Report on the first quarter of the year 2019 for EP Energy, a.s.

- ✓ Consolidated sales reached EUR 614 million
- ✓ Consolidated EBITDA totaled EUR 138 million
- ✓ Consolidated Adjusted EBITDA for last twelve months amounted to EUR 315 million
- ✓ Indicative Net Consolidated Leverage Ratio amounted to 1.7x
- ✓ Fitch Ratings has recently affirmed the credit rating at BBB-, stable outlook

EP Energy, a.s. ("group" or "Group" or "EPE" or "EPE Group") is a vertically integrated energy utility that include 48[1] companies. In 2019 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 2018	1-3 2019
Sales	520	614
EBITDA[1]	117	138
Adjusted EBITDA (last twelve months)[2, 3]		315
Total net debt per financial statements[4]		611
Indicative EP Energy Net Consolidated Leverage Ratio [5]		1.7x
Profit from operations	83	105
Profit before tax	71	94
Net profit /(loss) attrib. to EP Energy owners	39	51
Total assets		2,269
CAPEX[5]	10	13

Operating highlights (EPE excluding SSE)[6]

	1-3 2018	1-3 2019
Installed *cogeneration* Capacity ..... MW_e	894	804
Installed *condensation* Capacity .... MW_e	360	339
Installed heat capacity[7] .... MW_{th}	3,323	3,126
Heat supplied .... TJ[8]	9,933	8,559
Power produced.............................. GWh	1,460	1,159
Power traded[9] .... GWh	1,180	1,661
Power supplied[9] .... GWh	614	758
Natural gas supplied[9] .... GWh	832	773

Operating highlights SSE[6,9]

	1-3 2018	1-3 2019
Power distributed .... GWh	1,758	1,750
Power traded .... GWh	1,703	1,504
Power supplied .... GWh	1,130	1,180
Natural gas supplied .... GWh	180	217
Power produced .... GWh	3	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) Adjusted EBITDA represents profit from operations plus depreciation of property, plant and equipment and amortization of intangible assets minus negative goodwill (if applicable) further adjusted to exclude (i) one-off items related to impairment of PPE and Goodwill recorded in the first quarter 2018 of EUR 10 million, (ii) result from sale of non-core assets (EUR 20 million in year 2018),

(iii) adding back (if negative) or deducting (if positive) the timing difference between (a) compensation for the expenses for mandatory purchase and off-take of energy from renewable sources pursuant to the Slovak RES Promotion Act and the Decree recognised in revenues in the relevant period and (b) net expenses accounted for the mandatory purchase of energy from renewable resources in accordance with the Slovak RES Promotion Act, in each case inclusive of accruals and (iv) FY 2018 and Q1 2018 exclude result of Plzeňská energetika (EUR 6 million) as the entity was disposed on May 9, 2018.

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 the regulator and is covered by the System Operation Tariff ("SOT"). For the three-month period ended March 31, 2019 SSE recognised a loss of EUR 16 million (for the three-month period ended March 31, 2018: a loss of EUR 29 million; for year ended December 31, 2018 a loss of EUR 139 million) as the difference between the green energy support costs and revenues from SOT in the period from January 1, 2019 to March 31, 2019. The loss includes revenues adjusted for compensation for past losses, which was recognised as an accrued income as at December 31, 2018 (for 2018 revenues as at December 31, 2017). Total effect on Profit from operations due from the timing imbalance is a profit of EUR 19 million for the three-month period ended March 31, 2019 (a loss of EUR 4 million for the three-month period ended March 31, 2018; a loss of EUR 41 million for year ended December 31, 2018).

	1/2018 – 3/2018	FY 2018	1/2019 – 3/2019
Profit (loss) from operations	83	165	105
Depreciation and amortisation	34	131	33
Simple EBITDA	**117**	**296**	**138**
Add back one-off impairment	10	10	-
Less result from sale of non-core assets	-	(20)	-
Disposal of PE on May 9, 2018	(6)	(6)	
System Operation Tariff (surplus) / deficit	4	41	(19)
Adjusted EBITDA	**125**	**321**	**119**

*Amounts might not sum up due to rounding

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

	4/2018 – 3/2019
Adjusted EBITDA for the period January – March 2019	119
Adjusted EBITDA for the period January – December 2018	321
Adjusted EBITDA for the period January – March 2018	(125)
Adjusted EBITDA (last twelve months)	**315**

*Amounts might not sum up due to rounding

To derive Adjusted EBITDA for the period from April 1, 2018 to March 31, 2019, EPE utilized above calculated Adjusted EBITDA for the year ended December 31, 2018 (Adjusted EBITDA of EUR 327 million) and Adjusted EBITDA for the three-month period ended March 31, 2019 (Adjusted EBITDA of EUR 119 million) with the three-month period ended March 31, 2018 (Adjusted EBITDA of EUR 131 million) as comparatives.

The 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.

(4) 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):

		31.3.2019
Loans and borrowings (non-current)	*add*	278
Financial instruments and financial liabilities (non-current)	*add*	14
Loans and borrowings (current)	*add*	522
Financial instruments and financial liabilities (current)	*add*	25
Cash and cash equivalents	*less*	228
Net Debt		**611**

(5) We include in this report the calculation as of March 31, 2019 of our "Indicative Net Consolidated Leverage Ratio", as defined in the EP Energy Indentures. The calculation of our Net Consolidated Leverage Ratio differs from any leverage ratio included in the offering memoranda for the senior secured notes or otherwise included herein, and consistent with the definition, is made on the basis of certain good faith judgments made by us.

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

(7) 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.

(8) Installed heat capacity on heat exchangers.

(9) 1 TJ = 0.2778 GWh.

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

Difference between consolidation scope for 1Q 2018 and 1Q 2019 is described later in section: “Key factors affecting comparability of the results of operations of the EPE Group”.

CONTENT:

Attachments:

EP Energy, a.s. - Unaudited condensed consolidated interim financial statements as of and for the three-month period ended March 31, 2019 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 2019, the EP Energy Group achieved revenues of EUR 614 million, with EBITDA of EUR 138 million representing increase of EUR 21 million as compared to the same period of prior year. At the same time, results were influenced by accounting for compensation of losses stemming from subsidies paid by the SSE Group to renewable energy producers and other individually minor factors.

The EP Energy Group remains the largest heat supplier to final consumers in the Czech Republic and one of the largest domestic electricity producers. Our Heat Infra segment generated in the first quarter 2019 revenues of EUR 211 million, with EBITDA of EUR 64 million which is lower by EUR 3 million compared to the previous year. However, after taking into account one-off non-cash impairment in 2018 and disregarding disposed Plzeňská energetika, the results are worse by EUR 7 million which was caused by unusually warm winter and also by higher price of emission allowances. On a positive note, the Heat Infra segment has been able to partially close the gap in the subsequent months as the temperatures recovered to somewhat better levels during April and May.

Our Power Distribution and Supply segment reached revenues of EUR 451 million and EBITDA of EUR 74 million – up by EUR 25 million – positively affected by accounting for compensation of losses reported by the SSE Group as a result of subsidies paid by the SSE Group to renewable energy producers, which are compensated to the SSE Group with a delay. Core business of the segment was slightly up as a result of increase in margin on supply.

The Renewables segment, 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.

On April 30, 2019, Fitch affirmed EP Energy's rating BBB-, and rating of our Notes at BBB (both with stable outlook).

I am particularly pleased to announce that on May 21, 2019 EP Infrastructure, parent company of EP Energy, signed announced it successfully secured sufficient funding that shall be used to repay 2019 Notes on the EP Infrastructure's level.

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.

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 2.5%, year-on-year, in the first quarter 2019 and rose by 0.5% in the first quarter 2019 compared to the previous quarter. The main GDP growth factors in the first quarter 2019 were external demand and household consumption. Manufacturing contributed the most to the gross value-added formation; after a year, it thus has become again the dominant growth factor of the domestic economy. Most of the economic activities of services as well as construction continued to be successful.

According to preliminary estimates of the Slovak Statistical Office, the Slovak gross domestic product adjusted for price, seasonal, and calendar effects rose by 3.8%, year-on-year, in the first quarter 2019 and increased by 0.9% in the first quarter 2019 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 4.9%, year-on-year, in the first quarter 2019 and increased by 1.0% in the first quarter 2019 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 2.5% in 2019 and the International Monetary Fund (also "IMF") expects[3] the Slovak GDP by 3.7% and Hungarian GDP should increase by 3.6% in 2019.

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).

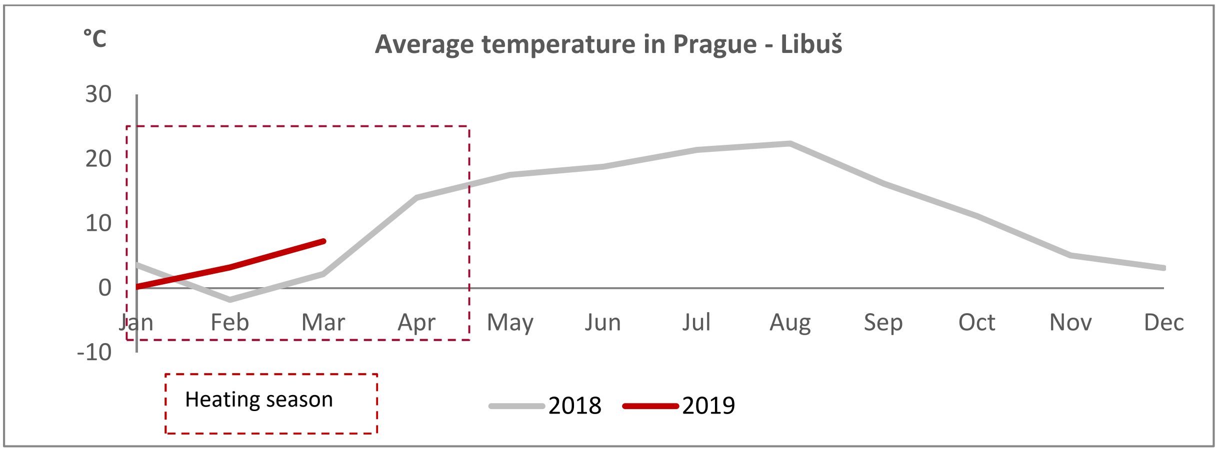
From the heating business perspective, the first quarter of the year 2019 was particularly warmer than the comparative period. Day-degrees, the metrics representing space heating needs during the given period[4], were in the areas in the Czech Republic and Hungary where we deliver the heat year-to-year 12.0% lower, which translated into lower heat consumption.

For illustration, in Prague, where we deliver heat through our subsidiary PT, average temperature in the first quarter 2019 was at 3.5 °C, which is higher than 1.3 °C in the first quarter 2018.

[2] the most recent forecast published on May 2, 2019

[3] the most recent forecast published on April 2, 2019

[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.

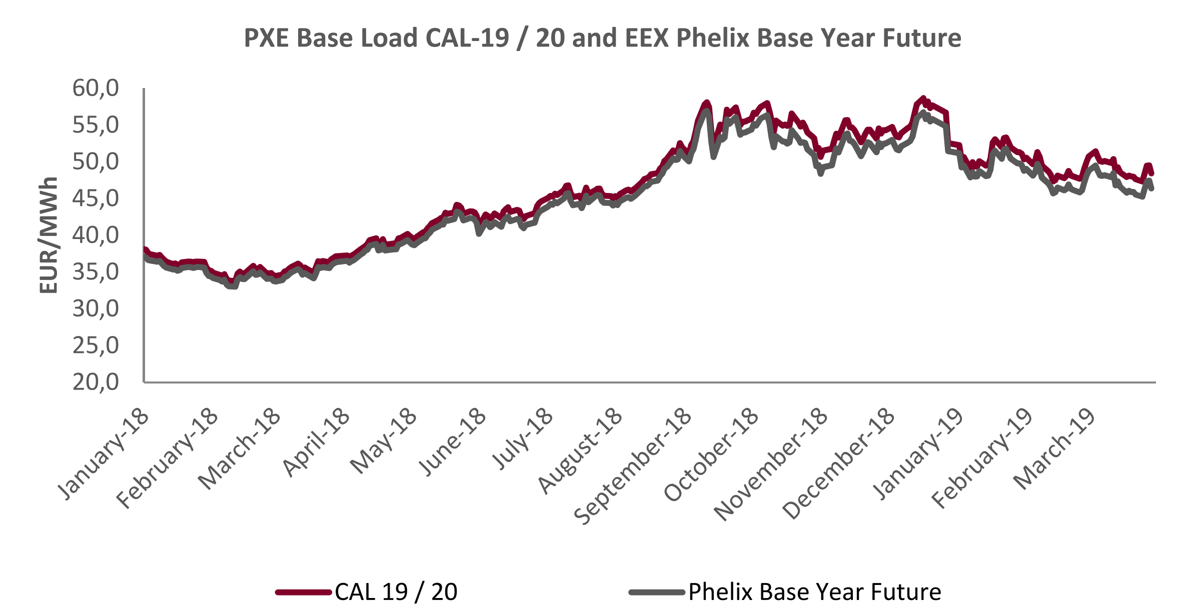
Electricity and CO2 market:

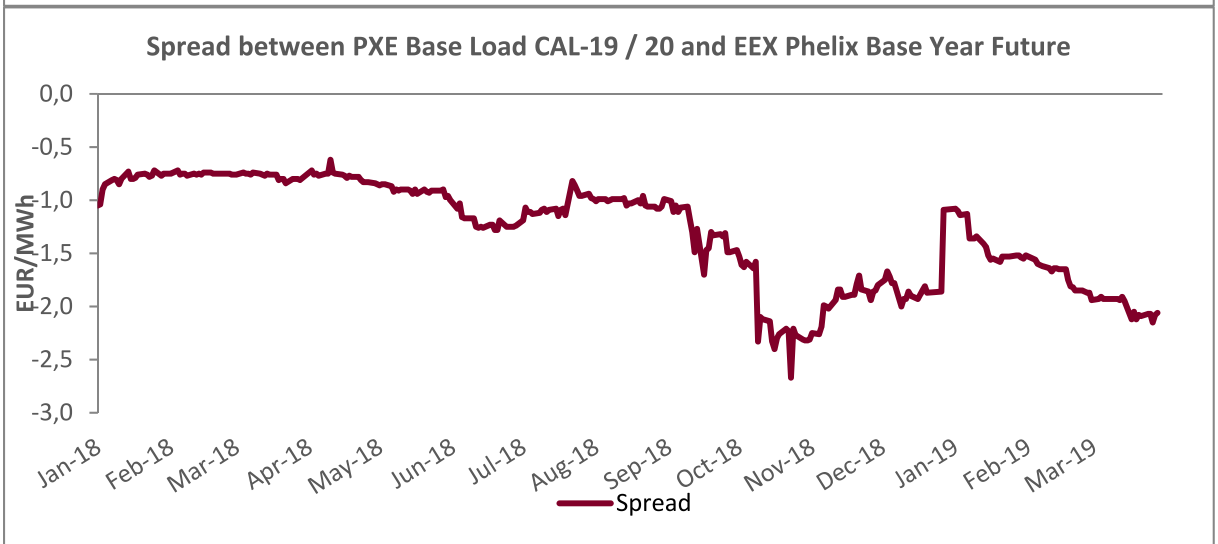
During the year 2018, EU Allowance ("EUA") prices increased significantly due to decision to reduce EUA surplus from 2019. During the second half 2018 the EUA prices increased above EUR 25 per ton and on average are oscillating around EUR 22 per ton during the year 2019. As a result of growth of EUA prices, the power prices in the year 2019 increased as compared to 2018. In the first quarter 2019, the 1-year forward electricity prices on the European Energy Exchange (also "EEX") increased in base load to EUR 48.0 per MWh (compared to EUR 35.0 per MWh year ago) and peak load increased to EUR 59.6 per MWh (compared to EUR 43.7 per MWh year ago), representing an increase for the base load and peak load prices of 37.3% and 36.6% 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 22.1 per ton in the first quarter 2019[6], which represents increase of the y-t-y prices by 124.9%.

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 0.8 and 2.5 EUR/MWh during year 2018 and during the first quarter 2019. Recent relative drop in German power prices compared to Czech power price stems from intensified production in German offshore wind farms. The low spreads encourage cross border trading and, vice versa, the liquidity of the Czech market increases.





Source: PXE Base Load CAL19 and CAL20; EEX Phelix Base Year Future

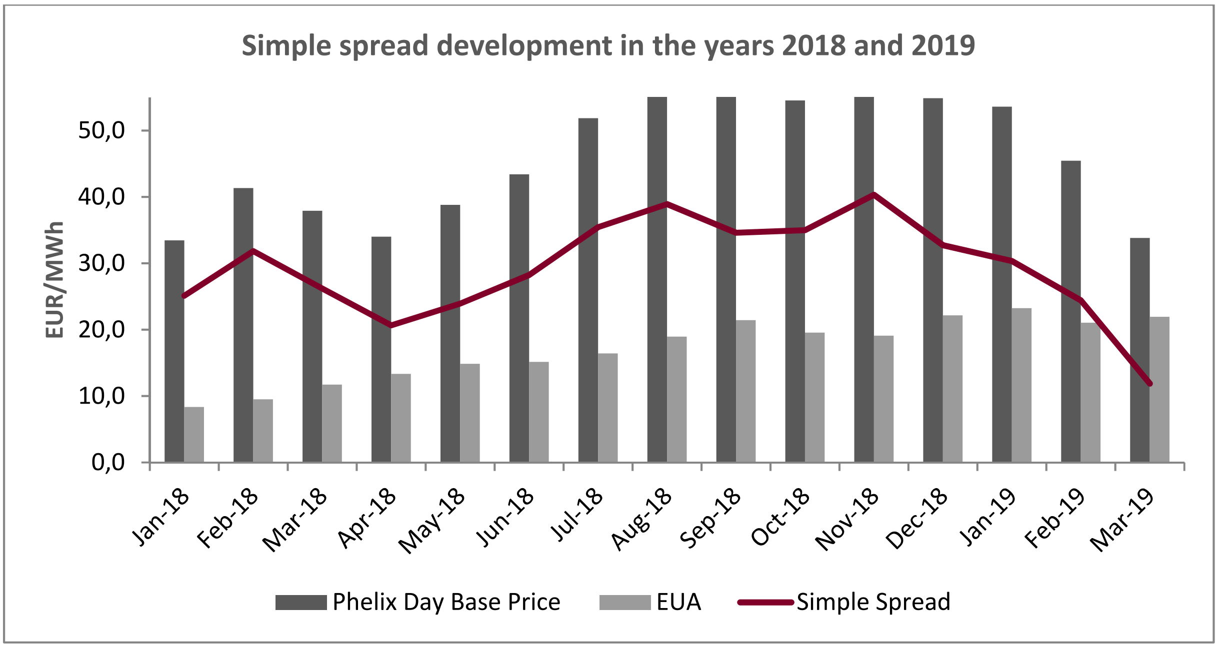
On the Czech market, electricity production from cogenerating units benefits from regulatory support. The CZK 200[7] is received as subsidy for each MWh produced in highly efficient cogeneration mode.

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

[7]Beginning on January 1, 2014 the subsidy was divided into four levels (CZK 328/MWh, CZK 268/MWh, CZK 188/MWh and CZK 173/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 328/MWh level of subsidy.

This subsidy accounted for EUR 3 million in the first quarter 2019 and for EUR 2 million in the first quarter 2018.

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



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

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

Key developments in the first quarter of 2019 and subsequent events

On 11 March 2019, EP Energy offered to purchase up to EUR 41,503,059 aggregate principal amount of its €498,650,000 5.875% Senior Secured Notes due 2019 (the “Notes”) to comply with its obligation to make “Collateral Sale Offers” under the indenture governing the Notes. The Collateral Sale Offer related to net proceeds from the sale of 100% of the shares in Plzeňská energetika a.s. to its parent company, EP Infrastructure, a.s. As a result of collateral sale offer, EP Energy purchased Notes in nominal value of EUR 2.75 million, which was settled on 11 April 2019. Following the collateral sale offer completion, EP Energy shall be using the proceeds for its general corporate purposes like, but not limited to, repayment of the indebtedness, capital expenditures, etc.

On 21 May 2019, EP Infrastructure, a.s., parent company of EP Energy, signed new EUR 265 million term facility agreement. Together with previously issued privately placed EUR 70 million notes and EUR 183 million issue of Schuldschein, EP Infrastructure secured sufficient funding for repayment of 2019 Notes due in November 2019.

Except for the matters described above and elsewhere in the Report on the first quarter of the year 2019 for EP Energy, a.s. or in the condensed consolidated interim financial statements as of March 31, 2019, 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, 2019.

EP Energy, a.s. (the “Company”) Report on the first quarter of 2019

Reporting

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

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, 2019 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, 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 and 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.

Adjusted EBITDA represents profit from operations plus depreciation of property, plant and equipment and amortization of intangible assets minus negative goodwill (if applicable) further adjusted to exclude (i) one-off items related to impairment of PPE and Goodwill recorded in the first quarter 2018 of EUR 10 million, (ii) result from sale of non-core assets (EUR 20 million in year 2018), (iii) adding back (if negative) or deducting (if positive) the timing difference between (a) compensation for the expenses for mandatory purchase and off-take of energy from renewable sources pursuant to the Slovak RES Promotion Act and the Decree recognised in revenues in the relevant period and (b) net expenses accounted for the mandatory purchase of energy from renewable resources in accordance with the Slovak RES Promotion Act, in each case inclusive of accruals and (iv) FY 2018 and Q1 2018 exclude result of Plzeňská energetika (EUR 6 million) as the entity was disposed on May 9, 2018.

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 the regulator and is covered by the System Operation Tariff (“SOT”). For the three-month period ended March 31, 2019 SSE recognised a loss of EUR 16 million (for the three-month period ended March 31, 2018: a loss of EUR 29 million; for year ended December 31, 2018 a loss of EUR 139 million) as the difference between the green energy support costs and revenues from SOT in the period from January 1, 2019 to March 31, 2019. The loss includes revenues adjusted for compensation for past losses, which was recognised as an accrued income as at December 31, 2018 (for 2018 revenues as at December 31, 2017). Total effect on Profit from operations due from the timing imbalance is a profit of EUR 19 million for the three-month period ended March 31, 2019 (a loss of EUR 4 million for the three-month period ended March 31, 2018; a loss of EUR 41 million for year ended December 31, 2018).

	1/2018 – 3/2018	FY 2018	1/2019 – 3/2019
Profit (loss) from operations	83	165	105
Depreciation and amortisation	34	131	33
Simple EBITDA	**117**	**296**	**138**
Add back one-off impairment	10	10	-
Less result from sale of non-core assets	-	(20)	-
Disposal of PE on May 9, 2018	(6)	(6)	
System Operation Tariff (surplus) / deficit	4	41	(19)
Adjusted EBITDA	**125**	**321**	**119**

*Amounts might not sum up due to rounding

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

	4/2018 – 3/2019
Adjusted EBITDA for the period January – March 2019	119
Adjusted EBITDA for the period January – December 2018	321
Adjusted EBITDA for the period January – March 2018	(125)
Adjusted EBITDA (last twelve months)	**315**

*Amounts might not sum up due to rounding

To derive Adjusted EBITDA for the period from April 1, 2018 to March 31, 2019, EPE utilized above calculated Adjusted EBITDA for the year ended December 31, 2018 (Adjusted EBITDA of EUR 327 million) and Adjusted EBITDA for the three-month period ended March 31, 2019 (Adjusted EBITDA of EUR 119 million) with the three-month period ended March 31, 2018 (Adjusted EBITDA of EUR 131 million) as comparatives.

The 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, 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 Adjusted EBITDA to assess our performance. EBITDA and Adjusted EBITDA are not measures calculated in accordance with IFRS and our use of the terms EBITDA and Adjusted EBITDA may vary from others in our industry. EBITDA and Adjusted EBITDA differ from Consolidated EBITDA and/or Adjusted EBITDA as may be defined in the Indenture. EBITDA and 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, 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, 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, 2018: CZK 25.402 per EUR 1.000
- Three-month period ended March 31, 2019: CZK 25.682 per EUR 1.000

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

- As of December 31, 2018: CZK 25.725 per EUR 1.000
- As of March 31, 2019: CZK 25.800 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 2018**	**1-3 2019**
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 until its disposal on May 9, 2018	Not consolidated
EP ENERGY TRADING, a.s.	Fully consolidated	Fully consolidated
Stredoslovenská energetika, a.s.	Fully consolidated	Fully consolidated
Stredoslovenská distribučná, 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, 2018[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 April 9, 2019

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 2019, the EPE Group had consolidated sales and EBITDA of EUR 614 million and EUR 138 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 2019.

For a list of EPE’s other subsidiaries and minority interests, see Note 32 to EPE’s unaudited condensed consolidated interim financial statements as of and for the three-month period ended March 31, 2019.

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

Power Distribution and Supply:

The Power Distribution and Supply segment consists of a Power Distribution division and a Supply division. The Supply division primarily supplies power and natural gas to end-consumers in the Czech Republic and Slovakia. In addition, this segment contains distribution of electricity in the central Slovakia region. This segment is mainly represented by SSE, SSD, EPET, EP Sourcing, a.s. ("EPS") and EP Cargo a.s. ("EPC").

Renewables:

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

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, 2018	2019
Total sales		
Heat Infra	221	211
Power Distribution and Supply	348	451
Renewables	1	1
Total segments	**570**	**663**
Other	-	1
Holding	-	-
Intersegment eliminations	(50)	(50)
Consolidated data	**520**	**614**
Depreciation and amortization		
Heat Infra	(18)	(16)
Power Distribution and Supply	(16)	(16)
Renewables	-	(1)
Total segments	**(34)**	**(33)**
Other	-	-
Holding	-	-
Intersegment eliminations	-	-
Consolidated data	**(34)**	**(33)**
Negative goodwill		
Heat Infra	-	-
Power Distribution and Supply	-	-
Renewables	-	-
Total segments	**-**	**-**
Other	-	-
Holding	-	-
Intersegment eliminations	-	-
Consolidated data	**-**	**-**
Profit/(loss) from operations		
Heat Infra	49	48
Power Distribution and Supply	33	58
Renewables	1	-
Total segments	**83**	**106**
Other	-	1
Holding	-	-
Intersegment eliminations	-	(2)
Consolidated data	**83**	**105**
EBITDA[(1)]		
Heat Infra	67	64
Power Distribution and Supply	49	74
Renewables	1	1
Total segments	**117**	**139**
Other	-	1
Holding	-	-
Intersegment eliminations	-	(2)
Consolidated data	**117**	**138**

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

Heat Infra

The Heat Infra segment accounted for 57.3% of consolidated EBITDA for the first quarter 2018 and 46.0% of consolidated EBITDA for the first quarter 2019, 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 and United Energy 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,	
		2018	**2019**
Installed heat capacity[1]	MW_{th}	3,323	3,126
Heat supplied	TJ	9,933	8,559
Installed cogeneration capacity	MW_e	894	804
Installed condensation capacity	MW_e	360	339
Certified grid balancing capacity[2]	MW_e	521	409
Cogeneration production	GWh	921	814
Condensation production	GWh	539	345
Grid balancing services	GWh	767	502

(1) Heat capacity installed on heat exchangers

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

Installed heat capacity

Installed heat capacity decreased by 197 MW_{th}, or 5.9%, to 3,126 MW_{th} as of March 31, 2019, as compared to 3,323 MW_{th} as of March 31, 2018. This decrease was due to the fact that the Group disposed PE with total installed heat capacity of 197 MW_{th} .

Heat supplied

Heat supplied decreased by 1,374 TJ, or 13.8%, to 8,559 TJ for the first quarter 2019 as compared to 9,933 TJ for the first quarter 2018. This decrease was primarily due to the worse weather conditions and disposal of PE in May 2018.

Installed capacity

Installed cogeneration capacity decreased by 90 MW_e, 10.1%, to 804 MW_e at March 31, 2019, as compared to 894 MW_e at March 31, 2018. This decrease was due to the disposal of PE, which operated total installed cogeneration capacity of 90 MW_e, in the beginning of May 2018.

Installed condensation capacity decreased by 21 MW_e, 5.8%, to 339 MW_e at March 31, 2019, as compared to 360 MW_e at March 31, 2018. This decrease was due to the disposal of PE.

Certified grid balancing capacity decreased by 112 MW_e, or 21.5%, to 409 MW_e at March 31, 2019, as compared to 521 MW_e at March 31, 2018. This decrease was due to the disposal of PE.

Cogeneration production

Cogeneration production decreased by 107 GWh, or 11.6%, to 814 GWh for the first quarter 2019, as compared to 921 GWh for the first quarter 2018. Essentially, all CHPs produced slightly lower volume of power in cogeneration mode primarily due to the worse weather conditions and lower heat demand that allowed slightly lower production in cogeneration mode and secondly the decline is driven by disposal of PE operations in the beginning of May 2018.

Condensation production

Condensation generation decreased by 194 GWh, or 36.0%, to 345 GWh for the first quarter 2019, as compared to 539 GWh for the first quarter 2018. This lower production was primarily due to the decrease in Simple spread in the first quarter 2019 as compared to the first quarter 2018 and the disposal of PE.

Grid balancing services

Grid balancing services decreased by 265 GWh, or 34.6%, to 502 GWh for the first quarter 2019, as compared to 767 GWh for the first quarter 2018. This decrease in grid balancing services primarily reflects a disposal of PE on May 9, 2018 (decrease of 219 GWh).

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,	
		2018	**2019**
Total sales	in EUR millions	221	211
EBITDA	in EUR millions	67	64

EBITDA

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

EBITDA decreased by EUR 3 million, or 4.5%, to EUR 64 million for the first quarter 2019 as compared to EUR 67 million for the first quarter 2018. The decrease (apart from scope changes and one-off non-cash impairment recorded in 2018) was primarily due to warmer weather, which resulted into lower heat consumption and subsequently by more expensive emission allowances.

Power Distribution and Supply

The Power Distribution and Supply segment accounted for 41.9% of consolidated EBITDA for the first quarter 2018 and 53.2% of consolidated EBITDA for the first quarter 2019, 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 Stredoslovenská energetika, a.s., Stredoslovenská distribučná, a.s., EP ENERGY TRADING, a.s., EP Sourcing, a.s. and EP Cargo a.s.

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

		For the three-month period ended March 31,	
		2018	**2019**
Power traded	GWh	1,180	1,661
Power supplied	GWh	614	758
Natural gas traded	GWh	336	318
Natural gas supplied	GWh	832	773

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

		For the three-month period ended March 31,	
		2018	**2019**
Power distributed	GWh	1,758	1,750
Power traded	GWh	1,703	1,504
Power supplied	GWh	1,130	1,180
Natural gas supplied	GWh	180	217
Power produced	GWh	3	3
Installed capacity	MW_e	63	63

Power distributed

Power distributed by SSD reached 1,750 GWh for the first quarter 2019, which represents a decrease by 8 GWh, or 0.5%, as compared to the first quarter 2018. We registered a decrease namely on medium voltage level.

Power traded

Power traded (excluding SSE) increased by 481 GWh, or 40.7%, to 1,661 GWh for the first quarter 2019 as compared to 1,180 GWh for the first quarter 2018. This increase in power traded was caused by larger amount of deals coming to delivery in comparison to the first quarter 2018.

Power traded realized by SSE reached 1,504 GWh for the first quarter of year 2019, which is a decrease of 11.7%, or 199 GWh, as compared to 1,703 GWh for the first quarter of year 2018.

Power supplied

Power supplied (excluding SSE) increased by 144 GWh, or 23.5%, to 758 GWh for the first quarter 2019 as compared to 614 GWh for the first quarter 2018. This decrease in power supplied reflects higher consumption of EPET wholesale customer portfolio.

Power supply realized by SSE reached 1,180 GWh for the first quarter 2019, which is an increase by 50 GWh, or 4.4%, as compared to 1,130 GWh for the first quarter 2018.

Natural gas traded

Natural gas traded (excluding SSE) decreased by 18 GWh, or 5.4%, to 318 GWh for the first quarter 2019 as compared to 336 GWh for the first quarter 2018. This decrease in natural gas traded was caused by lower volume of deals coming to delivery in comparison to the first quarter 2018.

Natural gas supplied

Natural gas supplied (excluding SSE) decreased by 59 GWh, or 7.1%, to 773 GWh for the first quarter 2019 as compared to 832 GWh for the first quarter 2018. This decrease in natural gas supplied reflects lower consumption of EPET customer portfolio due to the better weather conditions in the first quarter 2018.

Natural gas supplied by SSE reached 217 GWh for the first quarter 2019, which is an increase by 37 GWh, or 20.6%, as compared to 180 GWh for the first quarter 2018. 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,	
		2018	**2019**
Total Sales..	in EUR millions	348	451
EBITDA	in EUR millions	49	74

EBITDA

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

EBITDA increased by EUR 25 million, or 51.0%, to EUR 74 million for the first quarter 2019 as compared to EUR 49 million for the first quarter 2018. EBITDA realized by SSE Group (including SSD) increased by EUR 24 million which is primarily result of the System Operations Tariff ("SOT") effect (see the section Regulatory contingent assets related to green energy), that had a positive effect of EUR 19 million in the first quarter 2019, while negative effect of EUR 4 million in the first quarter 2018 (i.e. positive EUR 23 million on period-to-period basis). EBITDA without "SOT" impact realized by SSE Group increased by EUR 1 million to EUR 51 million in the first quarter 2019, as compared to EUR 50 million in the first quarter 2018.

Renewables

The Renewables segment accounted for 0.9% of consolidated EBITDA for the first quarter 2018 and for 0.7% of consolidated EBITDA for the first quarter 2019, 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,	
		2018	**2019**
Installed Capacity	MW_e	14	14
Power Production........	GWh	5	7

Installed capacity

Installed capacity remained at 14 MW_e as of March 31, 2019 and March 31, 2018.

Power production

Power production increased by 2 GWh to 7 GWh for the first quarter 2019, as compared to 5 GWh for the first quarter 2018.

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,	
		2018	**2019**
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 2019 and 2018.

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	**2018**	**2019**
Capital expenditures relating to tangible fixed assets..	2	4
Capital expenditures relating to intangible fixed assets excluding emission rights	-	-

Capital expenditures relating to tangible fixed assets increased by EUR 2 million, or 100.%, to EUR 4 million in the first quarter 2019 from EUR 2 million in the first quarter 2018.

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	**2018**	**2019**
Capital expenditures relating to tangible fixed assets..	8	9
Capital expenditures relating to intangible fixed assets excluding emission rights	-	-

Capital expenditures relating to tangible fixed assets increased by EUR 1 million, or 12.5%, to EUR 9 million in the first quarter 2019 from EUR 8 million in the first quarter 2018. The majority of these capital expenditures are directly connected to SSE’s operations, namely technical improvements on existing distribution network and extension of distribution network of EUR 6 million in both periods.

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

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

The EPE Group

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

Key income statement line items

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Results of operations of the EPE Group

The following sections provide a period-by-period comparison of the EPE Group's historical income statement data. The financial data has been prepared in accordance with IFRS, and has been derived from the EPE's condensed consolidated interim financial statements for the three-month period ended March 31, 2019 (which include financial information for the three-month period ended March 31, 2018 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 2019 compared to the first quarter 2018

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, 2019, 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".

	2018 (three months)	**2019 (three months)**
Sales: Energy	517	607
of which: Electricity	*335*	*395*
Heat	*141*	*135*
Gas	*36*	*68*
Coal	*5*	*9*
Sales: Other	4	6
Gain (loss) from commodity derivatives for trading with electricity and gas, net	(1)	1
Total sales	**520**	**614**
Cost of sales: Energy	(351)	(427)
Cost of sales: Other	(5)	(8)
Total cost of sales	**(356)**	**(435)**
Subtotal	**164**	**179**
Personnel expenses	(23)	(22)
Depreciation and amortization	(34)	(33)
Repairs and maintenance	(2)	(2)
Emission rights, net	(7)	(14)
Taxes and charges	(1)	(1)
Other operating income	8	9
Other operating expenses	(25)	(14)
Own work capitalised	3	3
Profit (loss) from operations	**83**	**105**
Finance income	3	-
Finance expense	(15)	(11)
Net finance income (expense)	**(12)**	**(11)**
Gain/(loss) on disposal of subsidiaries, special purpose entities, joint ventures and associates	-	-
Profit (loss) before income tax	**71**	**94**

	2018 (three months)	2019 (three months)
Income tax expenses	(20)	(22)
Profit (loss) for the period	**51**	**72**
Items that are or may be reclassified subsequently to profit or loss:		
Foreign currency translation differences for foreign operations	(8)	2
Foreign currency translation differences from presentation currency	5	(3)
Effective portion of changes in fair value of cash flow hedges, net of tax	4	(16)
Other comprehensive income for the period, net of tax	**1**	**(17)**
Total comprehensive income for the period	**52**	**55**
Profit (loss) attributable to:		
Owners of the Company		
Profit for the year from continuing operations	39	51
Profit for the year attributable to owners of the company	**39**	**51**
Non-controlling interest		
Profit for the year from continuing operations	12	21
Profit for the year attributable to non-controlling interest	**12**	**21**
Profit (loss) for the period	**51**	**72**
Total comprehensive income attributable to:		
Owners of the Company	40	35
Non-controlling interest	12	20
Total comprehensive income for the period	**52**	**55**

Key line items

Sales: Energy

Sales: Energy increased by EUR 90 million, or 17.4%, to EUR 607 million for the first quarter 2019 as compared to EUR 517 million for the first quarter 2018.

Sales of electricity

Sales of electricity increased by EUR 60 million, or 17.9%, to EUR 395 million for the first quarter 2019 as compared to EUR 335 million for the first quarter 2018. This increase was caused primarily by larger amount of deals coming to delivery in the first quarter 2019, as compared to the first quarter 2018 and by timing of compensation for purchase tariff for green energy.

Sales of heat

Sales of heat decreased by EUR 6 million, or 4.3%, to EUR 135 million for the first quarter 2019 as compared to EUR 141 million for the first quarter 2018. The decrease in sales of heat was primarily due to lower volume of heat sold due to worse weather conditions and disposal of PE in Q2 2018.

Sales of gas

Sales of gas increased by EUR 32 million, or 88.9%, to EUR 68 million for the first quarter 2019 as compared to EUR 36 million for the first quarter 2018. This increase is primarily result of one-off deals realised by SSE.

Sales of coal

Sales of coal increased by EUR 4 million, or 80.0%, to EUR 9 million for the first quarter 2019 as compared to EUR 5 million for the first quarter 2018.

Sales: Other

Sales: Other increased by EUR 2 million, or 50.0%, to EUR 6 million for the first quarter 2019 as compared to EUR 4 million for the first quarter 2018.

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 to positive EUR 1 million for the first quarter 2019 as compared to negative EUR 1 million for the first quarter 2018. This resulted from fair value re-measurement of trading derivatives as at the date of financial statement.

Cost of sales: Energy

Cost of sales: Energy increased by EUR 76 million, or 21.7%, to EUR 427 million for the first quarter 2019 as compared to EUR 351 million for the first quarter 2018. This increase in Cost of sales: Energy was primarily due to higher trading activities, which resulted in higher electricity and natural gas purchases.

Cost of sales: Other

Cost of sales: Other increased by EUR 3 million, or 60.0%, to EUR 8 million for the first quarter 2019, as compared to EUR 5 million for the first quarter 2018.

Personnel expenses

Personnel expenses decreased by EUR 1 million, or 4.4%, to EUR 22 million for the first quarter 2019 as compared to EUR 23 million for the first quarter 2018.

Depreciation and amortization

Depreciation and amortization decreased by EUR 1 million, or 2.9%, to EUR 33 million in the first quarter 2019 as compared to EUR 34 million for the first quarter 2018.

Repairs and maintenance

Repairs and maintenance remained at EUR 2 million for the first quarters 2019 and 2018.

Emission rights, net

Emission rights, net increased by EUR 7 million, or 100.0%, to negative EUR 14 million for the first quarter 2019 as compared to negative EUR 7 million for the first quarter 2018, which primarily results higher EUA prices in the first quarter 2019 as compared to previous year and from continuing decrease of emission allowances free allocation.

Taxes and charges

Taxes and charges remained at EUR 1 million for the first quarters 2019 and 2018.

Other operating income

Other operating income increased by EUR 1 million, or 12.5%, to EUR 9 million for the first quarter 2019 as compared to EUR 8 million for the first quarter 2018. The changes were not material.

Other operating expenses

Other operating expenses decreased by EUR 11 million, or 50.0%, to EUR 14 million for the first quarter 2019 as compared to EUR 25 million for the first quarter 2018. The decrease relates primarily to the impairment losses on Plzeňská energetika in the first quarter 2018.

Finance income

Finance income decreased by EUR 3 million, or 100%, to EUR 0 million for the first quarter 2019 as compared to EUR 3 million for the first quarter 2018. Decrease of finance income is fully attributable to FX result.

Finance expense

Finance expense decreased by EUR 4 million, or 26.7%, to EUR 11 million for the first quarter 2019 as compared to EUR 15 million for the first quarter 2018. Finance expense is primarily represented by interest expense from debentures and loan provided by parent company.

Income tax expenses

Income tax expenses increased by EUR 2 million, or 10.0%, to EUR 22 million for the first quarter 2019 as compared to EUR 20 million for the first quarter 2018. Increase of income tax is result of higher 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 18 million to negative EUR 17 million for the first quarter 2019 as compared to positive EUR 1 million for the first quarter 2018. It is primarily result of change in fair value of cash-flow hedges.

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 2018 and 2019.

	For the three-month period ended March 31,	
	2018	2019
	In million EUR	
Operating profit before changes in working capital	**137**	**148**
Selected changes to working capital		
Change in trade receivables and other assets	7	(34)
Change in trade payables and other liabilities	(25)	(16)
Change in inventories (including proceeds from sale)	3	1
Changes in restricted cash	1	-
Cash flows generated from (used in) operating activities	**115**	**86**
Cash flows from (used in) investing activities	**(18)**	**(15)**
Cash flows from (used in) financing activities	**-**	**(35)**
Total changes in cash flows	**97**	**36**

Operating Activities

Cash flows generated from (used in) operating activities decreased by EUR 29 million, or 25.2%, to EUR 86 million for the first quarter 2019, as compared to EUR 115 million for the first quarter 2018. This change is primarily due to change in working capital that was partially offset by better profit for the first quarter 2019.

Investing Activities

Cash flows used in investing activities was lower by EUR 3 million or 16.7% to negative EUR 15 million for first quarter 2019, as compared to EUR 18 million in the first quarters 2018.

Financing Activities

Cash flows used in financing activities increased by EUR 35 million to negative cash flows used in financing activities of EUR 35 million for the first quarter 2019, as compared to negative cash flows from financing activities of EUR 0 million for the first quarter 2018. Negative cash flow in first quarter 2019 related primarily to repayment of loans.

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 2018 and 2019, capital expenditures, irrespective of actual cash flows, were as follows:

	As of and for the three-month period ended March 31,	
	2018	**2019**
Capital expenditures for tangible fixed assets	10	13
Capital expenditures for emission rights (incl. free allocations)	12	15
Total capital expenditures	**22**	**28**
Property, plant and equipment, at depreciated cost	1,528	1,472

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

Capital expenditures for tangible fixed assets increased by EUR 3 million, or 30.0%, to EUR 13 million for the first quarter 2019 as compared to EUR 10 million for the first quarter 2018. 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.

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, 2018 and March 31, 2019.

In EUR millions	**Dec 31, 2018**	**Mar 31, 2019**
Issued debentures at amortised cost	502	510
Loans payable to credit institutions	31	17
Loans payable to other than credit institutions	252	227
of which owed to the parent company / ultimate parent company	*252*	*227*
Lease liabilities (per IFRS 16)	-	46
Total	**785**	**800**
Non-current	274	278
of which owed to the parent company / ultimate parent company	*249*	*226*
Current	511	522
of which owed to the parent company / ultimate parent company	*3*	*1*
Total	**785**	**800**

Off-balance sheet arrangements of the EPE Group

The table below sets out EPE's financial commitments and contingencies as of December 31, 2018 and March 31, 2019.

In EUR millions	Dec 31, 2018	Mar 31, 2019
Granted pledges – securities	611	609
Guarantees given	280	297
Other granted pledges	727	722
Total	**1,618**	**1,628**

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

Majority of commitments is represented by contracts to purchase physical energy in following years by SSE Group in amount of EUR 240 million (2018: EUR 236 million), where physical delivery of the energy will be realised in future and EUR 32 million (2018: EUR 19 million) is related to contracts for purchase of non-current assets. Remaining EUR 25 million (2018: EUR 23 million) arise from different type of service contracts.

Other granted pledges:

In EUR millions	Dec 31, 2018	Mar 31, 2019
Loans granted(1)	255	258
Property, plant and equipment	379	376
Cash and cash equivalents(2)	64	59
Trade receivables	17	17
Inventories	12	12
Total	**727**	**722**

(1) *Total balance of pledged granted loans includes intercompany loans of EUR 252 million (December 31, 2018: EUR 249 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, 2018	Mar 31, 2019
Received promises	357	390
Total	**357**	**390**

Received promises

Received promises mainly comprise the contracts for the future purchase of energy in amount of EUR 270 million (2018: EUR 219 million) and regulatory contingent assets related to green energy of EUR 120 million (2018: EUR 138 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 System Operation Tariff ("SOT"). For the three-month period ended 31 March 2019 SSE recognised a loss of EUR 16 million (for the three-months period ended 31 March 2018: a loss of EUR 29 million) as the difference between the green energy support costs and revenues from SOT in the period from 1 January 2019 to 31 March 2019. The loss includes revenues adjusted for compensation for past losses, which was recognised as an accrued income as at 31 December 2018 (for 2018 revenues as at 31

December 2017). Total effect on Profit from operations due from the aforementioned timing imbalance is an income of EUR 19 million for the three-month period ended 31 March 2019 (a loss of EUR 4 million for the three-month period ended 31 March 2018).

Based on the current Regulatory Framework the cumulated losses incurred in 2017 and 2018 will be compensated in two years' time, i.e. in 2019 and 2020 through an increase of revenues from SOT. Contingent asset as at 31 March 2019 comprises 9/12 of 2018 loss totalling EUR 139 million (i.e. EUR 104 million) and EUR 16 million as a loss incurred in three-month period ended 31 March 2019 (contingent assets as at 31 December 2018 amounted to EUR 139 million).

Based on the RONI decision dated in December 2018 the resulting contingent asset of EUR 97 million originating in the year 2017 was recognized as accrued income in the consolidated statement of financial position as of 31 December 2018 and will be fully collected in the course of 2019 (31 December 2017: 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 was fully collected in the course of 2018). The loss for 2019 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 2020 once a RONI confirmation on the exact amount shall be received.

In the middle of August, Slovak government approved the legal act relating to SOT (amendment to the Slovak Renewable Energy Sources Act) drafted by Slovak Ministry of economy („ME“). Parliament approved the change latter in the year and in November the final version of legal act relating to SOT was published in Official Journal.

Primarily, the legal act transfers SOT clearing duty from the distribution companies to a state owned company, in this case OKTE a.s., from 1 January 2020. Following the current legislation, from the accounting and cash flow perspective, the Group expects the SOT deficit to be fully recognised in statement of financial position in course of 2019 and 2020. Settlement of the receivable is to occur during the course of 2020 and 2021 at the latest.

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.

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

The SSE Group is a party to various legal proceedings. As at 31 March 2019, 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. On 7 March 2019, the regional court cancelled the ERO decision and returned the matter back to ERO for a new proceeding. On 24 April 2019, ERO filed a cassation complaint to the Supreme Administrative Court.

In August 2018, Pražská teplárenská a.s. ("PT") received a notice on the commencement of an administrative procedure concerning the possible commission of an administrative delict under provisions of the Act on Prices, which PT as the seller in the price location "Prague – local gas sources" is alleged to have committed in 2014 by demanding from customers heat energy prices whose amount did not comply with the conditions of price regulation based on cost of inputs under provisions of the Act on Prices. On 10 January 2019, as part of the administrative procedure, PT received a notification on an expert appointment according to which the Energy Regulatory Office asked the appointed expert to prepare an expert opinion on the above. Due to the early phase of the administrative procedure and its unclear results, PT has decided not to create any provisions as at 31 March 2019.

Attachments stored on www.epenergy.cz:

EP Energy, a.s. – Unaudited condensed consolidated financial statements as of and for the three-month period ended March 31, 2019 prepared in accordance with IAS 34 – Interim Financial Reporting.