |
| **Depreciation and amortization** | | |
| Heat Infra | (19) | (18) |
| Renewables | (1) | - |
| Power Distribution and Supply | (15) | (16) |
| Other | - | - |
| **Total segments** | **(35)** | **(34)** |
| Holding | - | - |
| Intersegment eliminations | - | - |
| **Consolidated data** | **(35)** | **(34)** |
| **Negative goodwill** | | |
| Heat Infra | - | - |
| Renewables | - | - |
| Power Distribution and Supply | - | - |
| Other | - | - |
| **Total segments** | **-** | **-** |
| Holding | - | - |
| Intersegment eliminations | - | - |
| **Consolidated data** | **-** | **-** |
| **Profit/(loss) from operations** | | |
| Heat Infra | 57 | 49 |
| Renewables | - | 1 |
| Power Distribution and Supply | 49 | 33 |
| Other | - | - |
| **Total segments** | **106** | **83** |
| Holding | - | - |
| Intersegment eliminations | - | - |
| **Consolidated data** | **106** | **83** |
| **EBITDA[(1)]** | | |
| Heat Infra | 76 | 67 |
| Renewables | 1 | 1 |
| Power Distribution and Supply | 64 | 49 |
| Other | - | - |
| **Total segments** | **141** | **117** |
| Holding | - | - |
| Intersegment eliminations | - | - |
| **Consolidated data** | **141** | **117** |

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

***Heat Infra***

The Heat Infra segment accounted for 53.9% of consolidated EBITDA for the first quarter 2017 and 57.3% of consolidated EBITDA for the first quarter 2018, in each case before intersegment eliminations and holding results. We conduct our Heat Infra operations in the Czech Republic through the following major subsidiaries: Pražská teplárenská, Elektrárny Opatovice, United Energy and Plzeňská energetika and in Hungary through Budapesti Erömü Zrt. The table below shows a summary of key operating data for the Heat Infra segment. The operating data are based on the results of the whole entity regardless of the date when each entity joined the EPE Group or the ownership share of the EPE Group in each entity. Results of all subsidiaries of the Group, which belong to the Heat Infra Business, are for the entire period.

| | | As of and for the three-month period ended March 31, | |
|---|---|---|---|
| | | **2017** | **2018** |
| Installed heat capacity[1] | $MW_{th}$ | 3,276 | 3,323 |
| Heat supplied | TJ | 9,837 | 9,933 |
| Installed cogeneration capacity | $MW_e$ | 894 | 894 |
| Installed condensation capacity | $MW_e$ | 360 | 360 |
| Certified grid balancing capacity[2] | $MW_e$ | 517 | 521 |
| Cogeneration production | GWh | 880 | 921 |
| Condensation production | GWh | 678 | 539 |
| Grid balancing services | GWh | 799 | 767 |

(1) Heat capacity installed on heat exchangers

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

**Installed heat capacity**

Installed heat capacity increased by 47 $MW_{th}$, or 1.4%, to 3,323 $MW_{th}$ as of March 31, 2018, as compared to 3,276 $MW_{th}$ as of March 31, 2017. This increase was due to the replacing the Heat source discarded in 2016 with a new one in Pražská Teplárenská in last quarter of 2017.

**Heat supplied**

Heat supplied increased by 96 TJ, or 1.0%, to 9,933 TJ for the first quarter 2018 as compared to 9,837 TJ for the first quarter 2017. This increase was due to the better weather conditions and lower temperatures in the February and March 2018 as compared to the previous year.

**Installed capacity**

Installed cogeneration capacity remained at 894 $MW_e$ at March 31, 2018 and March 31, 2017.

Installed condensation capacity remained at 360 $MW_e$ at March 31, 2018 and March 31, 2017.

Certified grid balancing capacity increased by 4 $MW_e$, or 0.8%, to 521 $MW_e$ at March 31, 2018, as compared to 517 $MW_e$ at March 31, 2017. This increase was due to the transformer capacity increase at Plzeňská energetika.

**Cogeneration production**

Cogeneration production increased by 41 GWh, or 4.7%, to 921 GWh for the first quarter 2018, as compared to 880 GWh for the first quarter 2017. Essentially, all CHPs produced slightly higher volume of power in cogeneration mode primarily due to the better weather conditions and higher heat demand that allowed higher production in cogeneration mode. Namely BERT recorded very high

power production volume (640 GWh in the first quarter 2018, while 589 GWh in the first quarter 2017) as it managed to seize temporary opportunities at the Hungarian power market.

**Condensation production**

Condensation generation decreased by 139 GWh, or 20.5%, to 539 GWh for the first quarter 2018, as compared to 678 GWh for the first quarter 2017. This lower production was primarily due to the increasing EUA prices, which was partially positively compensated by aforementioned better weather conditions, in the first quarter 2018 as compared to the first quarter 2017.

**Grid balancing services**

Grid balancing services decreased by 32 GWh, or 4.0%, to 767 GWh for the first quarter 2018, as compared to 799 GWh for the first quarter 2017. This decrease in grid balancing services primarily reflects a different amount of GWh relating to contracted grid balancing services for 2018 as a result of the 3-years tender.

The table below shows a summary of key financial performance data for the Heat Infra segment. The financial data is based on EPE consolidated financial information before eliminations of intersegment transactions and take into account the ownership share of the EPE Group in each entity and its acquisition date. Results of all subsidiaries of the Group, which belong to the Heat Infra Business, are for the entire period.

| | | For the three-month period ended March 31, | |
|---|---|---|---|
| | | **2017** | **2018** |
| Total sales | in EUR millions | 211 | 221 |
| EBITDA | in EUR millions | 76 | 67 |

**EBITDA**

As our contracts with suppliers for our Heat Infra operations in the Czech Republic are generally priced in Czech crowns, but our contracts for sales of electricity are primarily priced in EUR, EBITDA from our power generation operations presented in CZK as a functional currency may increase or decrease (and even be negative) depending on currency exchange rate fluctuations (our Czech heat operations are not affected by currency fluctuations as all sales transactions are priced in Czech crowns, however the EBITDA is affected by translation of CZK to EUR for reporting presentation purposes as the EPE Group´s presentation currency is EUR). We generally lock in the exchange rate at the time a contract is entered through the use of derivatives, the amounts due or paid under these derivative contracts, which offset the exchange rate fluctuation effects discussed above, are included in EBITDA in Total sales as Gain (loss) from commodity derivatives for trading with electricity and gas, net.

EBITDA decreased by EUR 9 million, or 11.8%, to EUR 67 million for the first quarter 2018 as compared to EUR 76 million for the first quarter 2017. This decrease was primarily due to the one-off non-cash impairment of non-financial assets in Plzeňská energetika in amount of EUR 10 million (refer to the Key developments in the first quarter 2018) and by prior period one-off profit from disposal of land plots and not utilized buildings of EUR 6 million.

***Power Distribution and Supply***

The Power Distribution and Supply segment accounted for 45.4% of consolidated EBITDA for the first quarter 2017 and 41.9% of consolidated EBITDA for the first quarter 2018, in each case before intersegment eliminations and holding results. We conduct our Power Distribution and Supply

operations in the Slovak Republic and the Czech Republic mainly through our subsidiary SSE, SSD, EPET, EPS and EPC.

The table below shows a summary of key operating data for the Power Distribution and Supply segment. The operating data are based on the results of the whole entity regardless of the date when each entity joined the EPE Group or the ownership share of the EPE Group in each entity, however the data excludes SSE which is presented separately.

| | | For the three-month period ended March 31, | |
|---|---|---|---|
| | | **2017** | **2018** |
| Power traded | GWh | 980 | 1,180 |
| Power supplied | GWh | 532 | 614 |
| Natural gas traded | GWh | 198 | 336 |
| Natural gas supplied | GWh | 848 | 832 |

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

| | | For the three-month period ended March 31, | |
|---|---|---|---|
| | | **2017** | **2018** |
| Power distributed | GWh | 1,742 | 1,758 |
| Power traded | GWh | 1,689 | 1,703 |
| Power supplied | GWh | 1,105 | 1,130 |
| Natural gas supplied | GWh | 150 | 180 |
| Power produced | GWh | 4 | 3 |
| Installed capacity | $MW_e$ | 63 | 63 |

**Power distributed**

Power distributed by SSE reached 1,758 GWh for the first quarter 2018, which represents an increase by 16 GWh, or 0.9%, as compared to the first quarter 2017. We registered increase namely at low and medium voltage level.

**Power traded**

Power traded (excluding SSE) increased by 200 GWh, or 20.4%, to 1,180 GWh for the first quarter 2018 as compared to 980 GWh for the first quarter 2017. This increase in power traded was caused by larger amount of deals coming to delivery in comparison to the first quarter 2017.

Power traded realized by SSE reached 1,703 GWh for the first quarter of year 2018, which is an increase of 0.8%, or 14 GWh, as compared to 1,689 GWh for the first quarter of year 2017.

**Power supplied**

Power supplied (excluding SSE) increased by 82 GWh, or 15.4%, to 614 GWh for the first quarter 2018 as compared to 532 GWh for the first quarter 2017. This increase in power supplied reflects higher consumption of EPET wholesale customer portfolio.

Power supply realized by SSE reached 1,130 GWh for the first quarter 2018, which is an increase by 25 GWh, or 2.3%, as compared to 1,105 GWh for the first quarter 2017.

**Natural gas traded**

Natural gas traded (excluding SSE) increased by 138 GWh, or 69.7%, to 336 GWh for the first quarter 2018 as compared to 198 GWh for the first quarter 2017. This increase in natural gas traded was primarily due to EPET's acquisition of a new wholesale customer.

**Natural gas supplied**

Natural gas supplied (excluding SSE) decreased by 16 GWh, or 1.9%, to 832 GWh for the first quarter 2018 as compared to 848 GWh for the first quarter 2017. This decrease in natural gas supplied reflects lower consumption of EPET's customers portfolio in the Czech Republic.

Natural gas supplied by SSE reached 180 GWh for the first quarter 2018, which is an increase by 30 GWh, or 20.0%, as compared to 150 GWh for the first quarter 2017. This increase is due to growth of supply portfolio through new customer acquisitions.

The table below shows a summary of key financial data for the Power Distribution and Supply segment. The financial data are based on EPE consolidated financial information before eliminations of intersegment transactions and take into account acquisition date of each entity.

| | | For the three-month period ended March 31, | |
|---|---|---|---|
| | | **2017** | **2018** |
| Total Sales | in EUR millions | 381 | 348 |
| EBITDA | in EUR millions | 64 | 49 |

**EBITDA**

As part of our power trading activities, EPET engages in sales of power generated by EPE Group companies, as well as resales of power purchased on the wholesale market in connection with our energy production optimization process, which leads to an overall increase in the volume of sales of power. However, with an increasing number of resales, total costs as a percentage of total sales increase as the margins realized on each subsequent optimization transaction tend to decline as the frequency of optimization transactions increases. Moreover, because our contracts with suppliers for our Heat Infra operations in the Czech Republic are generally priced in Czech crowns (with the exception of supplies under certain contracts for brown coal to the EOP and UE, which are priced in EUR and were significantly reduced starting in 2016), but we may purchase power in EUR, EBITDA from our supply operations may increase or decrease (and even be negative) depending on currency exchange rate fluctuations (the EBITDA is affected by translation of CZK to EUR for reporting presentation purposes as the EPE Group´s presentation currency is EUR). We generally lock in the exchange rate and power prices at the time a contract is entered into through the use of derivative contracts, the amounts due or paid under these derivative contracts, which offset the exchange rate and power price fluctuation effects discussed above, are included in EBITDA and the effect of fair valuation of financial commodity derivatives is included in Total sales as Gain (loss) from commodity derivatives for trading with electricity and gas, net, unless they qualify for hedge accounting under IFRS, in which case they are reflected in the Cost of sales: Other and Sales: Other lines for currency derivatives and in the Sales: Energy and Cost of sales: Energy for derivatives hedging the price of power.

EBITDA decreased by EUR 15 million, or 23.4%, to EUR 49 million for the first quarter 2018 as compared to EUR 64 million for the first quarter 2017. EBITDA was impacted predominantly by the following effects: (i) the System Operations Tariff ("SOT") effect (see the section Regulatory contingent assets related to green energy) had a negative effect of EUR 4 million in the first quarter 2018, while positive effect of EUR 15 million in the first quarter 2017 (i.e. negative EUR 19 million on period-to-period basis),

(ii) EUR 4 million improved operation of SSE and EPET due to overall increase in volume of supply, (iii) which was backed by stable performance of power distribution division.

***Renewables***

The Renewables segment accounted for 0.7% of consolidated EBITDA for the first quarter 2017 and for 0.9% of consolidated EBITDA for the first quarter 2018, in each case before intersegment eliminations and holding results. Our Renewables business is conducted in the Czech Republic and the Slovak Republic, and operations include wind, solar and biogas power generating facilities.

| | | As of and for the three-month period ended March 31, | |
|---|---|---|---|
| | | **2017** | **2018** |
| Installed Capacity | $MW_e$ | 14 | 14 |
| Power Production | GWh | 5 | 5 |

**Installed capacity**

Installed capacity remained at 14 $MW_e$ as of March 31, 2018 and March 31, 2017.

**Power production**

Power production remained at 5 GWh for the first quarters 2018 and 2017.

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

| | | For the three-month period ended March 31, | |
|---|---|---|---|
| | | **2017** | **2018** |
| Total Sales | in EUR millions | 1 | 1 |
| EBITDA | in EUR millions | 1 | 1 |

**EBITDA**

EBITDA remained at EUR 1 million in the first quarters in both periods 2018 and 2017. Changes were not material.

***Other***

The Other segment accounted for 0.0% of consolidated EBITDA for the first quarter 2017 and also 0.0% of consolidated EBITDA for the first quarter 2018, in each case before intersegment eliminations and holding results.

***Holding***

EBITDA of Holding remained at EUR 0 million in first quarter for both periods 2018 and 2017.

**Other revenues and expenses**

Our repeating expenses are generally related to wages and salaries and associated social and health insurance, administrative costs for repairs and maintenance, other taxes and fees, costs for audit and

accounting services, costs for legal consultancy, operating leases, rent of premises, communication expenses, travel expenses, costs for translation, non-tax deductible fees, rental income and other administrative costs.

**Capital expenditures**

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

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

| | For the three-month period ended March 31, | |
|---|---|---|
| **In EUR millions** | **2017** | **2018** |
| Capital expenditures relating to tangible fixed assets..... | 2 | 2 |
| Capital expenditures relating to intangible fixed assets excluding emission rights ..... | - | - |

Capital expenditures relating to tangible fixed assets remained at EUR 2 million in the first three quarter 2018 and in the first quarter 2017.

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

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

| | For the three-month period ended March 31, | |
|---|---|---|
| **In EUR millions** | **2017** | **2018** |
| Capital expenditures relating to tangible fixed assets..... | 6 | 8 |
| Capital expenditures relating to intangible fixed assets excluding emission rights ..... | - | - |

Capital expenditures relating to tangible fixed assets increased by EUR 2 million, or 33.3%, to EUR 8 million in the first quarter 2018 from EUR 6 million in the first quarter 2017. The majority of these capital expenditures is directly connected to SSE's operations, namely technical improvements on existing distribution network and extension of distribution network of EUR 6 million in the first quarter 2018.

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

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

**The EPE Group**

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

**Key income statement line items**

**Sales: Energy**. EPE presents Sales: Energy in five component parts: sales of electricity (incl. distribution), sales of heat, sales of gas, sales of coal and sales of other energy products across all of our segments. EPE recognizes revenue when the entity satisfies a performance obligation by transferring good to the customer. An asset is transferred when the customer obtains control of an asset, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. Revenue from the sale of own products and goods in the course of ordinary activities is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Discounts are recognized as a reduction of revenue as the sales are recognized, if it is probable that discounts will be granted and the amount can be measured reliably. Revenues from services rendered are recognized in profit or loss in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed by reference to surveys of work performed. No revenue is recognized if there are significant uncertainties regarding the recovery of the consideration due, associated costs or the possible return of goods.

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

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

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

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

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

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

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

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

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

**Taxes and charges**. Taxes and charges comprise electricity taxes, property taxes and other taxes and charges (excluding income tax).

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

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

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

**Profit/(loss) from financial instruments**. Profit/(loss) from financial instruments represents profit or loss from commodity derivatives that are not presented as a part of Gain (loss) from commodity derivatives for trading with electricity and gas, net, currency derivatives (including both realized and mark-to-market valuations at the end of the accounting period), hedging activities and interest rate derivatives that do not qualify for hedge accounting.

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

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

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

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

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

**Results of operations of the EPE Group**

The following sections provide a period-by-period comparison of the EPE Group's historical income statement data. The financial data has been prepared in accordance with IFRS, and has been derived from the EPE's condensed consolidated interim financial statements for the three-month period ended March 31, 2018 (which include financial information for the three-month period ended March 31, 2017 as a comparison) and should be read in conjunction with and is qualified in its entirety by reference to these financial statements, including the notes thereto.

**Results of operations of the EPE Group: the first quarter 2018 compared to the first quarter 2017**

The following table sets forth our historical income statement data derived from the EPE's condensed consolidated interim financial statements for the three-month period ended March 31, 2018, prepared in accordance with IFRS as adopted by the EU, as well as other financial data. For a description of the changes in the reporting perimeter, see "Key factors affecting comparability of the results of operations of the EPE Group".

## Condensed consolidated interim statement of comprehensive income

**For the three-month period ended 31 March 2018**
**In million EUR**

| | **2017 (three months)** | **2018 (three months)** |
|---|---|---|
| Sales: Energy | 541 | 517 |
| *of which: Electricity* | *358* | *335* |
| *Heat* | *134* | *141* |
| *Gas* | *43* | *36* |
| *Coal* | *6* | *5* |
| Sales: Other | 5 | 4 |
| Gain (loss) from commodity derivatives for trading with electricity and gas, net | (3) | (1) |
| **Total sales** | **543** | **520** |
| | | |
| Cost of sales: Energy | (366) | (351) |
| Cost of sales: Other | (5) | (5) |
| **Total cost of sales** | **(371)** | **(356)** |
| | | |
| **Subtotal** | **172** | **164** |
| | | |
| Personnel expenses | (22) | (23) |
| Depreciation and amortization | (35) | (34) |
| Repairs and maintenance | (2) | (2) |
| Emission rights, net | (6) | (7) |
| Taxes and charges | (1) | (1) |
| Other operating income | 13 | 8 |
| Other operating expenses | (13) | (22) |
| **Profit (loss) from operations** | **106** | **83** |
| | | |
| Finance income | - | 3 |
| Finance expense | (16) | (15) |
| Profit (loss) from financial instruments | 3 | - |
| **Net finance income (expense)** | **(13)** | **(12)** |

| | 2017 (three months) | 2018 (three months) |
|---|---|---|
| **Profit (loss) before income tax** | **93** | **71** |
| | | |
| Income tax expenses | (21) | (20) |
| **Profit (loss) for the period** | **72** | **51** |
| | | |
| **Items that are or may be reclassified subsequently to profit or loss:** | | |
| Foreign currency translation differences for foreign operations | 1 | (8) |
| Foreign currency translation differences from presentation currency | (2) | 5 |
| Effective portion of changes in fair value of cash flow hedges, net of tax | - | 4 |
| **Other comprehensive income for the period, net of tax** | **(1)** | **1** |
| **Total comprehensive income for the period** | **71** | **52** |
| | | |
| **Profit (loss) attributable to:** | | |
| **Owners of the Company** | | |
| Profit for the year from continuing operations | 49 | 39 |
| Profit for the year from discontinued operations | - | - |
| Profit for the year attributable to owners of the company | **49** | **39** |
| **Non-controlling interest** | | |
| Profit for the year from continuing operations | 23 | 12 |
| Profit for the year attributable to non-controlling interest | **23** | **12** |
| **Profit (loss) for the period** | **72** | **51** |
| | | |
| **Total comprehensive income attributable to:** | | |
| Owners of the Company | 48 | 40 |
| Non-controlling interest | 23 | 12 |
| **Total comprehensive income for the period** | **71** | **52** |

## Key line items

### Sales: Energy

Sales: Energy decreased by EUR 24 million, or 4.4%, to EUR 517 million for the first quarter 2018 as compared to EUR 541 million for the first quarter 2017.

### Sales of electricity

Sales of electricity decreased by EUR 23 million, or 6.4%, to EUR 335 million for the first quarter 2018 as compared to EUR 358 million for the first quarter 2017. Decrease is mainly attributable to lower volume of produced electricity by the Czech CHP fleet, which was partially positively offset by higher revenue from power trading.

### Sales of heat

Sales of heat increased by EUR 7 million, or 5.2%, to EUR 141 million for the first quarter 2018 as compared to EUR 134 million for the first quarter 2017. The increase in sales of heat was due to combination of higher volume of heat supplied to end consumers and higher heat price.

**Sales of gas**

Sales of gas decreased by EUR 7 million, or 16.3%, to EUR 36 million for the first quarter 2018 as compared to EUR 43 million for the first quarter 2017. While natural gas supply volume and price was rather stable in both period, drop in gas sales is attributable to gas trading activities performed by SSE and EPET.

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

Gain (loss) from commodity derivatives for trading with electricity and gas, net increased by EUR 2 million, or 66.7% to negative EUR 1 million for first quarter 2018 as compared to negative EUR 3 million for the first quarter 2017. This resulted from fair value re-measurement of trading derivatives as at the date of financial statements.

**Cost of sales: Energy**

Cost of sales: Energy decreased by EUR 15 million, or 4.1%, to EUR 351 million for the first quarter 2018 as compared to EUR 366 million for the first quarter 2017. This decrease in Cost of sales: Energy was attributable to decrease of gas trading activities and lower consumption of fuel due to lower production of power by Czech CHPs.

**Emission rights, net**

Emission rights, net increased by EUR 1 million, or 16.7%, to negative EUR 7 million for the first quarter 2018 as compared to negative EUR 6 million for first quarter 2017, which primarily results from continuing decrease of emission allowances free allocation and higher price of emission allowances on market (refer to the Electricity and CO2 market chapter in Economy and Market developments).

**Other operating income**

Other operating income decreased by EUR 5 million, or 38.5%, to EUR 8 million for the first quarter 2018 as compared to EUR 13 million for the first quarter 2017. The decrease relates to gain from the sale of non-core assets (land plots and not used buildings) in first quarter of 2017.

**Other operating expenses**

Other operating expenses increased by EUR 9 million, or 69.2%, to EUR 22 million for the first quarter 2018 as compared to EUR 13 million for the first quarter 2017. The increase relates primarily to the impairment losses at Plzeňská energetika (refer to the Key developments in the first quarter 2018).

**Finance income**

Finance income increased by EUR 3 million, to EUR 3 million for the first quarter 2018 as compared to EUR 0 million for the first quarter 2017. Primary reason for increase of finance income is an improvement in the FX result in the first quarter 2018.

**Finance expense**

Finance expense decreased by EUR 1 million, or 6.3%, to EUR 15 million for the first quarter 2018 as compared to EUR 16 million for the first quarter 2017. Finance expense is mostly represented by interest expense, primarily from Notes.

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

Profit/(loss) from financial instruments decreased by EUR 3 million to a profit of EUR 0 million for the first quarter 2018 as compared to a profit of EUR 3 million for the first quarter 2017 as result of mark-to-market revaluation of financial instruments.

**Income tax expenses**

Income tax expenses decreased by EUR 1 million, or 4.8%, to EUR 20 million for the first quarter 2018 as compared to EUR 21 million for the first quarter 2017. Decrease of income tax is result of lower profit before tax realised by group.

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

Other comprehensive income for the period, net of tax, changed by EUR 2 million to positive EUR 1 million for the first quarter 2018 as compared to negative EUR 1 million for the first quarter 2017. It is primarily result of change of FX translation.

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

**Capital resources**

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

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

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

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

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

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

## Cash flow

The following table summarizes our selected consolidated cash flows for the first quarters 2017 and 2018.

| | For the three-month period ended March 31, | |
|---|---|---|
| | **2017** | **2018** |
| | *In million EUR* | |
| **Operating profit before changes in working capital** | **141** | **137** |
| *Selected changes to working capital* | | |
| Change in trade receivables and other assets | (26) | 7 |
| Change in trade payables and other liabilities | (20) | (25) |
| Change in inventories (including proceeds from sale) | 6 | 3 |
| Change in assets held for sale and related liabilities | 3 | - |
| Changes in restricted cash | 1 | 1 |
| **Cash flows generated from (used in) operating activities** | **95** | **115** |
| **Cash flows from (used in) investing activities** | **(6)** | **(18)** |
| **Cash flows from (used in) financing activities** | **(23)** | **-** |
| **Total changes in cash flows** | **66** | **97** |

### Operating Activities

Cash flows generated from operating activities increased by EUR 20 million, or 21.0%, to EUR 115 million for the first quarter 2018, as compared to EUR 105 million for the first quarter 2017. This change is primarily due to lower working capital requirements that decreased by EUR 22 million as compared to first quarter of 2017.

### Investing Activities

Cash flows used in investing activities slightly increased by EUR 12 million to negative EUR 18 million for the first quarter 2018, as compared to negative EUR 6 million for the first quarter 2017. The increase of cash flow used in investing activities relates mainly to disposal of Nový Veleslavín, a.s. in the first quarter of 2017, which resulted in inflow of EUR 9 million.

### Financing Activities

Cash flows used in financing activities decreased by EUR 23 million to cash flows used in financing activities of EUR 0 million for the first quarter 2018, as compared to negative cash flows from financing activities of EUR 23 million for the first quarter 2017. The negative cash flow in first quarter 2017 related mainly to dividend paid to sole shareholder in amount of EUR 20 million while none was paid in first quarter of 2018.

### Capital expenditures

Our strategy is to focus capital investments on projects that maintain our technical equipment and increase operational efficiency. We have managed to keep capital expenditures at reasonably low levels by means of controlled business planning, engineering, procurement and project management at our operating subsidiaries. As noted earlier, the stricter emission targets set forth by the European Industrial Emissions Directive (IED) applied starting 2016 for large combustion plants, including those operated by us, driven the capital expenditure in past. Non-compliance with the stricter emission targets set forth by the European Industrial Emissions Directive, the Air Protection Act or the operation

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

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

During the first quarters 2017 and 2018, capital expenditures, irrespective of actual cash flows, were as follows:

| | As of and for the three-month period ended March 31, | |
|---|---|---|
| | **2017** | **2018** |
| Capital expenditures for tangible fixed assets | 8 | 10 |
| Capital expenditures for intangible fixed assets excluding emission rights | - | - |
| Capital expenditures for emission rights (incl. free allocations) | 9 | 12 |
| **Total capital expenditures** | **17** | **22** |
| Property, plant and equipment, at depreciated cost | 1,534 | 1,528 |

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

Capital expenditures for tangible fixed assets increased by EUR 2 million, or 25.0%, to EUR 10 million for the first quarter 2018 as compared to EUR 8 million for the first quarter 2017. This increase mainly relates to technical improvements and extension of distribution network.

Capital expenditures for intangible fixed assets remained at EUR 0 million for the first quarters 2018 and 2017.

**Capital expenditures for emission rights**

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

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

The table sets out our loans and borrowings as of December 31, 2017 and March 31, 2018.

| In EUR millions | Dec 31, 2017 | Mar 31, 2018 |
|---|---|---|
| Issued debentures at amortised cost | 1,102 | 1,117 |
| Loans payable to credit institutions | 27 | 26 |
| Loans payable to other than credit institutions | - | - |
| *of which owed to the parent company / ultimate parent company* | - | - |
| *of which owed to other related companies* | - | - |
| **Total** | **1,129** | **1,143** |
| Non-current | 515 | 515 |
| *of which owed to the parent company / ultimate parent company* | - | - |
| *of which owed to other related companies* | - | - |
| Current | 614 | 628 |
| **Total** | **1,129** | **1,143** |

### Off-balance sheet arrangements of the EPE Group

The table below sets out EPE's financial commitments and contingencies as of December 31, 2017 and March 31, 2018.

| In EUR millions | Dec 31, 2017 | Mar 31, 2018 |
|---|---|---|
| Granted pledges – securities | 905 | 909 |
| Commitments | 255 | 248 |
| Other granted pledges | 1,154 | 1,232 |
| **Total** | **2,314** | **2,389** |

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

Commitments mainly include contracts for the future purchase of physical energy by SSE Group for EUR 248 million (December 31, 2017: EUR 239 million).

Other granted pledges:

| In EUR millions | Dec 31, 2017 | Mar 31, 2018 |
|---|---|---|
| Loans granted[1] | 411 | 415 |
| Property, plant and equipment | 403 | 403 |
| Cash and cash equivalents | 269 | 348 |
| Trade receivables | 51 | 46 |
| Inventories | 20 | 20 |
| **Total** | **1,154** | **1,232** |

*(1) Total balance of pledged granted loans includes intercompany loans of EUR 408 million (December 31, 2017: EUR 404 million)*

*(2) According to the bond documentation cash balances at specific entities are pledged in favour of the bondholders in case the Company defaults on bonds payments. As such, the pledged cash is readily available to the EPE Group and does not represent restricted cash*

## Off balance sheet assets

| In EUR millions | Dec 31, 2017 | Mar 31, 2018 |
|---|---|---|
| Received promises | 372 | 340 |
| **Total** | **372** | **340** |

### Received promises

Received promises mainly comprise the contracts for the future purchase of energy in amount of EUR 238 million (2017: EUR 239 million) and regulatory contingent assets related to green energy of EUR 101 million (2017: EUR 97 million) recognised by SSE Group.

### Regulatory contingent assets related to green energy

The SSE Group is legally bound to connect producers of green energy, if they comply with requirements set by primary legislation and to purchase the green electricity generated by them, which is used to cover network losses. The purchase tariff for green energy is set by RONI and is covered by the Tariff for system operation ("TPS"). For the three-month period ended 31 March 2018 SSE recognised a loss of EUR 29 million (for the three-month period ended 31 March 2017: a loss of EUR 20 million) as the difference between the green energy support costs and revenues from TPS in the period from 1 January 2018 to 31 March 2018. The loss includes revenues adjusted for compensation for past losses, which was recognised as an accrued income as at 31 December 2017 (for 2017 revenues as at 31 December 2016).

Based on the current Regulatory Framework the cumulated losses incurred in 2016 and 2017 will be compensated in two years' time, i.e. in 2018 and 2019 through an increase of revenues from TPS. Contingent asset as at 31 March 2018 comprises 9/12 of 2017 loss totalling EUR 97 million (i.e. EUR 73 million) and EUR 29 million as a loss incurred in three-month period ended 31 March 2018 (contingent assets as at 31 December 2017 amounted to EUR 97 million).

Based on the RONI decision dated in December 2017 the resulting contingent asset of EUR 138 million originating in the year 2016 was recognized as accrued income in the consolidated statement of financial position as of 31 December 2017 and will be fully collected in the course of 2018 (31 December 2016: EUR 73 million originating in the year 2015 was recognized as accrued income in the consolidated statement of financial position as of 31 December 2016 and was fully collected in the course of 2017). The loss for 2018 has not yet been recognized as the asset does not yet meet the recognition criteria set by IFRS as adopted by the EU and will be recognised during the course of 2019 once an RONI confirmation on the exact amount shall be received.

**Litigations and claims**

**Elektrárny Opatovice, a.s.**

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

**Plzeňská energetika a.s.**

In August 2012, Škoda Investment a.s. (SI) filed a claim for unjust enrichment against Plzeňská energetika, a.s. (PE) for approximately EUR 2 million. This unjust enrichment claim allegedly arises from the fact that Plzeňská energetika a.s. owns and operates utility distribution systems (e.g., for gas, water and heat), which lie on the property of Škoda Investment a.s., thereby illegally restricting the ownership of Škoda Investment a.s. In February 2016 both parties, i.e. PE as well as SI, received an official request from the court to settle the dispute by mediation. Following this request the hearing has been adjourned until further notice. In June 2016 SI has filed an additional claim for unjust enrichment against PE for approximately EUR 1 million. Additional claim covers period 2013 – 2014. After considering all the circumstances Plzeňská energetika a.s. created an adequate provision as at 31 December 2017. In January 2018, another court hearing was held and the Court ruled in favor of Plzeňská energetika, a.s. Since the counterparty has appealed, the provision was not fully released.

**Stredoslovenská energetika, a.s. Group ("SSE Group")**

The SSE Group is a party to various legal proceedings. As at 31 March 2018 no legal provisions were recorded. The Group management has decided not to disclose details in respect of material legal claims as they are currently ongoing and disclosure may prejudice the SSE Group.

**Regulatory proceedings by ERO against Pražská teplárenská ("PT")**

PT is involved in regulatory proceedings commenced in October 2015 by ERO claiming that prices charged to customers of PT's local small-scale heating infrastructures in 2011 were in breach of the Czech Act on Prices. In March 2016, ERO issued a decision ordering PT to pay EUR 9 million (CZK 240 million) consisting of a penalty in the amount of EUR 4.5 million (CZK 120 million) and restitution to affected customers in the amount of EUR 4.5 million (CZK 120 million). PT appealed the decision on 24 March 2016 with supplemental information provided on 14 April 2016. On 7 July 2016 PT received a resolution from ERO by which the Chairman of ERO returned the case again to the first instance for a new hearing. In November 2016 PT received new decision which confirmed the result of the court of the first instance. PT appealed again and on 23 December 2016 ERO issued a decision changing the amount to be paid to EUR 8 million (CZK 222 million) consisting of a penalty in the amount of EUR 4 million (CZK 111 million) and restitution to affected customers in the amount of EUR 4 million (CZK 111 million). On 26 January 2017 PT filed an appeal on the decision and applied for suspensive effect. At the same time PT submitted a fine of EUR 4 million to the ERO's account. On 23 February 2017 the regional court satisfied the request for a suspensive effect in full and on 28 April 2017 the ERU returned the fine back to PT and PT again conservatively recorded a provision of EUR 4 million. No development has taken place since then.

Attachments stored on www.epenergy.cz:

EP Energy, a.s. - Unaudited condensed consolidated interim financial statements as of and for the three-month period ended March 31, 2018 prepared in accordance with IAS 34 – Interim Financial Reporting.