

Report on the year ended December 31, 2014 for EP Energy, a.s.¹

- ✓ Consolidated sales reached EUR 2,397 million
- ✓ Consolidated EBITDA amounted to EUR 455 million
- ✓ Consolidated pro forma adjusted EBITDA totaled EUR 467 million
- ✓ Indicative Net Consolidated Leverage Ratio amounted to 2.52x



EP Energy, a.s. ("group or Group or EPE or EPE Group") is a vertically integrated energy utility that includes 86 companies. In 2014 the Group was the leading heat supplier in the Czech Republic, the second largest power generator in the Czech Republic and the third largest mining company in Germany. The Group benefits from relatively low exposure to market developments, as a significant majority of EBITDA is generated by regulated assets or assets with long term off take contracts. The Group's key operations are located in the Czech Republic, Slovak Republic and Germany.

¹ This report is also intended for bondholders of CE Energy, a.s.

KEY FIGURES AT A GLANCE

Consolidated financial results in EUR millions

	FY 2013	FY 2014
Sales	1,870.7	2,397.4
EBITDA ¹	380.2 ¹⁰	454.5
Pro forma Adjusted EBITDA ²	492.8 ¹⁰	466.7
Total net debt ³	1,158.7	1,181.5
Indicative EP Energy Net Consolidated Leverage Ratio ¹¹		2.52x
Profit from operations	158.4 ¹⁰	156.6
Profit before tax	144.2	101.8
Net profit attrib. to EPE	113.3	37.7
Total assets	4,235.4	3,967.5
CAPEX ⁴	98.8	133.7

Physical units (EPE excluding SSE)

	FY 2013	FY 2014
Coal production Mt	19.1	20.9
Installed <i>cogeneration</i> Capacity ⁵ ... MW _e	500	500
Installed <i>condensation</i> Capacity ^{5,8} MW _e	750	750
Installed heat capacity ^{5,9} MW _{th}	3,195	3,195
Heat supplied ^{5,6} TJ ⁷	18,875	15,594
Power produced ⁵ GWh	2,980	5,413
Power traded ⁵ GWh	13,197	16,405
Power supplied ⁵ GWh	2,077	2,012
Natural gas supplied ⁵ GWh	2,106	3,203
Saale Energie - Installed capacity .. MW _e	400	400

Physical units SSE

	FY 2013	FY 2014
Power distributed GWh	5,912	5,839
Power traded..... GWh	5,166	5,706
Power supplied GWh	4,413	4,321
Natural gas supplied GWh	104	223
Power produced GWh	19	19
Installed capacity MW _e	62	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, a.s. Group (also "EPE Group"). For further discussion over the EPE Group performance refer to the following pages.

(2) Pro forma Adjusted EBITDA represents pro forma profit from operations plus pro forma depreciation of property, plant and equipment and pro forma amortization of intangible assets minus pro forma negative goodwill (if applicable) further adjusted to exclude effect of the items related to Saale Energie, which lead to an EUR 10.3 million decrease to EBITDA in the year ended December 31, 2014 (for information purposes in 2013: EUR 9.2 million), which, due to the accounting treatment of the specific contractual arrangement with Schkopau (an associate of Saale Energie), are charged to operating costs of Saale Energie but relate to entries that would otherwise not be included in EBITDA.

To derive pro forma consolidated financial information, the EPE Group IFRS consolidated financial statements as of and for the year ended December 31, 2014 have been adjusted to reflect a consolidation of a 60% share in EP Cargo a.s. using the full method of EBITDA consolidation (EUR 3.8 million for 2014, of which EUR 1.9 million relates to period January 1, 2014 to July 31, 2014).

Pro Forma Adjusted EBITDA calculation (in million EUR)

	FY 2014
Profit from operations	156,6
Depreciation and amortization	297,9
Simple EBITDA per FS	454,5
Saale adjustment	10,3
Adj. EBITDA per FS	464,8
EP Cargo Pro Forma Adjustment	1,9
Adj. Pro forma EBITDA	466,7

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

(3) Total net debt balance is based on the consolidated financial statements (Total Loans and borrowings plus Total Financial instruments and financial liabilities less Cash and cash equivalents), but excludes the liabilities towards Pražská teplárenská Holding a.s. (also "PTH") of EUR 12.7 million (2013: EUR 140.1 million). The Total net debt included in this report does not represent the term Indebtedness as may be defined by any documentation for any financial liabilities of the EPE Group.

Net Debt calculation (in million EUR)

		FY 2013	FY 2014
Loans and borrowings (non-current)	<i>add</i>	1 513.7	1 267.3
Financial instruments and financial liabilities (non-current)	<i>add</i>	1.6	0.7
Loans and borrowings (current)	<i>add</i>	45.8	126.4
Financial instruments and financial liabilities (current)	<i>add</i>	5.6	0.8
PTH liability	<i>less</i>	140.1	12.7
Cash and cash equivalents	<i>less</i>	283.1	201.0
HSR cash reserved for pension liabilities	<i>add</i>	15.2	0.0
Net Debt		1 158.7	1 181.5

(4) Excluding emission allowances

(5) The operating data are based on the results of the respective entities on a 100% basis for the full period, regardless of the date when each entity joined the EPE Group or the ownership share of the EPE Group in each entity. Nevertheless, operating data for MIBRAG and Saale Energie are excluded. 2013 data for HSR (acquired on December 31, 2013) includes only Installed capacity.

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

(7) 1 TJ = 0,2778 GWh

(8) Installed condensation capacity in 2013 and 2014 includes 390 MW_e related to Helmstedter Revier GmbH in addition to 360 MW_e for EOP, PE, PT and United Energy.

(9) Installed heat capacity on heat exchangers.

(10) Restated: Fair value of derivatives where the underlying asset is a commodity (trading derivatives) is presented as part of Total sales instead of being recognised as profit or loss from financial operations since January 1, 2014 as described in the Notes to the consolidated financial statements of EP Energy, a.s. as of and for the year ended December 31, 2014. Data for year ended December 31, 2013 were restated with impact of negative EUR 3.2 million on Total sales, Profit/(loss) from operations and EBITDA and Pro forma adjusted EBITDA.

(11) We include in this report the calculation as of December 31, 2014 of our "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.

Difference between consolidation scope for the year 2013 and the year 2014 is described later in section: "Key factors affecting comparability of the results of operations of the EPE Group".

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Attachments:

EP Energy, a.s. - Unaudited condensed consolidated interim statement of comprehensive income for the period from October 1 to December 31, 2014

EP Energy, a.s. - Unaudited condensed consolidated interim statement of cash flows for the period from October 1 to December 31, 2014

EP Energy, a.s. - Consolidated financial statements as of and for the year ended December 31, 2014 are presented in a separate file as an attachment to this report

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

Dear investors, customers and partners,

The 2014 Pro forma Adjusted EBITDA reached EUR 466.7 million, approximately 5% lower compared to 2013.

Our business operations, particularly in Power and Heat segment, were negatively influenced by unusually warm weather during 2014 and, to a lesser extent, by declining power prices and lower allocation of free emission allowances.

Our 2014 EBITDA and cash flows were influenced predominantly by the following:

- Day-degrees (metrics representing weather pattern, difference between reference indoor and actual outdoor temperature integrated over the period; the primary determinant of space heating needs) were in 2014 in the areas we operate almost 21% lower compared to 2013. However, due to decoupled capacity and energy pricing that we use in our key operations, the impact of the temperature was rendered below-proportional.
- Further, even though we primarily rely within our Heat and Power segment on heat generation, continuously weakening power prices, together with lower electricity consumption (again due to the warm weather) and lower allocation of free emission allowances, negatively influenced our results.
- Cash flow results of Stredoslovenská energetika were adversely impacted by the time-shifted reimbursement of regulatory charges relating to green energy subsidies to renewable energy producers in the central Slovakia region (paid by SSE and later reimbursed by system operator). The adverse financial effect incurred in 2014 will be, according to the legislation, compensated in two years' time at the latest. Nevertheless we are in intense negotiations with the regulator seeking earlier compensation and have been already partial successful.
- Foreign exchange rate intervention executed by the Czech National Bank in November 2013 resulting in EUR/CZK spot rate deterioration by approximately 6% leads to lower translation of operating results denominated in CZK (primarily heating revenues) to EUR denominated EBITDA figures. Following the Czech National Bank's statements, we believe, that the foreign exchange rate change is temporary and should be reversing in future.

To cope with declining power prices and short-term higher capex requirements related to IED compliance and modernization of EOP, we have launched savings and optimizations program with the first impacts already materializing in 2014 and aiming at full impact up to EUR 20 million in savings when fully deployed (a combination of CAPEX and EBITDA savings).

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 implement our business strategies in the future.

Yours faithfully,



Tomáš David
Member of the Board and CEO

Economy and Market development

Economy development:

According to the Czech Statistical Office, the Czech gross domestic product adjusted for price, seasonal, and calendar effects increased in the year 2014 by 2.0%, year-on-year and increased by 0.4% in Q4 2014 compared to the previous quarter. The GDP positive development was driven by foreign as well as domestic demand. Final consumption expenditure of households increased by 2.0%, year-on-year.

According to the Federal Statistical Office (Destatis) the German gross domestic product adjusted for price, seasonal, and calendar effects increased in the year 2014 by 1.6%, year-on-year, and increased by 0.7% in Q4 2014 compared to the previous quarter.

According to the Slovak Statistical Office, the Slovak gross domestic product adjusted for price, seasonal, and calendar effects rose in the year 2014 by 2.4% and increased by 0.6% in Q4 2014 compared to the previous quarter.

The outlook for the economy development remains rather uncertain. Nevertheless, according to the Czech National Bank², the Czech GDP should increase by 2.6% in 2015; the Bundesbank³ expects German GDP to grow by 1.0% in 2015 and according to the European Commission⁴, the Slovak GDP should increase by 2.5% in 2015.

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).

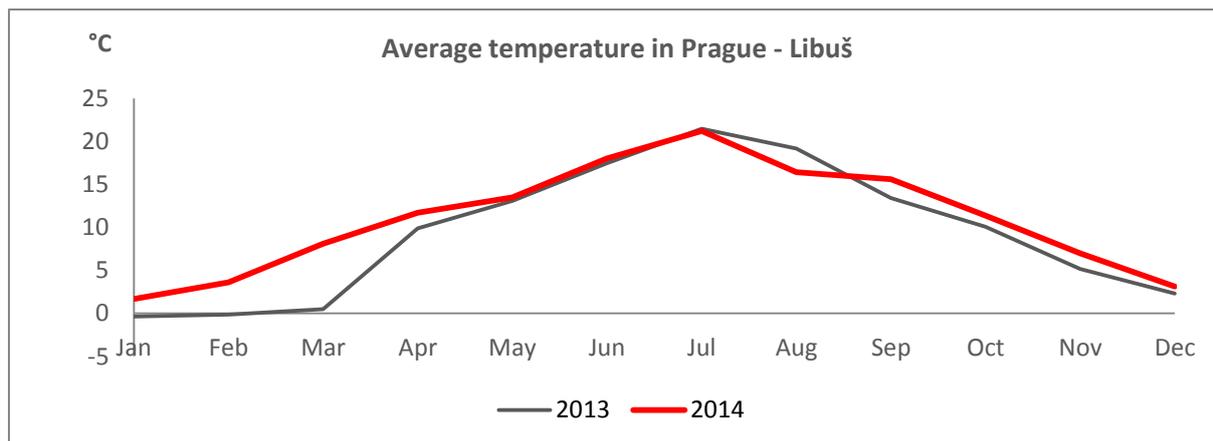
From the heating business perspective, the year 2014 was considerably warmer than previous year. Day-degrees, the metrics representing “coldness” of the weather pattern (difference between reference indoor temperature and actual outdoor temperature integrated over the given period of time), were in the areas where we deliver the heat year-to-year 20.5% lower.

For better illustration, the average temperature in Prague was 4.5 °C in the first quarter 2014 as compared to 0.0 °C in the first quarter 2013 and 7.2°C in the fourth quarter 2014 as compared to 5.9°C in the fourth quarter 2013.

² the most recent forecast published on February 5, 2015

³ the most recent forecast published on December 15, 2014

⁴ the most recent forecast published on February 5, 2015



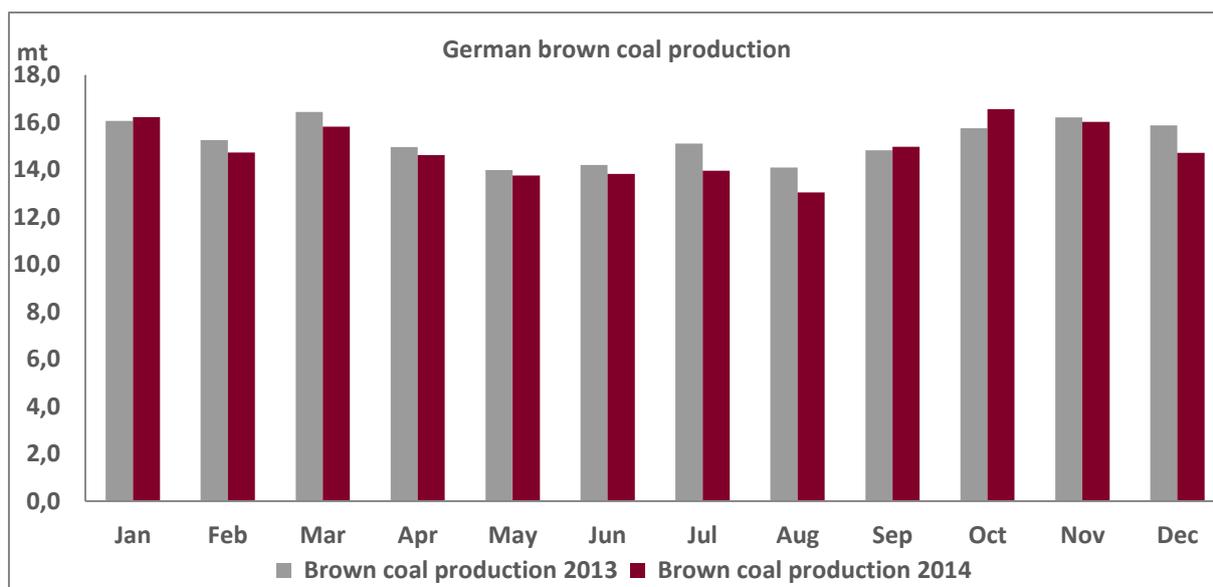
Note: Monthly average temperature calculated from daily averages obtained by ČHMÚ (Czech Hydrometeorological Institute)

German brown coal market:

Unlike hard coal, brown coal is not a commodity traded on international markets and, therefore, brown coal prices and production volumes are less dependent on market developments compared to other fuels. Brown coal production is rather driven by local demand of several power plants, mainly due to relatively high transportation costs and specific design of such power plants to utilize a certain quality of brown coal. Since brown coal is usually sold under long term contracts, the prices of brown coal are typically driven by escalation formulas specified in such contracts. Overall, brown coal is a comparatively cheap fuel, which secures better position of brown coal fuelled power plants in the power generation merit order compared to other fossil fuels such as hard coal, gas or oil. The favorable merit order position translates to a relatively stable share of brown coal on German power generation of around 25%.

Overall brown coal production in Germany slightly decreased from 182.7 million tons in 2013 to 178.2 million tons in 2014, i.e. by 2.5% according to the statistics of Kohlenwirtschaft e.V.

Through our German subsidiary, MIBRAG, we produce and sell brown coal in Central Germany. MIBRAG is the third largest producer of brown coal in Germany with a total annual production of approximately 20.9 million tons. Our two biggest customers (Lippendorf and Schkopau) are efficient, state-of-the-art power plants operating in base load, both well positioned in the German power merit order. This could be demonstrated by the stable demand of our customers, which persisted also in the whole year 2014. Furthermore, we sell our brown coal based on long term contracts with a high degree of price stability, which mainly depends on indexation related to mining costs, such as labour costs increases. Our three major contracts last until 2039, 2021 and 2022 respectively.



Source: Kohlenwirtschaft e.V.

Heat market:

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

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

Heat prices are based on a “costs plus reasonable profit” mechanism, required by the legislation and regulation by the independent Energy Regulatory Office, which we comply with. This mechanism supports the stability of the heat segment for market participants and allows us to benefit from our favourable cost position. Given the low price levels we charge compared to market average, we are allowed to set prices (i.e. there is no tariff imposed to us) and we are only monitored by the Energy Regulatory Office.

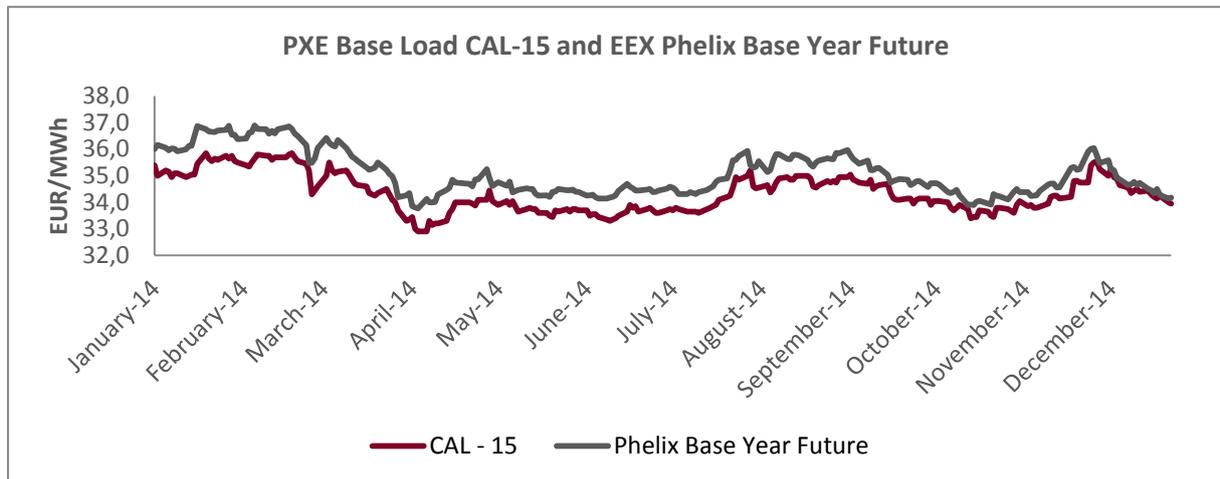
Electricity and CO2 market:

During the entire year 2014 power and EU Allowance (“EUA”) prices remained under pressure due to low prices of hard coal and renewable energy production. In the year 2014 the 1-year forward electricity prices on the European Energy Exchange (also “EEX”) dropped in base load to EUR 35.1 per MWh (compared to EUR 39.1 per MWh year ago) and peak load dropped to EUR 44.4 per MWh (compared to EUR 49.7 per MWh year ago), representing a decrease for the base load and peak load prices of 10.2% and 10.7% respectively.⁵

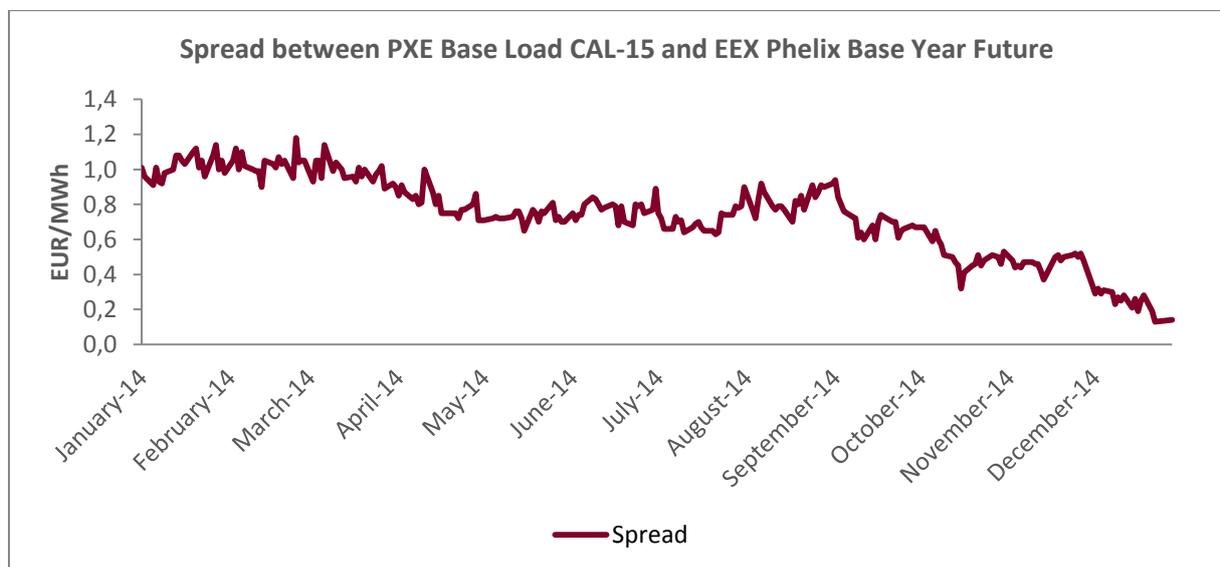
⁵ Source: Thomson Reuters: EEX Base Year Future and Peak Year Future (simple average of the daily price for 1 year forward prices calculated for the respective year)

EUA with spot delivery was traded at average around EUR 5.94 per ton in the year 2014⁶, which represents substantial increase of the y-t-y prices of 32.8%.

As for the Czech market, the power prices follow the German market, as the two markets are physically well interconnected. The spread between German and Czech power prices was oscillating from 0.1 to 1.2 EUR/MWh during the year 2014. The low spreads encourage cross border trading



and, vice versa, the liquidity of the Czech market increases.



Source: PXE Base Load CAL15; EEX Phelix Base Year Future.

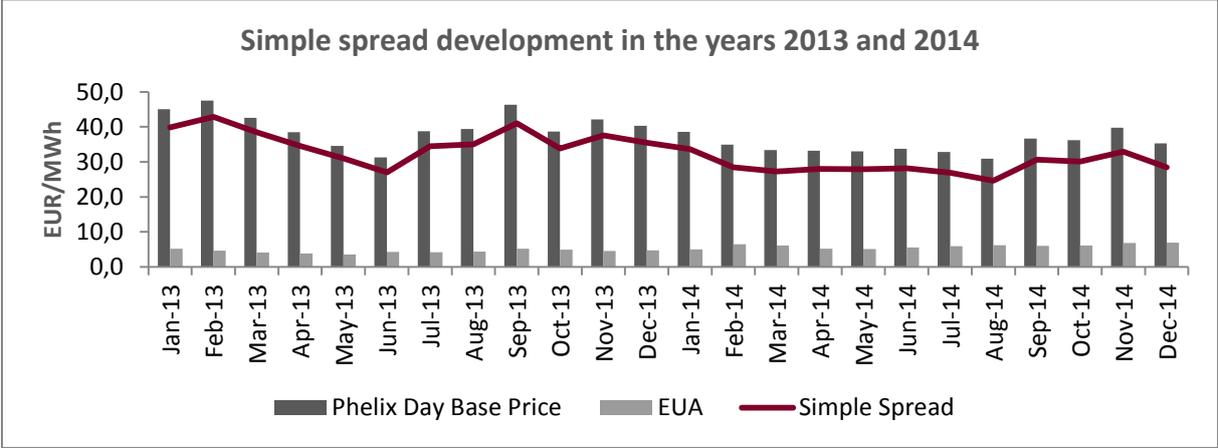
On the Czech market, electricity production from cogenerating units benefits from regulatory support. The CZK 200⁷ is received as subsidy for each MWh produced in highly efficient cogeneration mode.

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

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

These two subsidies accounted for EUR 4.6 million in 2014 as compared to 7.0 million in 2013 especially due to lower production in cogeneration mode by 19.5% caused by warmer weather in 2014.

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.

⁷Beginning 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 year 2014

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

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

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

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

EPE concluded on a revolving credit facility with a group of banks with a maximum utilisation of EUR 150 million.

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

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

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

On July 1, 2014 EPH Financing II, a.s. partially repaid bank loan in an amount of EUR 25.5 million.

On July 2, 2014 EP Renewables a.s. was renamed to VTE Moldava II, a.s.

On July 3, 2014 Severočeská teplárenská, a.s. acquired a 8.68% (of which 2.37% was acquired from third parties) share in PRVNÍ MOSTECKÁ a.s. for EUR 1.0 million (CZK 27 million). The total share in PRVNÍ MOSTECKÁ a.s. thus increased to 100%.

On July 9, 2014 Pražská teplárenská Holding a.s. provided loan to PT Holding Investment B.V. in an amount of EUR 12.6 million (CZK 345 million). This loan will be set off against dividend in 2015.

On July 11, 2014 UNITED ENERGY COAL TRADING POLSKA S.A. was renamed to EP COAL TRADING POLSKA S.A.

On July 22, 2014 EP Renewables II a.s. was renamed to EP Renewables a.s.

On July 31, 2014 the EPE Group acquired 60% share in EŽC a.s. (renamed to EP Cargo, a.s.) for EUR 5.8 million (CZK 160 million).

On August 14, 2014 the sole shareholder of EPE decided on a non-cash decrease of share capital by EUR 243 million (CZK 6,725 million) to optimise the EPE's capital structure.

On August 25, 2014 the Company merged with EPH Financing II, a.s. The successor company is EP Energy, a.s.

On October 9, 2014 EP Energy, a.s. acquired 60% share in PGP Terminal, a.s. for EUR 0.7 million.

On October 22, 2014 EP Energy, a.s. declared and paid an interim dividend of EUR 18 million to CE Energy, a.s.

On October 22, 2014 EP Energy, a.s. prepaid EUR 50 million of the Stredoslovenská energetika acquisition loan.

Subsequent events

The EPE Group is currently considering an internal restructuring of its Renewables business segment to streamline its organizational structure.

On 14 August 2014 the sole shareholder of EPE decided on a non-cash decrease of share capital by EUR 243 million to optimise the Company's capital structure. The decrease of share capital was entered into the Commercial register and became effective on 5 February 2015.

In January 2015, CEE drew a new bank loan from UniCredit Bank Czech Republic and Slovakia, a.s. ("the Bank") totaling EUR 75 million, which was used to purchase CEE bonds in the same amount. On 11 March 2015, the bonds were cancelled. The Bank's security is at the same level as that of the existing CEE bond holders.

In February 2015 the European Court of Justice issued preliminary ruling on gas emission allowances taxation in the Czech Republic. The Czech Republic levied a gift tax at a rate of 32% on greenhouse gas emission allowances acquired free of charge for electricity production. The European Court of Justice concluded that European law (namely Article 10 of Directive 2003/87/EC of the European Parliament and of the Council of 13 October 2003) precludes the imposition of such tax if it does not respect the 10% ceiling on the allocation of emission allowances for consideration laid down in cited article. The Supreme Administrative Court of the Czech Republic is now obliged to apply this preliminary ruling and to determine an amount in which the tax shall be refundable. Following the Supreme Administrative Court ruling that is expected to be issued this year, the other public authorities (courts, tax offices) should conclude all disputes regarding the tax payment in such a way that the tax shall be refunded (in the amount set by the Supreme Administrative Court ruling). With respect to the EPE Group the refund might be in the region of up to EUR 18 million.

On 5 February 2015, a non-cash decrease in the registered capital of EP Energy, a.s. by EUR 243 million was recorded in the Commercial Register. As at the same date, a principal of a short-term loan granted by EP Energy, a.s. of EUR 60 million was offset with a receivable relating to the decreased registered capital. The remaining portion of the parent company's receivable from the decreased capital of EUR 183 million was ceded by CE Energy, a.s. to Energetický a průmyslový holding, a.s. as at the same date. Subsequently, a payable of EP Energy, a.s. to Energetický a průmyslový holding, a.s. amounting to EUR 183 million was fully offset with a loan previously granted to Energetický a průmyslový holding, a.s.

On 28 April 2015, CE Energy entered into a loan agreement as a borrower with UniCredit Bank Czech Republic and Slovakia, a.s. ("UNI") as a lender ("CEE UNI Loan Agreement"). The CEE UNI Loan Agreement provides for a loan of up to EUR 100,000 thousand for the main purpose of refinancing a EUR 75,000 thousand loan between CEE and UNI and for financing of repurchase of the CEE bonds by CE Energy.

Except for the matters described above and elsewhere in the Report, the Company's management is not aware of any other material subsequent events that could have an effect on the consolidated financial statements as at December 31, 2014.

EP Energy, a.s. (the “Company”) Report for the year ended December 31, 2014

Reporting

This report (the “Report”) is the report required under Section 4.03 of the indenture governing the senior secured notes (the “Notes I” or “2019 Notes”), dated as of October 31, 2012 (the “Indenture I” or “2019 Indenture”), 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”) and Section 4.03 of the indenture governing the senior notes (“the Notes III” or “2021 Notes”) dated February 7, 2014 (all also the “Notes” and “Indenture”) for the year ended December 31, 2014.

Presentation of financial information

This Report summarizes consolidated financial and operating data derived from the audited consolidated financial statements of EP Energy, a.s. as of and for the year ended December 31, 2014 prepared in accordance with IFRS as adopted by the European Union (“IFRS”).

Non-IFRS measures

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

Definitions of EBITDA, Pro forma Adjusted EBITDA

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

(2) Pro forma Adjusted EBITDA represents pro forma profit from operations plus pro forma depreciation of property, plant and equipment and pro forma amortization of intangible assets minus pro forma negative goodwill (if applicable) further adjusted to exclude effect of the items related to Saale Energie, which lead to an EUR 10.3 million decrease to EBITDA in the year ended December 31, 2014 (for information purposes in 2013: EUR 9.2 million), which, due to the accounting treatment of the specific contractual arrangement with Schkopau (an associate of Saale Energie), are charged to operating costs of Saale Energie but relate to entries that would otherwise not be included in EBITDA.

To derive pro forma consolidated financial information, the EPE Group IFRS consolidated financial statements as of and for the year ended December 31, 2014 have been adjusted to reflect a consolidation of a 60% share in EP Cargo a.s. using the full method of EBITDA consolidation (EUR 3.8 million for 2014, of which EUR 1.9 million relates to period January 1, 2014 to July 31, 2014).

Pro Forma Adjusted EBITDA calculation (in million EUR)

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

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

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

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

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

Exchange rates

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

- Year ended December 31, 2013: CZK 25.977 per EUR 1.000
- Year ended December 31, 2014: CZK 27.533 per EUR 1.000

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

- As of December 31, 2013: CZK 27.425 per EUR 1.000
- As of December 31, 2014: CZK 27.725 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.

Risk factors

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

These factors include, among others:

Risks related to our businesses and industries

Risks related to each of our segments

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

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

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

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

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

costly to repair and any outages may cause us to lose revenues due to the inability to supply our customers.

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

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

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

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

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

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

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

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

Any service disruption in our businesses may cause disruption to our generation of electricity and heat, brown coal production or customer dissatisfaction and may also lead to liability for damages, the imposition of penalties, including termination of sales agreements with customers, and other

unforeseen costs and expenses. We maintain a significant stock of brown coal to sell to our customers as well as maintain surplus mining equipment in the event of an equipment breakdown. However, in the event that any disruptions at our MIBRAG mining facilities last for a significant amount of time or significantly affect our mining equipment, this would mean we would run out of our reserve stock of brown coal and would not be able to complete supply orders, which could, along with any of the other disruption events and their consequences mentioned above, have a material adverse effect on our business, financial condition, results of operations and cash flows.

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

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

Certain of our businesses are sensitive to variations in weather.

Certain of our businesses are affected by variations in general weather conditions and unusual weather patterns. Our businesses forecast heat and power sales on the basis of normal weather, which represents a long-term historical average. While we also consider possible variations in normal weather patterns and potential impacts on our facilities and businesses, there can be no assurance

that such planning can prevent negative impacts on our businesses. Generally, demand for electricity peaks in the winter and summer, and demand for heat peaks in the winter. Typically, when winters are warmer than expected or summers are cooler than expected, demand for energy, and in the case of winter, heat, is lower, resulting in less demand for heat and electricity than forecasted for our heat and power generation businesses, and our mining business, since we provide brown coal for heat and power plants. When Central Europe experiences longer periods of sunny weather, our solar energy parks are able to produce more electricity, whereas unexpectedly long periods of rain and cloud-cover could significantly reduce our solar energy production. In addition, our MIBRAG's brown coal mines are located in a region of Germany which may be subject to high winds, and, as a result, it has attracted recent wind farm developments. Periods of unusually high winds in Germany, combined with an increase in the number of wind farms and in the efficiency and output of wind farms as a consequence of "repowering" (the replacement of existing turbines with newer, more efficient turbines) measures may increase the amount of wind energy fed into the power grid region supplied by MIBRAG's customers, as well as by Buschhaus. As renewable energy sources are given preferential treatment in Germany, including through priority feed-in rights to the power grid, in general, an increase of renewable energy production has in the past led, and may in the future lead, to a decrease in the amount of energy fed into the power grid by brown coal-fired power plants in Germany and our brown coal-fired power plant customers and hence a corresponding reduction in their brown coal off-take from MIBRAG. Because our production and sale of brown coal is dependent upon the volumes purchased by our local power plant customers, significant variations from normal weather where any of our heat, power or brown coal customers are located could have an adverse impact on our business, financial condition, results of operations and cash flows. Additionally, variations in weather can indirectly affect the outstanding balance owed to SSE in compensation for additional costs paid by SSE in support of renewable energy sources in Slovak Republic. Because SSE partially recovers the compensation through a special tariff charged to end consumers, if customers use less power than the average usage because of warmer winters, then a larger deficit will need to be compensated by the RO correction mechanism. Because the RO's correction mechanism refunds a deficit over two years, any increase in the deficit may temporarily increase our cash flow requirements and have a negative effect on our profits and EBITDA generation.

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

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

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

As renewable power generation expands in Germany and the Czech Republic, there is an increased risk of grid congestion, which may lower the profitability and volume of power generation in our brown coal-fired power plants as well as the demand for MIBRAG's brown coal. Any such reduction

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

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

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

Power and heat

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

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

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

In our power generation business, we attempt to minimize our exposure to price volatility and to achieve margin stability by selling forward the electricity generated by us typically up to two years in advance under one calendar year contracts. However, it may not be possible to enter into forward sales on commercially acceptable terms, or at all, for any or all of the electricity generated at our plants. Moreover, we sell some of our electricity on the spot markets and, therefore, despite our attempts to minimize our exposure to electricity price volatility, such volatility could have a material adverse impact on our business, financial condition, results of operations and cash flows. The amount and proportion of our power generation sold this way may increase to the extent our business becomes more focused on generating power in condensation mode.

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

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

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

As our operations emit CO₂, we are subject to the European Union Emissions Trading System (“EU ETS”) which works on a “cap and trade” principle and limits the annual amount of CO₂ we can emit. In the Czech Republic, the New Czech Emissions Allowances Act (Act No. 383/2012 Coll., on conditions for trading with emission allowances, as amended) has enabled the trading of emissions allowances and the distribution of a certain amount of free emissions allowances with effect as of January 1, 2013. Although we seek to limit our exposure to the volatility of the market for emissions

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

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

Mining

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

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

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

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

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

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

Shale gas and liquefied natural gas

In addition to the above, an increase in natural gas imports into Europe through existing and new pipelines, increased liquefied natural gas imports, an increase in conventional natural gas production from existing and new fields and further development of shale gas production or hydraulic fracturing, in particular in Europe, might lead to substantially lower power prices as well as render production of electricity and heat from brown coal uneconomical. Despite the current lack of extensive shale gas exploitation in Europe, certain countries, including Germany and the Czech Republic, are enhancing scientific evaluations of the chances and risks of an increase in shale gas exploitation through new techniques or are considering legislation to permit or, where it is already generally permitted,

facilitate such exploitation in the future or introduce more precise regulations for the permissibility of certain methods of shale gas exploitation. Any increase in the availability of natural gas could cause the prices for our brown coal, as well as those of the power we sell, to decrease, either of which could have an adverse effect on our business, financial condition, results of operations and cash flows.

Power distribution and supply

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

A significant portion of SSE's expenses are its costs of purchasing electricity and, to a much smaller degree, gas, which are heavily influenced by prices in the world market for electricity, gas and fuel oil and other commodities, such as coal or uranium. The prices for such commodities have historically been volatile and there is no guarantee that prices will remain within projected levels. In order to manage the volatility and risk exposure, SSE implements a hedging and risk management strategy as described in SSE's audited consolidated accounts for the year ended December 31, 2014. However, there can be no assurance that these measures will be effective at all times to manage the risk of material changes in gas and electricity prices, and SSE could experience significant price fluctuations which are not adequately hedged and which can adversely affect its financial position and results of operations.

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

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

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

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

With respect to our newly acquired company, HSR, the license to operate Buschhaus is currently aligned with the remaining life of the adjacent brown coal mine, which will be exhausted at the end of 2016. We will therefore need to apply for a new license to operate the power plant before the

current license expires. We currently plan to apply for a new license in 2015, and while we do not expect any difficulties in obtaining such license, there is no guarantee that we will be able to obtain the license and to operate Buschhaus after 2016.

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

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

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

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

In the ordinary course of our business, we are exposed to the risk of disruptions in the supply of coal, gas, power or other raw materials or transportation. Our generation operations depend upon obtaining deliveries of adequate supplies of raw materials on a timely basis and are therefore vulnerable to changes in the supply of these raw materials, in particular brown coal. In our Mining segment, we are also dependent on the availability of trucking and rail services to transport our brown coal to certain of our customers. In our Power distribution and supply segment (including SSE), a significant proportion of our supplied electricity is purchased. SSE does not operate any material electricity or gas generation facilities. SSE purchases a significant proportion of its electricity from Slovenské elektrárne, a.s., the dominant Slovak electricity producer. Any significant shortages or interruption in the supply of raw materials or transportation services or amendments to laws and regulations affecting such supply or services could disrupt our operations and increase our costs, which could have a material adverse effect on our business, financial condition, results of operations and cash flows. For example, we may be forced to meet our fuel requirements by purchasing fuel at market prices, exposing us to market price volatility and the risk that fuel and transportation may not be available during certain periods at any price. Furthermore, as certain of our power plants are calibrated to run on certain ranges of grades of brown coal and other fuel, in many cases it may be difficult to find a replacement supplier that is immediately able to meet our raw material

specifications, especially if any such replacement supplier were to have to seek licenses to access additional fuel reserves.

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

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

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

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

For example, our brown coal supply contract with Czech Coal, a Czech mining company which supplied brown coal to our EOP facility, was originally scheduled to terminate at the end of 2015, but was terminated early by Czech Coal and became the subject of a legal dispute between Czech Coal and us. Although we concluded the dispute with Czech Coal by signing an out-of-court settlement, and have replaced the coal from Czech Coal with supplies from MIBRAG, we also have other large brown coal supply contracts under which we could face similar disputes. Should any similar dispute arise in the future, it could result in a shortfall in the supply of brown coal required to operate our heat and power plants. We would attempt to cover any such shortfall through supplies from other suppliers or increased production at MIBRAG. However, MIBRAG's ability to address any additional shortfalls will be limited, especially from 2017 onwards, when we expect to provide all of Buschhaus's brown coal supplies through MIBRAG. As the brown coal we may receive from alternative suppliers (including MIBRAG) may differ in quality from the brown coal we are currently using, additional capital expenditures may be required in order to refit our power plants to accept a different grade of brown coal. Furthermore, the location of any alternative sources (including MIBRAG) could make transporting brown coal from such mines to other power plants more expensive than our current transportation costs. Switching to a different grade of brown coal may result in a reduction of installed capacity and higher SOx emissions at our power plants, which could have an adverse effect on our business, financial condition, results of operations and cash flows. As we are increasingly using MIBRAG coal to supply our power plants, this may increase the risks above as we will become reliant on even fewer suppliers.

Certain clauses in some of our power, heat and coal supply and purchase contracts may be subject to review by antitrust and other regulatory authorities and lead to increased regulatory scrutiny.

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

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

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

We rely on a limited number of customers to purchase all or a significant portion of our brown coal. For example, for the year 2014, MIBRAG generated 75.9% of its revenue (determined in accordance with German GAAP) in respect of three key power plants: Lippendorf, Schkopau and Chemnitz. Although these long-term agreements may only be terminated for cause upon a breach of MIBRAG’s obligations under the contracts during the initial contract term, they do not contain express exclusivity provisions, nor do they guarantee the volumes of brown coal sold. Moreover, if these agreements were terminated, we might not be able to enter into replacement agreements on the same terms as our existing agreements, or at all. If we were unable to enter into replacement agreements, we would attempt to sell our brown coal to other customers, which may result in lower sales prices and/or lower volumes of brown coal sold. In particular, due to the high costs for transporting brown coal, replacement customers may be difficult to find and may demand lower prices to compensate for the higher transportation costs. In addition, if one or more of the long-term agreements with our major customers were renegotiated to our detriment or terminated or if any of our major customers were to significantly reduce their purchases of brown coal from us or were unable to pay us, our business, financial condition, results of operations and cash flows could be

materially adversely affected. Some of our long-term agreements allow for the review of the pricing terms of the applicable agreement. In addition, notwithstanding the terms of our contracts, our significant customers may attempt in the future to renegotiate their existing long-term agreements for a variety of reasons outside of our control, and depending on our options at the time, we may decide to enter into alternative contractual relationships with these customers which may require us to balance our maximum short-term benefit against our desire to ensure we retain our long-term contractual relationships with our significant customers, which could lead to our business, financial condition, results of operations and cash flows being materially adversely affected.

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

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

We recurrently experience problems meeting the agreed quality specifications for the brown coal delivered to Schkopau. A higher than contracted ash content in our brown coal has caused significant additional expenditures for the operation of Schkopau. However, in May 2013 we were able to reach an agreement with E.ON on this matter, under which we are required to make an annual compensation payment if we do not meet the contractual specifications of ash content in the brown coal we deliver to Schkopau. Such compensation payment is calculated on the basis of brown coal delivered per year and the actual average ash content of delivered brown coal. If the quality of delivered brown coal should exceed the contractual requirements, we would be entitled to a bonus payment. For the coal delivered in 2012, however, we had to make a compensation payment amounting to approximately EUR 0.90 million. We expect to continue to make similar compensation payments to Schkopau in the future.

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

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

In June 2012, we acquired the remaining 50% equity interest in JTSD, the parent company of our mining subsidiary, MIBRAG, the first 50% of which was indirectly contributed to us in June 2011,

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

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

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

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

We may also discover areas of financial concern after making an acquisition that we did not foresee prior to the acquisition. In certain instances, we may have limited time or restricted access to the target and its records and may not always be able to conduct sufficient due diligence prior to completing our acquisition, which may prevent us from realizing the value or achieving the strategic objective we anticipated to result from such investment or result in the need for unanticipated capital expenditures. Further, the historical books, records and contracts of acquired or newly consolidated businesses may be incomplete, and we cannot be certain that corporate and other

actions have all been recorded or completed as required by applicable law. This could lead to adverse consequences, including potential disputes under contracts, the need to make provisions or to write down acquired assets and may place additional demands upon our senior management in order to integrate the business. This could have an adverse effect on our business, financial condition, results of operations and cash flows.

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

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

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

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

In addition, the business, operations and financing of Schkopau largely depend on E.ON. E.ON holds the majority of the partnership interests in Schkopau and the majority of shares in Kraftwerk Schkopau Betriebsgesellschaft mbH ("KSB") which is the operating company for Schkopau. KSB has engaged E.ON as the operating and maintenance contractor to be responsible for the day-to-day

operations of the plant, and Saale Energie has no input in and does not participate in decisions regarding day-to-day operations.

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

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

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

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

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

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

During 2014, we employed in average approximately 6,585 full-time equivalent employees in our operations. Many of our employees are unionized or represented by works councils and may possess

certain bargaining or other rights. These employment rights may require us to expend substantial time and expense in altering or amending employees' terms of employment or making staff reductions. For example, our employees' works councils generally must approve changes in conditions of employment, including salaries and benefits. This requires us to enter into tariff negotiations with the trade union to conclude collective agreements that normally last between 12 and 18 months. While our tariff negotiations have been successful in the past, this may not be the case in the future.

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

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

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

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

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

Furthermore, on November 7, 2013, the Czech National Bank implemented a currency intervention measure by which the Czech Crown was artificially devalued to an exchange rate of CZK 27 per Euro. This represented an almost 10% change from the former market exchange rate of CZK 25 per euro. According to the Czech National Bank, the Czech Crown will continue to be artificially devalued at or around an exchange rate of CZK 27 per euro until at least 2016 as a matter of monetary policy in order to, among other things, stabilize inflation. Public response to the Czech National Bank's intervention has been unusually negative and we cannot anticipate nor predict possible unforeseen ramifications of the currency intervention measure on the Czech economy as a whole.

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

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

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

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

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

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

EPE's 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.

The financial information included in this Report comprises the consolidated financial statements for the EPE Group as of and for the year ended December 31, 2014.

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

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

In 2014 we started the development of the international insurance program that respects the latest trends in the energy industry. The objectives of the program is to optimize the mix of premium, cover scope, limits and deductibles in terms of holding view. However, we maintain an amount of standalone insurance protection that we consider adequate in the ordinary course of operations, but we cannot provide any assurance that our insurance will be sufficient or provide effective coverage under all circumstances and against all hazards or liabilities to which we may be exposed. For example, only some elements of SSE's distribution network are insured, namely transformation stations and substations. Specifically, SSE's insurance does not cover its power lines. Damages or third party claims for which we are not fully insured could materially and adversely affect our business, financial condition, results of operations and cash flows.

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

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

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

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

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

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

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

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

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

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

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

We may not successfully implement our key strategies.

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

Risks related to mining operations

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

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

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

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

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

The reserves in our mines in Central Germany are estimated by Independent Mining Consultants, Inc. ("IMC") to last until approximately 2030, in the case of the Profen mine, and approximately 2040, in the case of the Vereinigtes Schleenhain mine, in each case based on current production plans. If we increase production, including to potentially supply newly acquired power plants and our currently owned power plants with MIBRAG brown coal, the reserves are estimated to be depleted earlier. The success of our plans to extend the life of our mines depends, among other factors, on our ability to expand existing mining fields and to make new mining fields accessible. This may require extensive and costly infrastructure measures such as the relocation of industrial facilities or residential communities and may lead to compensation obligations; for example, in November 2012, a framework agreement on the relocation of the district of Pödelwitz was signed with the city of Groitzsch. As of December 31, 2014, MIBRAG has closed acquisition and relocation agreements with 30 out of 42 households (approximately 71.4% of total households) residing in Pödelwitz on the basis of this framework agreement. We currently estimate compensation payments to be paid by MIBRAG

to the city of Groitzsch and the land owners and residents of Pödelwitz and related expenditure to amount to approximately EUR 40 million, for part of which a provision was made in 2013. Approximately 30% of the EUR 40 million has already been paid in accordance with the signed relocation agreements. The compensation payments and related expenditure may exceed this estimation and the relocation could be delayed, depending on the further process to agree on the exact conditions of the relocation which is planned to be completed in 2018. If this additional field is included in our Main Operating Plan (Hauptbetriebsplan), our reported proven reserves could increase to include the 12 million tons currently classified as probable reserves in the Report, as well as up to 13 million additional tons that are subject to confirmatory surveys, but we cannot be sure whether and, if so, when the new mining field will be included in the Main Operating Plan. In addition to general mining permit requirements, relocation measures may require administrative or judicial proceedings or other legal procedures to enforce the relocation, particularly if agreement on relocation is not reached with affected parties. With such proceedings we risk an unfavorable decision that may delay, complicate or impede projects to expand existing or develop new mining fields. The BVerfG has emphasized in its ruling dated December 17, 2013 that parties affected by such a compulsory acquisition of land must have the possibility of seeking legal protection by challenging the framework operating plan (*Rahmenbetriebsplan*) and not only the permit for the compulsory acquisition of land. In the same ruling, the BVerfG pointed out that a compulsory acquisition of land may only be permitted on the basis of an overall assessment of the interests of the mining operator, the affected land owner and common interests, including, without limitation, aspects of landscape protection, monument preservation, water management, spatial planning and urban development. According to the BVerfG, private parties affected can make a claim for these interests to be considered in a decision of the competent authority pertaining to the compulsory acquisition of land. If we cannot expand existing or acquire new mining fields and make them accessible to increase our reserves, this may adversely affect our business, financial condition, results of operations and cash flows. Our mines will require additional capital expenditures in the future in order to fully exploit these reserves as projected. In addition, since we attempt, where practical, to mine our lowest-cost reserves first, we may not be able to mine all of our reserves at a cost similar to our current operations.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Although we own the land where we are actively mining, this ownership position does not automatically grant us the right to exploit and use any brown coal located there as in Germany the ownership of land does not automatically include ownership of the mineral resources located on or under the relevant piece of land. Ownership of the brown coal will be legally acquired only with its extraction. Such extraction again requires a mining right in the form of an exploitation permit (*Bewilligung*) or mining property (*Bergwerkseigentum*) granted by the competent Mining Authority. In return, mining companies are generally required to make royalty payments. In Germany, a two-tiered royalty system for brown coal-mining companies exists. Under the system, the federal law provides for the general principle of the payment of royalties, but the local state governments are entitled to enact ordinances further specifying the procedures for determination of the amounts of royalty fees to be paid and for the details of payment of such royalty fees. Although the guideline royalty rate under the Federal Mining Act (*Bundesberggesetz* ("BBergG")) of 1980 is 10% of the market value of brown coal production and a statutory cap for a maximum royalty rate of 40% of the market value of brown coal production applies, levies are in many cases waived by the relevant state governments. So-called old mining rights (*alte Gewinnungsrechte*), generally including mining rights granted under the laws of the former German Democratic Republic, are permanently exempt from royalty payment obligations and approximately 71.8% of our MIBRAG brown coal reserves (excluding HSR) are covered by this general exemption. Approximately 0.7% of our MIBRAG brown coal reserves (excluding HSR) are currently covered by rolling exemptions pursuant to ordinances on mining royalty fees of the Federal States of Saxony and Saxony-Anhalt (in both cases until December 31, 2015, *Verordnung des Sächsischen Staatsministeriums für Wirtschaft, Arbeit und Verkehr über Feldes- und Förderabgaben* and *Verordnung des Landes Sachsen-Anhalt über die Feldes- und Förderabgabe*). The remaining 27.5% of our MIBRAG brown coal reserves (excluding HSR) are currently subject to a royalty fee. Although we still have valid exemptions at this time and most of the exemptions have been extended in the past, there always remains an uncertainty whether this will be the case in the future or whether existing exemptions will be revoked or not be extended. There have been in the past proposals by certain political parties in Germany for a reform of the BBergG, which would have led to the discontinuation of the above described exemptions from royalty fees of mining rights granted under the laws of the former German Democratic Republic. While such legislative proposals

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

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

As one of the prerequisites for obtaining a permit to mine a designated mining area, we are required by the German mining authorities to provide a reclamation plan (*Rekultivierungsplan*) which obligates us to restore the mining site in accordance with specific standards. As part of this reclamation plan, we are required to create, and annually adjust, non-cash reserves to cover these future reclamation costs, which are calculated by discounting estimated costs under the reclamation plan to their present value. The IMC Competent Persons Report (the “IMC Report”) estimates reclamation costs of approximately EUR 344 million, which is based on a 2010 expert opinion. In late 2012, MIBRAG obtained an updated expert opinion regarding estimated reclamation costs of both the Profen and Vereinigtes Schleenhain mines, and on that basis the latest estimate of such reclamation costs is on actual price base EUR 324.7 million. As of December 31, 2014, MIBRAG and HSR had a EUR 311.6 million non-cash ecological provision for restoration, decommissioning and other mining provisions booked as a liability included in the consolidated EPE balance sheet pursuant to IFRS, and no cash reserves. Changes to the assumptions used to estimate the present value of the provisions, for example, the discount rate, the inflation rate and the estimated future cash costs related to reclamation, can have a substantial impact on such provisions, and can also have an impact on financial results for the EPE Group. Reclamations with respect to MIBRAG’s Profen mine are currently planned to begin in 2030 and with respect to MIBRAG’s Vereinigtes Schleenhain mine in 2040. We expect to fund the Profen mine reclamation plan with cash from the ongoing operations. We expect to begin accumulating substantial cash reserves to fund the Vereinigtes Schleenhain mine reclamation plan after 2030. We may be required to accumulate cash reserves earlier. We currently incur cash costs of approximately EUR 2-3 million per year for ongoing reclamation and other measures.

Based on a third-party evaluation opinion dated June 26, 2013, which was updated in late 2014, HSR recorded total mine reclamation provisions of EUR 71.2 million according to German GAAP as of December 31, 2014. For the Schöningen mine, our main reclamation actions are expected to begin in 2017 with the greatest impact on cash flow occurring from 2017 to 2020 (expected around EUR 10 million per annum). Reclamation of the old exhausted mines is already ongoing at an annual expenditure of approximately EUR 2 million, and together with Schöningen the reclamation activities will continue beyond 2020, mainly due to the necessary flooding of future end lakes. In addition to its reclamation provisions, HSR also has certain personnel-related provisions.

Currently, the Federal State of Saxony-Anhalt is considering requesting collateral for estimated reclamation costs from mining operators, and similar requests could be made by other states in

which we have mining operations. This could affect MIBRAG in connection with the new Main Operating Plan (*Hauptbetriebsplan*) for years 2015 to 2017.

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

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

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

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

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

Risks related to heat and power generation and distribution

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

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

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

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

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

The distribution of electricity to SSE's distribution networks is dependent upon the infrastructure of the Slovak transmission system. SSE has no control over the operation of this transmission system and it is entirely reliant on the transmission system operator in the Slovak Republic, which is a state-owned entity. Any failure of the Slovak transmission system, including as a result of natural disasters, insufficient maintenance or inadequate development, could prevent SSE from distributing electricity

to its end consumers, which in turn could have a material adverse effect on our business, results of operations and financial condition.

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

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

Risks related to renewables

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

Our renewable energy projects are subject to substantial risks. Projects of this nature are relatively new and have been developed through advancement in technologies that may not be proven or are unrelated to our core businesses. Although renewable energy in the Czech Republic is currently supported by various governmental subsidies and the government proposes prolongation of deadline for commissioning to obtain state subsidies as further described below, it is generally expected that the subsidy scheme for new projects shall be materially reduced or cancelled in the future. In addition, in 2010, with effect as of January 1, 2011, a withholding tax in the Czech Republic in the amount of (i) 26% of the income corresponding to the feed-in tariff or (ii) 28% of the income corresponding to a "green bonus" was imposed on solar power facilities commissioned in 2009 and 2010, which negatively affected three of our solar power facilities that began operating between 2009 and 2010 and are therefore subject to the withholding tax. Such withholding tax was in effect until December 31, 2013. Effective as of January 1, 2014, a withholding tax in the Czech Republic in the amount of (i) 10% of the income corresponding to the feed-in tariff or (ii) 11% of the income corresponding to a "green bonus" was imposed on solar power facilities commissioned between January 1, 2010 and December 31, 2010, impacting Greeninvest Energy, a.s. with installed capacity of 5 MW. Such tax burden applies starting from January 1, 2014 and continuing for the duration of the period during which the respective facility has the right to claim the subsidy. However, we cannot predict any legal developments in respect thereof. See "—Risks related to governmental regulations and laws—We could incur unforeseen taxes, tax penalties and sanctions or could lose tax exemptions and benefits, which could adversely affect our business, financial condition, results of operations and cash flows."

Furthermore, in addition to the imposition of taxes discussed above, renewable energy projects in the Czech Republic not yet commissioned do not benefit from existing government subsidies and face considerable risks resulting from changes in governmental support, such as a waning legislative support for waste-to-energy facilities, which would adversely affect our business in this area. In

addition to imposing taxes or cancelling subsidies, the government could also choose to curb development by issuing fewer authorizations and permits to operate renewable energy facilities, which could make it more difficult and more expensive to expand our renewables business.

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

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

Similar risks may arise in the Czech Republic, where the applicable renewable energy feed-in tariffs may also be subject to changes in the future. In January 1, 2013, a new act on the promotion of renewable energy sources entered into force (Act No. 165/2012 Coll., on Promoted Energy Sources, the “Czech Promoted Energy Sources Act”) which, among other changes, reduced support for certain types of renewable energy sources (for example solar installations), as well as reduced support (through lower feed-in tariffs and lower green bonuses) for new installations in order to combat what was considered to be excessive and unbalanced promotion of renewable energy sources. To support development of on-going projects and to prolong the deadline for commissioning of wind, geothermal, hydro and biomass energy plants to obtain the state support, the amendment to the Czech Promoted Energy Sources Act was enacted in 2013. The amendment, among other things, provides that only facilities that obtained permits prior to October 2013 and are commissioned prior to December 31, 2015 have a right to a subsidy, with an exemption for small hydropower plants with installed capacity less than 10 MW. Moreover, the Czech Government has recently proposed to prolong the deadline for commissioning of wind, geothermal, hydro and biomass energy plants to obtain subsidy from December 31, 2015 to 6-year period commencing from date of issuance of authorization to develop a renewable energy plant provided to an investor by the Czech Ministry of Industry and Trade. The Lower Chamber of the Czech Parliament adopted such amendment on 10 April 2015, whereas the Upper Chamber of the Czech Parliament and the President should deal with the amendment in the coming weeks. Adoption of the amendment would prolong the deadline for commissioning of VTE Moldava till June 19, 2019.

Currently in the Slovak Republic, there is also feed-in support for renewable energy sources. Although the RO is currently safeguarding such support for existing renewable energy assets, including our 9.8 MW solar generation (at SSE) and 2.5 MW hydro generation (at SSE) assets, new renewable energy projects are facing a much more stringent approval process and less feed-in support, which has been scaled back to prevent speculative capital and uncontrolled building of

decentralized generation assets. There have also been some discussions regarding the imposition of a special tax on renewable energy generation assets, inspired by the Czech market. Although no such tax has been imposed, we cannot guarantee that the Slovak government will not impose such a tax in the future. The imposition of such a tax or any similar tax or the withdrawal of renewable energy feed-in support or any other support may adversely affect our business, financial condition, results of operations and cash flows.

We intend to further develop two wind park projects, one in the Czech Republic (VTE Moldava) and the other in Germany (on land owned by MIBRAG). We believe that VTE Moldava it is on track to be commissioned in 2017.

In addition, because these projects depend on technology outside of our areas of expertise in coal-fired power and heat generation, there are risks associated with our ability to develop and manage such projects profitably. At the development or acquisition stage, our ability to predict actual performance results may be hindered and the projects may not perform as predicted. Additionally, these projects can also be capital intensive and generally require us to obtain third party financing, which may be difficult to obtain. As a result, these capital constraints may reduce our ability to develop these projects in the time projected or at all, or at the costs projected. In addition, we only receive feed-in tariffs if our renewable energy assets are operational, and if the wind farm that we are currently developing in the Czech Republic (VTE Moldava) is not commissioned by June 19, 2019 (provided that the amendment to the Czech Promoted Energy Sources Act shall be finally enacted), it will not qualify for existing governmental support. The development of VTE Moldava relies on numerous approvals with an undefined timeline, many elements of which are not within our control. In the event that our renewable energy assets are taken offline or do not qualify for feed-in tariffs, the loss or lack of the feed-in tariff may adversely affect our financial results. Any changes to government regulations and laws, increases in taxation, lack of legislative support or the availability of authorizations and permits or difficulty obtaining licenses/permits or the financing necessary for development of our renewable energy projects could materially and adversely affect our business, financial condition, results of operations and cash flows.

Risks related to power distribution and supply

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

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

value of EUR 5 million in electricity and EUR 1 million in natural gas. If we exceed these thresholds on our open positions, we are required by EPE Group policies to close out of our open positions to a value below these thresholds. Under the current SSE risk policy, exposure to market price risk in electricity and natural gas trading is set by the limits on open financial positions for each trading year and each market segment and by value-at-risk limits for a 12-month horizon (EUR 0.4 million for electricity and EUR 0.3 million for natural gas) and four-year (portfolio) horizon (EUR 0.9 million for electricity and EUR 0.5 million for natural gas). However, despite our risk management policies and monitoring activities, we could be exposed to open positions in excess of those prescribed by our risk management policies if, for example, any of our traders makes trades in violation of our trading policies or changes thereto, or flaws in such policies emerge. Any failure to adhere to our risk management policies or weaknesses in the policies themselves could materially and adversely affect our business, financial condition, results of operations and cash flows.

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

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

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

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

We face competition in the energy supply market.

The energy supply market is very competitive with many businesses operating on the markets in which we trade. Our primary competitors in the Czech energy supply market are RWE, E.ON and ČEZ, a.s. Our supply prices must remain competitive which makes strong profitability a challenge in this

business line. Our customers may leave in order to obtain their energy from other suppliers. In order to compete with other energy suppliers, we may have to reduce our prices further. If we are unable to remain competitive, it may have a negative impact on our business, financial condition, results of operations and cash flows.

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

We are the natural monopoly distributor of electricity in the central part of the Slovak Republic and this activity generated 80.6% of SSE's EBITDA for the year ended December 31, 2014. However, with regard to the supply of electricity and gas, we operate in an increasingly competitive market.

We compete with up to 30 major suppliers of electricity and gas in the Slovak Republic and some of these companies may have greater financial or technical resources than us or other competitive advantages. The majority of competitors offers supply of both commodities: electricity and gas. The fast growing competitors SE Predaj (a subsidiary of the dominant Slovak electricity producer, Slovenské elektrárne, a.s.) and ČEZ (a major regional energy group based in the Czech Republic) are actively seeking to enlarge their customer bases. Reflecting this increasing competition, the rate of customer churn in the Slovak electricity supply market has increased in recent years. In 2013, 4.0% of customers switched their electricity supplier and this number has increased in each year since 2009. In the past, SSE experienced a loss of customers to competitors who offered below-market rates. In addition, market consolidation and changes in ownership structure are expected on the market in coming months. If a significant number of SSE's electricity customers choose to switch their supplier, our supply business and results of operations could be significantly adversely affected.

Risks related to governmental regulations and laws

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

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

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

- use and implementation of CCS technology (carbon capture and storage);
- promotion of the construction of new power plants;
- supply and trading of energy and energy derivatives;
- provisions on security of supply and network stability; and
- tax laws.

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

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

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

Additionally, as a DSO, SSE's subsidiary, Stredoslovenská energetika—Distribúcia, a.s. ("SSE-D") is obliged to purchase electricity from renewable energy sources at regulated prices, which are higher

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

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

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

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

Furthermore, Czech entities will be under a duty to bring several aspects of their operation, including but not limited to holding structures, controlling person restrictions, corporate documentation, management contracts and signatory authorizations into full compliance with the new Czech Civil Code and the Czech Corporations Act. Failure to do so within the legally defined implementation period may in certain cases result in sanctions. In particular, failure of a Czech entity to bring its

corporate documentation into compliance with the Czech Corporations Act within the six month period commencing January 1, 2014 may, upon motion of the relevant court or anyone who has legal interest therein, ultimately lead to the forced termination and liquidation of such entity. The EPE cannot yet fully anticipate the logistical, legal or economic problems inherent in opting in or adopting the requirements of the new Czech Civil Code and the Czech Corporations Act.

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

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

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

Our mining and mineral processing operations also have inherent risks and liabilities associated with damage to and contamination of the environment, particularly landscape, water resources and the disposal of waste products occurring as a result of mineral exploration, production and processing. We may be obliged in the future to improve the quality of our waste water discharges, which could result in higher waste water management costs. In general, the pressure on mining operators to improve their waste water quality has increased since the implementation of the Water Framework Directive (in Germany: by way of amendments to the WHG; in the Czech Republic: Act No. 254/2001 Coll., the Water Act, as amended; in the Slovak Republic: the Slovak Water Act), which regulates, among other things, old mine waste dumps that continue to produce Acid Mine Drainage (AMD) that causes elevated concentrations of iron, sulfates and other particles in groundwater. We are also subject to further significant regulation under German law relating to our mining operations, including groundwater use and discharge of waste water. In the past, we have not met target values (*Zielvorgabe*) for sulfate in the groundwater and have exceeded permitted water emission values and iron levels in water. In addition, the Regulation (EC) No. 1907/2006 on Registration, Evaluation, Authorisation and Restriction of Chemicals ("REACH") introduced strict standards with regard to chemical substances which may only be put into the market if they are permitted as a consequence of being registered in accordance with REACH. This particularly limits our ability to market or use by-products from our power and heat generation such as ashes and slags. Pursuant to REACH, SSE is

required to track chemical substances which are purchased and imported. Any failure to comply with applicable environmental, heritage or health and safety laws or regulations could result in a material interruption or restriction of the EPE Group's development or mining operations, and/or in the imposition of fines, penalties or other liabilities, which could have a material adverse effect on our business, financial condition, results of operations and cash flows.

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

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

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

Furthermore, many of the properties that we own or operate were used for coal mining and/or involved hazardous material usage before we took ownership or operating control. Some of the land which we own or on which we conduct our mining operations is contaminated, in particular, from historical operations, and we are addressing such contaminations at a number of locations in the course of our normal business operations, such as by the removal of the contaminated soil. At some of our sites warfare material could be contained in the soil, such as an unexploded ordnance from military bombardment during World War II. Estimates on the ultimate cost of remediation efforts are difficult to accurately predict and depend on the relevant on-site investigations. If additional contamination is discovered or additional cleanup obligations are imposed at these or other locations, this could lead to interruptions in our operations and production losses or the total costs of

remediation could be substantial, and if they are, could adversely affect our results of operations and cash flow.

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

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

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

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

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

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

80.6% of SSE’s EBITDA for the year ended December 31, 2014 comes from its power distribution activities, which are regulated. SSE’s power supply activities are also regulated within the household and mid-market categories, generating a small incremental percentage of EBITDA.

As a result, we are affected by the pricing decisions made by the RO for distribution tariffs and regulated electricity and gas supply prices in the Slovak Republic that are not foreseeable. The RO may delay or limit tariff rate increases or may decide to apply methodology for the calculation of regulated prices which is less favorable to us for various reasons. For example, the RO has discretion when determining certain variables in tariff calculation formulae, including the value of the regulatory asset base, technical lifetimes of assets and permitted return on the regulatory asset base.

Although the RO is required to apply transparent and justifiable methodology and legal remedies might be available to us in some cases, any delays, mistakes or negative changes affecting the RO's pricing decisions could have an adverse effect on our business, results of operations and financial conditions. Additionally, during the approval process for regulated prices, the RO may request special downward adjustments to a power distributor's margin. Although such negotiations with the RO during this process are typical, in the future the RO may adopt stricter negotiating positions, which may have an adverse effect on our business, results of operations, revenue from regulated activities and financial conditions.

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

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

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

We are exposed to changes in EU ETS and potentially also other nation-wide or regional CO2 emission regulation, if applicable, in the way emissions allowances are allocated, including the conditions attaching to free allocations and the allocation of emissions allowances, as well as volatility in the market prices of emissions allowances that we need to acquire.

In 2005, the European Union introduced the EU ETS. Within the EU ETS, each greenhouse gas emitter is allocated a certain cap by the relevant national government, which is in turn allocated a national cap by the European Commission, within which it is allowed to emit greenhouse gases (such as CO₂).

Any emissions in excess of this cap must be counterbalanced by emissions allowances acquired in the open market at a market price, otherwise the emitter is penalized. Allocations are fixed for a specific trading period. In 2011 and 2012, the allocation of emissions allowances without cost in the Czech Republic to CO₂ emission producers selling electricity to third parties was subject to a gift tax. We expensed tax of CZK 375 million in such tax for the year ended December 31, 2011 and CZK 204 million in such tax for the year ended December 31, 2012. Although this tax is currently only applicable for the years ended 2011 and 2012, any extension or amendment to such tax legislation or introduction of any similar tax in the future, could have a material adverse effect on our business, financial condition, results of operations and cash flows.

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

In December 2013, the European Parliament and the Council adopted Decision No. 1359/2013/EU, amending the ETS Directive proposed by the Commission which clarifies that the timing of auctions may be changed to ensure the functioning of the carbon market. The Commission may hold back emissions allowances representing in total 900 million metric tons of carbon credits which would be released at a later stage. This is expected to lead to a significant increase in the prices for emissions allowances. The details are subject to the implementation by the Commission through the adoption of an amendment to the Auctioning Regulation. Such amendment is subject to participation of the Climate Change Committee as well as the European Parliament and Council, which is currently pending. In January 2014, the EU Commission presented a proposal for legislation to establish a market stability reserve after 2020 providing for an automatic adjustment of the supply of auctioned

allowances downwards or upwards based on a pre-defined set of rules with the goal of enhancing market stability. This proposal does not constitute binding legislation and will be subject to further discussion before potentially being adopted. See “—Risks related to each of our segments—Our revenues and margins of operations may be negatively impacted by volatile prices for power, heat, natural gas, hard coal and emission allowances for CO₂”.

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

In some countries, notably in Germany, a discussion is starting on potential introduction of another emission reduction system to be applied beyond EU ETS with a goal to ensure meeting (country) specific emission reduction targets. Implementation of any additional emissions reduction regulation and/or adoption of stricter emissions reduction targets may have adverse effect on our business, financial condition, results of operations and cash flows.

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

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

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

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

The Directive 2012/27/EU (Energy Efficiency Directive (“EED”)), which targets a 20% increase in energy efficiency by 2020, entered into force on December 4, 2012, obliges Member States to set national energy efficiency targets, report any progress achieved towards these targets to the European Commission by April 30 of each year from 2013 and imposes mandatory energy-savings schemes on utility companies and energy audits on large companies, which may require substantial

capital expenditure by such companies. The EED states that high-efficiency cogeneration and district heating have significant potential for saving primary energy and Member States should carry out a comprehensive assessment of the potential for high-efficiency cogeneration and district heating. New power generation installations and existing installations, which are substantially refurbished or whose permits or licenses have been renewed, should, subject to a cost-benefit analysis showing a cost-benefit surplus, be equipped with high-efficiency cogeneration units to recover waste heat stemming from the production of electricity. The EED further states that Member States should encourage the use of financing incentives to further the objectives of the EED. Such financing incentives could include financial contributions and fines resulting from non-fulfillment of certain provisions of the EED, resources allocated to energy efficiency under EED and in the Multiannual Financial Framework, which regulates the EU's annual budget, cohesion, structural and rural development funds and dedicated European financial instruments.

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

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

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

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

The Czech Renewable Energy Act requires distribution companies to purchase certain amounts of electricity from environmentally friendly “co-generation,” “small hydro,” “decentralized” or “renewable” facilities. This results in significantly higher state support for small generation sources. This support may be in the form of regulated subsidized prices or preferential access for these generation sources to the distribution grid. While we believe that these purchases of electricity by the distribution companies and the preferential treatment of renewable sources will not substantially adversely affect the generation volumes of our conventional generation facilities, we cannot provide any assurance that this will in fact be the case or that the price at which we can sell our power to supply companies will not decrease, which could in turn have a material adverse effect on our business, financial condition, results of operations and cash flows.

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

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

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

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

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

We take tax positions in the course of our business with respect to various tax matters, including but not limited to a company and/or group restructuring(s), taxation of foreign exchange results, compliance with the arm’s length principles in respect of transactions with related parties, exemption of various revenues from taxation, the tax deductibility of interest and other costs and the amount of depreciation or write-down on assets we can recognize for tax purposes. As a vertically integrated group, we are in the process of concluding and will continue to conclude in the future, a significant number of transactions with related parties across various jurisdictions. Specifically, these cross-border transactions relate to the sale/purchase of fuels, emissions allowances and purchase/provision of certain services, as well as other transactions such as cross-border financing transactions. Even though the EPE and its subsidiaries try to carefully follow the arm’s length principle as well as unified standards in respect of dealings with affiliates that function as investment advisors, we cannot preclude potential disputes with the tax authorities which may, in fact, challenge any transaction at their discretion. In particular, in connection with transactions for which there is not an established market price, we may be subject to claims that a price or an interest rate charged by one of our subsidiaries to another subsidiary is lower or higher (as the case may be) than the market price and thus aimed to reduce or avoid payment of taxes. This may be connected, for example, with a result of dynamic changes in the market terms affecting the calculation of sales prices for heat, energy, raw materials and/or services applied in such transactions, if those are not promptly and appropriately adjusted to reflect such changes. In case tax authorities disagree with our position taken and take a different position on any interpretive matter and/or challenge any tax position taken by us in any transaction, we may be subject to additional tax liabilities or penalties

that may have an adverse effect on our business, financial condition, results of operations and cash flows.

In addition, with respect to EPE's German subsidiaries (i.e. JTSD, MIBRAG, HSR, Saale Energie and EP Germany and their respective subsidiaries) are regularly subject to routine tax audits for German corporate income tax, trade tax and value added tax purposes but also for wage tax, energy tax and electricity tax purposes. All tax assessment notices issued for tax periods, which have not yet been subject to a final tax audit, are not yet final and binding and are subject to full review and can be further re-assessed by the tax authorities at any time without restrictions. As a consequence of current or future tax audits or previously completed tax audits for which any final tax assessments have not been issued yet, or as a result of possibly divergent tax law interpretations by the tax authorities or tax courts, JTSD, MIBRAG, EP Germany, HSR, Saale Energie or any of their subsidiaries could be obliged to pay additional taxes, which have not yet been reflected by tax provisions.

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

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

Generally, we are exposed to the changes in the tax legislation and its interpretation (either by tax authorities or relevant courts of particular countries or Court of Justice at the EU). Any such change may have an adverse effect on our business, financial condition, results of operations and cash flows.

A number of EU Member States face significant budget deficits caused, among other reasons, by lower tax revenues related to slow economic growth and the global economic downturn and, as a result, new taxes are being imposed on the utilities sector, such as special sector levies (e.g. special energy sector levy in Slovakia – see also below; currently also under political discussion in the Czech Republic), so called Robin Hood taxes (e.g. Italy, Hungary), gift taxes (e.g. on emission allowances in the Czech Republic). See "—We are exposed to changes in the way emissions allowances are allocated, including the conditions attaching to free allocations and the allocation of emissions allowances, as well as volatility in the market prices of emissions allowances that we need to

acquire.” In this respect, tax authorities may tend to take a more aggressive approach in challenging tax positions taken by tax payers, including EPE and its subsidiaries.

Operators of certain solar electricity producing facilities in the Czech Republic (which have started its operations between January 1, 2009 and December 31, 2010) were subject to a Czech withholding tax in the amount of (i) 26% of the income corresponding to the feed-in tariff, or (ii) 28% of the income corresponding to a “green bonus.” Through our wholly owned subsidiary POWERSUN a.s., we own and operate three solar power facilities with an installed capacity of 3.2 MW_e and we own a 41.7% ownership interest in the Greeninvest Energy, a.s. solar facility, with an installed capacity of 4.0 MW_e in the Czech Republic. Three of these solar power facilities were put into operation between 2009 and 2010 and were therefore subject to the withholding tax. Effective from January 1, 2014, taxation was amended in terms that the operators of certain solar power facilities in the Czech Republic put into operation between January 1, 2010 and December 31, 2010 are newly subject to a Czech withholding tax in the amount of (i) 10% of the income corresponding to the feed-in tariff or (ii) 11% of the income corresponding to a “green bonus”. The tax is to be applied from January 1, 2014 and continue for the duration of the period during which the respective facility has the right to claim the subsidy. We cannot predict any further future changes in the tax legislation, and any extension or amendment to such tax legislation or introduction of other similar tax in the future, could have a material adverse effect on our business, financial condition, results of operations and cash flows. Due to the recent economic crisis, the Slovak Republic has faced significant budget deficits and, as a result, has imposed, since September 1, 2012, a special levy on business in regulated sectors including the energy sector. The levy is due if the share of revenues from regulated activities totals for 50% or more of the total revenues for the respective accounting period. The monthly levy rate is 0.363%, i.e. 4.356% p.a. The base for the levy is the accounting profit in excess of EUR 3 million.

Under the present provisions of the relevant legislation, the special levy should not apply after December 2016. However, we cannot exclude a situation that the special levy will be prolonged or similar taxes will be imposed instead in the Slovak Republic in the future, although none are currently proposed by the government to be approved in the parliament. Any modification of the special levy regulation and/or imposition of any new tax(es) in the Slovak Republic could have an adverse effect on our business, financial condition, results of operations and cash flows.

The imposition of any new taxes in the countries in which we operate, or changing interpretations or application of tax regulations by the tax authorities, harmonization of Czech and EU tax law and regulation, significant tax disputes with tax authorities, any change in the tax status of any member of our Group, extensive time periods relating to overdue liabilities and the possible imposition of penalties and other sanctions due to unpaid tax liabilities may result in additional amounts being payable by us, which could have a material adverse effect on our business, financial condition, results of operations and cash flows.

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

Risks related to our financial profile

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

We are highly leveraged. As of December 31, 2014, we had total loans and borrowings excluding Financial instruments and financial liabilities of EUR 1,381.1 million (this excludes a loan from PTH to PTHI as of December 31, 2014 of EUR 12.7 million, which is expected to be offset with dividends expected to be declared by PTH in 2015).

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- reduce or delay our business activities and any capital expenditures;
- sell assets;
- discontinue specified operations;
- obtain additional debt or equity capital; or
- restructure or refinance all or a portion of our debt, including the Notes, on or before maturity.

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

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

We are party to certain derivative transactions, such as interest rate and foreign exchange rate swap contracts and commodity derivative contracts, with financial institutions to hedge against certain

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

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

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

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

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

As of July 31, 2014, EPC's financial results are fully consolidated in the consolidated income statement of the EPE Group; however, EPE owns only a 60% ownership interest in EPC. The results of EPC are fully consolidated, because the EPC is a "subsidiary" of, and is controlled by, or it is controlled by, EPE. Because the results are fully consolidated, but EPE only owns a 60% interest, we have access to less than 100% of the EBITDA and net assets of EPC.

See Notes 38 and 6 to EPE's financial statements for the year ended December 31, 2014.

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

As a result of the credit crisis in Europe, in particular in Greece, Italy, Ireland, Portugal and Spain, the European Commission created the European Financial Stability Facility (the "EFSF") and the European Financial Stability Mechanism (the "EFSM") to provide funding to Eurozone countries in financial difficulties that seek such support. In March 2011, the European Council agreed on the need for Eurozone countries to establish a permanent stability mechanism, the European Stability Mechanism (the "ESM"), to be activated by mutual agreement and to assume the role of the EFSF and the EFSM in providing external financial assistance to Eurozone countries after June 2013. In December 2011, the European Council and each Eurozone country agreed to a package of measures designed to restore confidence and address the continued tensions in financial markets, including (i) bringing forward implementation of the ESM from June 2013 to as soon as Member States representing 90% of the capital commitments to the ESM have ratified the ESM Treaty, which occurred on September 27, 2012 and (ii) a new fiscal compact between all 18 Eurozone countries and, subject to parliamentary vote, all other non-eurozone countries (except the United Kingdom) to put deficit restrictions on Member State budgets, with associated sanctions for those Member States who violate the specified limits. Despite these measures, concerns persist regarding the debt burden of

certain Eurozone countries and their ability to meet future financial obligations, the overall stability of the euro and the suitability of the euro as a single currency given the diverse economic and political circumstances in individual Member States. These and other concerns could lead to the re-introduction of individual currencies in one or more Member States or, in particularly dire circumstances, the possible dissolution of the euro entirely. Should the euro dissolve entirely, the legal and contractual consequences for holders of euro-denominated obligations and for parties subject to other contractual provisions referencing the euro such as supply contracts would be determined by laws in effect at such time. These potential developments, or market perceptions concerning these and related issues could have adverse consequences for us with respect to our outstanding debt obligations that are euro-denominated, such as the Notes and, as we have a substantial amount of debt denominated in euro, our financial condition may be materially affected. Furthermore, the Indentures and the SSE Acquisition Credit Facility contain covenants restricting our and our subsidiaries' corporate activities. See "—We are subject to restrictive debt covenants that may limit our ability to finance our future operations and capital needs and to pursue business opportunities and activities." Certain of such covenants impose limitations based on euro amounts (e.g., the amount of additional indebtedness we or our subsidiaries may incur). As such, if the euro were to significantly decrease in value, the restrictions imposed by these covenants would become tighter, further restricting our ability to finance our operations and conduct our day-to-day business.

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

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

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

Overview of the EPE Group

We are a leading vertically integrated energy utility with operations across the entire energy value chain, focusing on brown coal production, heat and power generation, and distribution as well as energy supply and trading. Our principal operations are in the Czech Republic, Germany and the Slovak Republic. We are among the ten largest industrial groups in the Czech Republic in terms of EBITDA and the third-largest brown coal mining company in Germany by tonnage mined. For the year 2014, the EPE Group consolidated sales reached EUR 2,397.4 million and consolidated EBITDA reached EUR 454.5 million. A significant part of our business comes from regulated industries (i.e., heat, power distribution and renewable energy) and business contracted through long-term agreements with a stable customer base (i.e., mining and a part of our power generation business), which we believe provides us with stability of cash flows and visibility of future performance.

Principal operating subsidiaries of the EPE Group

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

For a list of EPE's other subsidiaries and minority interests, see Note 38 to EPE's consolidated financial statements as of and for the year ended December 31, 2014.

EPE operating segments

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

Mining:

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

Heat and Power:

The Heat and Power segment owns and operates four large-scale combined heat and power plants (CHPs) in the Czech Republic operated in highly efficient cogeneration mode and represented primarily by: Elektrárny Opatovice, a.s., United Energy, a.s., Plzeňská energetika a.s. and Pražská teplárenská a.s., which is operating the largest district heating system in the Czech Republic, supplying heat to the City of Prague. The heat generated in its cogeneration power plants is supplied mainly to retail customers through well maintained and robust district heating systems that the EPE Group owns in most of the cases. The segment also includes Saale Energie GmbH purchased in 2012, which owns 41.9% of the Schkopau-power plant representing a beneficial use right over 400MW of

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

Renewables:

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

Power Distribution and Supply:

The Power Distribution and Supply segment consists of a Power Distribution division and a Supply division. The Supply division primarily supplies power and natural gas to end-consumers in the Czech Republic and Slovakia. The Power Distribution division purchases and sells in the wholesale market power generated by the Heat and Power segment and purchases from external sources and purchases electricity and natural gas to supply customers through the Supply division. In addition, this segment reports distribution of electricity in the central Slovakia region. This segment is mainly represented by Stredoslovenská energetika, a.s., EP ENERGY TRADING, a.s., EP Coal Trading, a.s. and EP Cargo a.s. (acquired on July 31, 2014).

Other:

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

The operating data are based on the results of the respective entities on a 100% basis for the full period, regardless of the date when each entity joined the EPE Group or the ownership share of the EPE Group in each entity (unless stated otherwise). Nevertheless, operating data for Saale Energie GmbH are excluded.

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

For the purpose of the Chapter "Business, operational and financial performance", we comment on the segments and their performance, based on the segment reporting as presented in the Notes to the consolidated financial statements of EP Energy, a.s. as of and for the year ended December 31, 2014 prepared in accordance with International Financial Reporting Standards as adopted by the European Union. The EBITDA and any other EBITDA included in this report does not represent EBITDA, as may be defined by any documentation for any financial liabilities of the group.

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

In million EUR	For the year ended December 31	
	2013	2014
Total sales⁽¹⁾		
Mining.....	420.3	419.8
Heat and Power	673.3	638.5
Renewables.....	6.1	6.1
Power Distribution and Supply	968.6	1,605.2
Other.....	3.1	4.5
Total segments.....	2,071.4	2,674.1
Intersegment eliminations.....	(200.7)	(276.7)
Consolidated data.....	1,870.7	2,397.4
Depreciation and amortization		
Mining.....	(110.2)	(102.6)
Heat and Power	(115.9)	(112.2)
Renewables.....	(3.5)	(3.5)
Power Distribution and Supply	(10.1)	(79.5)
Other.....	(0.1)	(0.1)
Total segments.....	(239.7)	(297.9)
Intersegment eliminations.....	0.0	0.0
Consolidated data.....	(239.7)	(297.9)
Negative goodwill		
Mining.....	0.0	0.0
Heat and Power	2.2	0.0
Renewables.....	0.0	0.0
Power Distribution and Supply	15.6	0.0
Other.....	0.0	0.0
Total segments.....	17.8	0.0
Intersegment eliminations.....	0.0	0.0
Consolidated data.....	17.8	0.0
Profit/(loss) from operations⁽¹⁾		
Mining.....	65.2	51.0
Heat and Power	85.1	34.8
Renewables.....	(12.7)	0.2
Power Distribution and Supply	24.4	72.7
Other.....	(3.3)	(2.3)
Total segments.....	158.7	156.4
Intersegment eliminations.....	(0.3)	0.2
Consolidated data.....	158.4	156.6
EBITDA^(1, 2)		
Mining.....	175.4	153.6
Heat and Power	198.9	147.0
Renewables.....	(9.2)	3.7
Power Distribution and Supply	18.7	152.2
Other.....	(3.2)	(2.3)
Total segments.....	380.5	454.2
Intersegment eliminations.....	(0.3)	0.3
Consolidated data.....	380.2	454.5

(1) Fair value of derivatives where the underlying asset is a commodity (trading derivatives) is presented as part of Total sales instead of being recognised as profit or loss from financial operations since January 1, 2014 as described in the Notes to the consolidated financial statements of EP Energy, a.s. as of and for the year ended December 31, 2014. Data for year ended December 31, 2013 were restated with impact of negative EUR 3.2 million on Total sales, Profit/(loss) from operations and EBITDA.

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

Mining

Our Mining segment includes JTSD and the MIBRAG Group (excluding MIBRAG Neue Energie and Helmstedter Revier GmbH and its subsidiaries). We acquired a 50% share in the MIBRAG Group in June 2011, which was consolidated proportionately in the EPE Group income statement from July 1, 2011 onwards. We acquired the remaining 50% share of the MIBRAG Group in June 2012. As such, the MIBRAG Group is fully consolidated only from July 1, 2012 onwards. We conduct other mining operations in Germany through our Heat and Power segment, which includes the Schöningen mine in the Helmstedt mining district, which we acquired through our acquisition of the HSR Group on December 31, 2013, and neither the operating data nor the financial data for these mining facilities in our Heat and Power segment is or will be included within our Mining operating data. At the same time, we note that as part of the segmental reporting we reclassified certain gross margin relating to deliveries of MIBRAG's lignite to Buschhaus, Elektrárny Opatovice and United Energy from Mining segment to Heat and Power segment. This reclassification adjustment aims to retain the effects from internal sourcing at Heat and Power facilities.

Our Mining segment accounted for 46.1% of consolidated EBITDA in the year 2013 and 33.8% of consolidated EBITDA in the year 2014, in each case before intersegment eliminations. The business of our Mining segment is conducted in Germany through our wholly-owned subsidiary MIBRAG.

The table below shows a summary of key operating data for our Mining segment. The operating data are based on the results of 100% of MIBRAG.

		As of and for the year ended December 31,	
		2013	2014
Brown coal production	In Mt	19.1	20.9
Brown coal sold.....	In Mt	17.4	19.5
Reserves ⁽¹⁾	In Mt	441.2	420.3

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

Brown coal production and brown coal sold

For the year 2014, MIBRAG's brown coal sold increased by 2.1 Mt, or 12.1%, to 19.5 Mt as compared to 17.4 Mt for the year 2013 and brown coal production increased by 1.8 Mt, or 9.4%, to 20.9 Mt as compared to 19.1 Mt for the year 2013, which was mainly due to realized internal coal deliveries to Buschhaus, Elektrárny Opatovice and United Energy and due to the effect of a new (temporary) customer gained in 2014.

Reserves

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

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

		For the year ended December 31,	
		2013	2014
Total Sales	in EUR millions	420.3	419.8
EBITDA.....	in EUR millions	175.4	153.6

EBITDA

EBITDA decreased by EUR 21.8 million, or 12.4%, to EUR 153.6 million for the year 2014 as compared to EUR 175.4 million for the year 2013. The key driver is the impact of a standard, IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine, effective from January 1, 2013 requiring mining companies to capitalize the costs connected to overburden. While the non-cash effect of EUR 25.6 million was recognised in 2013, no such major effect impacted figures in 2014.

Heat and Power

The Heat and Power segment accounted for 52.3% of consolidated EBITDA for the year 2013 and 32.4% of consolidated EBITDA for the year 2014, in each case before intersegment eliminations. We conduct our Heat and Power operations in the Czech Republic through the following major subsidiaries: Pražská teplárenská, Elektrárny Opatovice, United Energy and Plzeňská energetika and in Germany through Saale Energie and the HSR Group (since the completion of the acquisition as of December 31, 2013). We conduct other heat and power operations in Germany through our Mining segment, which includes several combined heat and power (“CHP”) facilities, and neither the operating data nor the financial data for these CHP facilities in our Mining segment is included within our Heat and Power operating data. The table below shows a summary of key operating data for the Heat and Power segment. The operating data are based on the results of the whole entity regardless of the date when each entity joined the EPE Group or the ownership share of the EPE Group in each entity. Data for year ended on December 31, 2013 exclude the results of the HSR Group (except for Installed capacity) as this business is not included in the 2013 income statement figures.

		As of and for the year ended December 31,	
		2013	2014
Installed heat capacity ⁽¹⁾	MW _{th}	3,195	3,195
Heat supplied	TJ	18,875	15,594
Installed cogeneration capacity.....	MW _e	500	500
Installed condensation capacity	MW _e	750	750
Certified grid balancing capacity ⁽²⁾	MW _e	205	205
Cogeneration production	GWh	746.1	600.4
Condensation production.....	GWh	2,234.2	4,812.1
Grid balancing services.....	GWh	1,168.4	1,187.1
Saale Energie ⁽³⁾ – Installed capacity.....	MW _e	400	400

(1) Heat capacity installed on heat exchangers.

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

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

Installed heat capacity

Installed heat capacity remained at 3,195 MW_{th} at December 31, 2014, and December 31, 2013.

Heat supplied

Heat supplied decreased by 3,281 TJ, or 17.4%, to 15,594 TJ for the year 2014 as compared to 18,875 TJ for the year 2013. This decrease in heat supplied was primarily due to considerably warmer weather in 2014 as compared to the year 2013. As outlined previously in the Report, day-degrees, the metrics representing “coldness” of the weather pattern (difference between reference indoor temperature and actual outdoor temperature integrated over the given period of time) were in the areas where we deliver the heat period-to-period by 20.5% lower, which resulted in lower heat offtake at customers. This translated into reduction in associated sales period-to-period.

Installed cogeneration capacity

Installed cogeneration capacity remained at 500 MW_e at December 31, 2014, and December 31, 2013.

Installed condensation capacity (excluding Saale Energie)

Installed condensation capacity (excluding Saale Energie) remained at 750 MW_e at December 31, 2014, and December 31, 2013. Note that capacity as at December 31, 2013 already includes 390 MW_e of installed condensation capacity in Helmstedter Revier GmbH.

Certified grid balancing capacity

Certified grid balancing capacity remained at 205 MW_e, at both December 31, 2014 and December 31, 2013.

Cogeneration production

Cogeneration production decreased by 145.7 GWh, or 19.5%, to 600.4 GWh for the year 2014, as compared to 746.1 GWh for the year 2013. This decrease in cogeneration production was primarily due to the significantly warmer weather in 2014 as compared to 2013 and therefore lower heat offtake connected with less cogeneration power production.

Condensation production (excluding Saale Energie)

Condensation generation (excluding Saale Energie) increased by 2,577.9 GWh, or 115.4%, to 4,812.1 GWh for the year 2014, as compared to 2,234.2 GWh for the year 2013. This increase in condensation generation (excluding Saale Energie) was primarily due to the acquisition of Helmstedter Revier GmbH that produced 2,865 GWh in 2014.

Grid balancing services

Grid balancing services increased by 18.7 GWh, or 1.6%, to 1,187.1 GWh for the year 2014 as compared to 1,168.4 GWh for the year 2013. This increase in grid balancing services primarily reflects a higher success rate in winning tenders for grid balancing services organized by the Czech TSO CEPS, especially by Plzeňská energetika.

The table below shows a summary of key financial performance data for the Heat and Power 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. Data for year ended on December 31, 2013 exclude the results of the HSR Group as this business is not included in the 2013 income statement figures.

		For the year ended December 31,	
		2013	2014
Total sales.....	in EUR millions	673.3	638.5
EBITDA.....	in EUR millions	198.9	147.0

EBITDA

As our contracts with suppliers for our Heat and Power operations in the Czech Republic are generally priced in Czech crowns (with the exception of the EOP and UE supply contracts for MIBRAG brown coal, which are priced in EUR), 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 51.9 million, or 26.1%, to EUR 147.0 million for year 2014 as compared to EUR 198.9 million for the year 2013. This decrease was mainly due to warmer weather which led to significantly lower heat demand in 2014 as compared to 2013. Further factors that led to the decrease include lower power prices realized, lower power production in cogeneration mode resulting from lower heat offtake and fewer allocated emissions allowances in 2014 compared to 2013. In addition, our heat generation financial performance was negatively impacted by the foreign exchange rate intervention executed by the Czech National Bank in November 2013 which contributed to the fact that for the reporting purposes we translated CZK denominated financial information at an average rate of CZK/EUR 27.533 for 2014 versus CZK/EUR 25.977 for 2013. This negative development was partially offset by increased power production in the condensation mode caused by the change in the consolidation scope, i.e. the acquisition of Helmstedter Revier GmbH in December 2013. Also, we note that as part of the segmental reporting we reclassified certain gross margin relating to deliveries of MIBRAG's lignite to Buschhaus, Elektrárny Opatovice and United Energy from the Mining segment and the Power Distribution and Supply segment to the Heat and Power. This reclassification adjustment aims to retain the effects from internal sourcing at Heat and Power facilities.

Renewables

The Renewables segment accounted for negative 2.4% of consolidated EBITDA for the year 2013 and 0.8% of consolidated EBITDA for the year 2014, in each case before intersegment eliminations. Our Renewables business is conducted in the Czech Republic, Germany and the Slovak Republic through EP Renewables, a.s. (and its subsidiaries) and MNE, and includes wind, solar and biogas operations.

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

		As of and for the year ended December 31,	
		2013	2014
Installed Capacity	MW _e	25.0	25.0
Power Production	GWh	37.5	40.7

Installed capacity

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

Power production

Power production increased by 3.2 GWh, or 8.5%, to 40.7 GWh for the year 2014 as compared to 37.5 GWh for the year 2013. This increase was primarily due to better wind and solar conditions throughout the year 2014 as well as improved performance of the biogas facility. In addition, 2013 figures influenced by a temporary technical outage of one wind tower in 2013.

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

		For the year ended December 31,	
		2013	2014
Total Sales	in EUR millions	6.1	6.1
EBITDA.....	in EUR millions	(9.2)	3.7

EBITDA

EBITDA increased by EUR 12.9 million to EUR 3.7 million for the year 2014 as compared to negative EUR 9.2 million for the year 2013. This increase in EBITDA was mainly due to one-off non-cash effects, specifically an impairment of acquisition goodwill of EUR 8.6 million and an impairment of EUR 4.6 million related to a cancelled project, both recognised in other operating expenses of Renewables segment in 2013.

Power Distribution and Supply

The Power Distribution and Supply segment accounted for 4.9% of consolidated EBITDA for the year 2013 and 33.5% of consolidated EBITDA for the year 2014, in each case before intersegment eliminations, and is conducted in the Czech Republic, the Slovak Republic, Germany and Poland mainly through our subsidiary Stredoslovenská energetika, a.s. (effectively from December 1, 2013), EP ENERGY TRADING, a.s., EP Coal Trading, a.s., EP COAL TRADING POLSKA S.A. and EP Cargo a.s. (acquired on July 31, 2014).

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 year ended December 31,	
		2013	2014
Power traded.....	GWh	13,197	16,405
Power supplied.....	GWh	2,077	2,012
Natural gas supplied.....	GWh	2,106	3,203

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

		As of and for the year ended December 31,	
		2013	2014
Power distributed.....	GWh	5,912	5,839
Power traded.....	GWh	5,166	5,706
Power supplied.....	GWh	4,413	4,321
Natural gas supplied.....	GWh	104	223
Power produced.....	GWh	19	19
Installed capacity.....	MW _e	62	63

Power traded

Power traded (excluding SSE) increased by 3,208 GWh, or 24.3%, to 16,405 GWh for the year 2014 as compared to 13,197 GWh for the year 2013. This increase in power traded was primarily due to increased trading activity on the German market resulting from fact that power produced in HSR is traded by EPET.

Power traded realized by SSE reached 5,706 GWh for the year 2014, which is an increase of 10.5%, or 540 GWh, as compared to 5,166 GWh for the year 2013. Main driver for the increase in activity was higher re-sold volume coming from renewable resources on the Slovak market.

Power supplied

Power supplied (excluding SSE) decreased by 65 GWh, or 3.1%, to 2,012 GWh for the year 2014 as compared to 2,077 GWh for the year 2013. This marginal decrease in power supplied reflects changes in portfolio of supply customers and partially warm winter in 2014 resulting in lower electricity offtake.

Power supply realized by SSE reached 4,321 GWh for the year 2014, which is a slight decrease by 92 GWh, or 2.1%, as compared to 4,413 GWh for the year 2013. Similarly to the Czech market where the incumbents are under pressure from increasing competition, SSE faces higher competition on the Slovak power market and lost customers in household and midmarket segment. Furthermore, power supply realized by SSE was negatively influenced by warm weather in 2014.

Natural gas supplied

Natural gas supplied (excluding SSE) increased by 1,097 GWh, or 52.1%, to 3,203 GWh for the year 2014 as compared to 2,106 GWh for the year 2013. This increase in natural gas supplied stems from an one-off contract with a significant off-taker. The deliveries under this contract took place in 2014 only.

Natural gas supplied by SSE reached 223 GWh for the year 2014, which is an increase by 119 GWh, or 114.4%, as compared to 104 GWh for the year 2013. This increase is due to growth of supply portfolio through new customer acquisitions. Natural gas supply activity was launched by SSE in April 2012.

Power distributed

Power distributed by SSE decreased by 73 GWh, or 1.2%, to 5,839 GWh for the year 2014 as compared to 5,912 GWh for the year 2013. Main driver for the decrease in volume was warm winter in 2014 resulting in decline on LV voltage levels.

The table below shows a summary of key financial data for the Power Distribution and Supply segment. The financial data are based on EPE consolidated financial information before eliminations of intersegment transactions and take into account the ownership share of the EPE Group in the entity and acquisition date. The data includes sales and EBITDA of SSE for December 2013.

		For the year ended December 31,	
		2013	2014
Total Sales	in EUR millions	968.6	1,605.2
EBITDA.....	in EUR millions	18.7	152.2

EBITDA

As part of our power trading activities, EPET engages in sales of power generated by EPE Group companies, as well as resales of power purchased on the wholesale market in connection with our energy production optimization process, which leads to an overall increase in the volume of sales of power. However, with an increasing number of resales, total costs as a percentage of total sales increase as the margins realized on each subsequent optimization transaction tend to decline as the frequency of optimization transactions increases. Moreover, because our contracts with suppliers for our Heat and Power operations in the Czech Republic are generally priced in Czech crowns (with the exception of the EOP and UE supply contracts for MIBRAG brown coal, which are priced in EUR), 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. The effect of exchange rate and power price derivatives has been partially included in EBITDA since January 1, 2013, when hedge accounting was put in place at EPET. Therefore because of revaluation of commodity derivatives to operating profit before the settlement date, EBITDA may not accurately reflect our results of operations and may not serve as an accurate performance indicator of our Power Distribution and Supply segment. The same analysis applies for a portion of the revenues and costs from electricity trading related to financial commodity derivatives. These revenues and costs are reflected in EBITDA in Total sales as Gain (loss) from commodity derivatives for trading with electricity and gas, net already before a settlement date. The effect of financial commodity derivatives has been partially included in EBITDA already since January 1, 2013, when hedge accounting was put in place at EPET.

EBITDA increased by EUR 133.5 million, or 713.9%, to EUR 152.2 million for the year 2014 as compared to EUR 18.7 million for the year 2013. The increase was mainly due to inclusion of SSE operations since December 1, 2013 that realised EBITDA of EUR 144.7 million in 2014 as compared to EUR 19.1 million in 2013.

As of December 31, 2014 the SSE Group reports a contingent asset of EUR 53,1 million (December 31, 2013: EUR 68.9 million), which is represented by the contingent assets related to green energy for the year ended December 31, 2014 (December 31, 2013: contingent assets cover years 2012 and 2013; during the period from January 1, 2014 to December 31, 2014 the contingent asset for 2012 was already recovered and the contingent asset for 2013 was accrued as described in the following paragraph).

The SSE Group is legally bound to connect producers of green energy, if they comply with requirements set by Regulatory Office for Network Industries ("URSO") and to purchase the green electricity generated, which is used to cover network losses. The purchase tariff for green energy is set by URSO and is covered by the Tariff for system operation ("TPS"). For the year ended 31 December 2014 the SSE Group recognised a loss of EUR 53.1 million (2013: EUR 41.5 million) as the difference between the costs of purchased green energy and costs related to the subvention of electricity produced from coal and revenues from TPS in the period from 1 January 2014 to 31 December 2014. The 2014 loss is included in the contingent asset of EUR 53.1 million (2013: EUR 68.9 million) specified above. Based on the current Regulatory Framework the losses incurred will be

compensated in two years' time, i.e. relevant amounts in 2015 and 2016 through an increase of revenues from TPS (2013: in 2014 and 2015). Based on the URSO decision dated in December 2014 the resulting asset of EUR 41.5 million originating in the year 2013 was recognised as accrued income in the consolidated statement of financial position. The resulting asset originating in the year 2014 was not recognised as the asset does not yet meet currently the recognition criteria set by IFRS as adopted by the EU.

Other

The Other segment accounted for negative 0.5% of consolidated EBITDA for the year 2014 and negative 0.8% of consolidated EBITDA for the year 2013, in each case before intersegment eliminations. The table below shows a summary of key financial data for the Other segment:

		For the year ended December 31,	
		2013	2014
Total sales.....	in EUR millions	3.1	4.5
EBITDA.....	in EUR millions	(3.2)	(2.3)

Factors affecting EBITDA for the Other segment for the year 2014

The main driver of the negative EBITDA in 2014 was the other operating expenses of EP Energy in the amount of EUR 5.0 million. The costs were primarily associated with costs relating to outsourcing of various functions and costs for professional services at EP Energy.

Factors affecting EBITDA for the Other segment for the year 2013

The main driver of the negative EBITDA in 2013 was the other operating expenses of EP Energy in the amount of EUR 4.7 million. The costs were primarily associated with costs relating to outsourcing of various functions and costs for professional services at EP Energy.

Other revenues and expenses

Our repeating expenses are generally related to wages and salaries of executive and part-time employees (administrative staff) and associated social and health insurance, administrative costs for repairs and maintenance, other taxes and fees, costs for audit and accounting services, costs for legal consultancy, operating leases, rent of premises, communication expenses, travel expenses, costs for translation, non-tax deductible fees, rental income and other administrative costs.

Factors affecting the results of operations of the EPE Group

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

Acquisitions and divestitures and the structure of the EPE Group

The EPE Group was formed through a series of strategic acquisitions, bolt-ons and business combinations and we may continue to acquire additional subsidiaries in the future or divest subsidiaries and interests in subsidiaries. This will affect our operations in the overall EPE Group's

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

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

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

The 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.

The following table sets out the periods for which the major entities are included in our consolidated financial statements and the basis for the stand-alone financial information, which we used in Chapters “Business and operation performance” and “Financial performance”:

Periods presented in the EPE Group’s consolidated IFRS financial statement		
Subsidiary	FY 2013	FY 2014
EOP	Fully consolidated	Fully consolidated
UE	Fully consolidated	Fully consolidated
PT	Fully consolidated	Fully consolidated
Plzeňská energetika a.s.	Fully consolidated	Fully consolidated
JTSD/MIBRAG	Fully consolidated	Fully consolidated
Saale Energie GmbH	Fully consolidated	Fully consolidated
EPET	Fully consolidated	Fully consolidated
Stredoslovenská energetika, a.s.	Fully consolidated since December 1, 2013	Fully consolidated
Helmstedter Revier GmbH	Fully consolidated from the balance sheet perspective since December 31, 2013; operations fully consolidated since January 1, 2014.	Fully consolidated
EP Cargo, a.s.	Not included	Fully consolidated from the balance sheet perspective since July 31, 2014; operations fully consolidated since August 1, 2014.

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

Factors impacting the results of our Mining segment

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

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

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

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

Technical conditions of customer power plants

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

Regulation

As a natural resource extraction company and power and heat producer, we are subject to a variety of laws and regulations, in particular concerning energy, mining and environmental laws that can have an impact on our results of operations. In particular, we have certain long-term reclamation

responsibilities that could prove costly. Our mining activities and our and our customers' power plants are responsible for complying with complex environmental and other regulation such as permit and licensing requirements, emission limits and strict mine and power plant health and safety requirements. These laws and regulations may impact our costs of production, the ability to operate power plants and to feed in power into the networks (particularly in the case of grid congestion) and, consequently, the demand for our brown coal as well as our results of operations. Other regulations impacting our operations include those relating to the granting of mining rights and emission control permits, mining royalty fee payments, water protection and management, pollution control and soil protection, waste regulation, nature conservation and emissions trading.

Forward contracts

We have historically contracted our sales of brown coal under long-term agreements with our principal customers. These provide pricing formulae which set the price of the brown coal purchased under these contracts. Under our arrangements with Schkopau whereby we supply brown coal for the offtake of energy by Vattenfall, we have secured a fixed revenue stream per month which is based on capacity, not utilization, and we receive the same amount per month regardless of Schkopau's actual usage of brown coal to supply energy to Vattenfall. The coal supply contract with Vattenfall does not terminate until 2021. We have recently renegotiated the price terms of the Vattenfall contract, and the agreed fixed price component for brown coal for the remaining life of the contract is lower than the fixed price component we received for brown coal sold in 2012, to mainly reflect higher emissions costs for Vattenfall from 2013 onwards. Our other brown coal supply contracts do not guarantee offtake volumes or fixed streams of revenue, and therefore do not require that the customers buy a certain volume each year or pay us a fee for such volume. Therefore, our results of operations are partially dependent upon our customers' actual demand. Amendments to the current long term contracts or execution of new long term contracts with current or prospective customers influence significantly our results from operations. See "Risk factors—Risks related to our businesses and industries—Risks related to each of our segments—Our revenues and margins of operations may be negatively impacted by volatile prices for power, heat, natural gas, hard coal and emission allowances for CO₂."

Factors influencing power generation in our power plants

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

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

Factors impacting the results of our Heat and Power segment

Our Heat and Power segment sells the following key products to our customers: (a) heat (used for heating and hot water), (b) power, (c) grid balancing services and (d) energy generation by-products (such as ash and fly ash). Factors impacting our top line are typically specific for each of these products, while factors influencing the cost are typically general to all of these products. With the exception of certain facilities at PT (certain facilities at PT only produce heat and do not produce electricity) and Buschhaus' facilities (which only operate in condensation mode and do not produce heat), all production facilities are combined heat and power facilities, operating in both, highly efficient cogeneration mode, which is an ecological form of conversion of primary energy in fuel,

supported by both national and EU legislation, and in condensation mode. Although Schkopau can operate in both cogeneration or condensation mode, we have a beneficial use right over 400 MW in condensation mode. Substantially all of our production is based on brown coal, the cheapest fossil fuel available on the market, which further significantly contributes to our competitiveness.

Weather condition fluctuations

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

Customer demand

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

Regulation

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

Our Heat and Power segment, which comprised 77.8%, 79.3%, 52.5%, 52.3% and 32.4% of our consolidated EBITDA for the years ended December 31, 2010, 2011, 2012, 2013 and 2014, respectively (in each case, before intersegment elimination at the group level), is not entirely liberalized throughout the European Union, and in the Czech Republic the regulators may influence the maximum prices that may be charged for heat distribution and/or supply. We are therefore

exposed to pricing decisions of the regulators in those jurisdictions. See “Risk factors—Risks related to governmental regulations and laws—Our operations are subject to significant government regulation and laws and our business, financial condition, results of operations and cash flows could be adversely affected by changes in the law or regulatory schemes.” In the Czech Republic, the ERO defines the framework for determining the price that can be charged for supplying heat. The regulation of heat prices is based on economically justified costs necessary for production and distribution of heat, an “appropriate” profit margin for producers and VAT. The appropriate profit margin is set individually for each company and is based on historical margins both for the individual company as well as for its peer companies. See “Risk factors—Risks related to governmental regulations and laws—Changes in regulated tariffs could have a material adverse effect on our business, financial condition, results of operations and cash flows”.

Forward contracts

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

The “Clean Spread”

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

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

Power. We sell a majority of the power we generate in liberalized markets, primarily to professional counterparties via OTC transactions at prevailing prices or via power exchanges (primarily the PXE in Prague and the EEX in Leipzig), including under our forward-contracted sales. As such, all related revenues are subject to fluctuations in wholesale power prices. Since power markets are liberalized in the Czech Republic, Germany and neighboring European Union countries, prices in these markets are closely correlated. In particular, wholesale power prices in the Czech Republic are fairly similar to those in Germany, with a difference fluctuating at around EUR 0.10 - EUR 1.20/MWh, which reflects fluctuations in the cost of transferring power across the border. Accordingly, the prices at which EPE entities sell the power they produce may reflect events outside their respective domestic territories, such as the development of gas and hard coal prices, prices of emissions allowances, demand-supply dynamics in the German power market, and other factors. The impact of wholesale power price fluctuations on our operating profit is further exacerbated by the fact that the variable costs of generating power through our Czech generation fleet and through the Buschhaus power plant are fairly stable and not related to the factors that drive power prices in the region. Accordingly, our margins are directly impacted when power prices change. We also sell power in regional markets outside the Czech Republic, where different factors such as government and industry regulation and type and price of fuel used for generation may drive power prices. Our variable cost structure is different in those markets, leading to different patterns of volatility that impact our results. In order to reduce the impact of this price volatility, we typically sell most of the power we generate up to two years in advance at market prices (i.e. with reference to EEX or PXE). Accordingly, wholesale price decreases may not immediately affect our financial performance and results of operations. Notwithstanding our ability to lock-in prices with forward contracts, we still experience the effects of lower prices, because by entering into forward contracts in an environment of decreasing power prices, we will lock-in lower prices than in prior periods. For example, the global economic crisis that began in 2008 caused substantial declines in power prices in the Czech Republic, when one-year forward power prices fell from almost EUR 90/MWh in the summer of 2008 to close to EUR 40/MWh in early 2009. The decline did not fully affect us until the year ended December 31, 2010. From 2009 to 2012, prices remained relatively stable in the EUR 45/MWh to EUR 55/MWh range, but temporarily increased above EUR 55/MWh in March 2011, due to an accident at the Fukushima Daiichi nuclear reactor in Japan and the related shutdown of nuclear reactors in Germany. In 2013, prices decreased to approximately EUR 40/MWh, primarily due to the declining price of emissions allowances, which fell from the level of approximately EUR 8-10/tCO₂ to the current level of EUR 5-6/tCO₂, as well as due to increasing production from renewable sources. Power prices remain at approximately EUR 35/MWh, with the potential for further downward pressure in the future. As a result of the recent decreases in power prices, the prices we have locked-in for sales in 2015 are generally lower than those for sales in 2014 and expect this to have a corresponding negative effect on our results, although we believe the diversification in the EPE Group will dilute the adverse effects from lower power prices. See “Risk Factors—Risks related to our businesses and industries—Risks related to each of our segments—Our revenues and margins of operations may be negatively impacted by volatile prices for power, natural gas, hard coal and emissions allowances for CO₂ and volatility in the revenues we receive from heat sales.”

Fuel. As part of our power production activities, we purchase and consume large quantities of brown coal, and smaller quantities of hard coal, natural gas and other alternative fuels. Approximately 3.2 million metric tons in 2012, 2.8 million metric tons in 2013 and 2.7 million metric tons in 2014, or 100% in 2012, 87.5% in 2013 and 84.4% in 2014, of the brown coal we use to produce heat and power and majority of our other fuel needs is purchased from external providers, including Severoceske doly, Emeran 1860, Sokolovska uhelna, and Pragoplyn. Our relationship with Czech Coal, a former supplier of brown coal to the EPE Group, was terminated, and starting 2014, we have started to supply a large share of the brown coal required by our EOP facility and a rather small share of the brown coal required by our UE facility with MIBRAG brown coal. Additionally, we have begun supplying MIBRAG brown coal to the power plant Buschhaus, which we acquired through the

acquisition of the HSR Group on December 31, 2013, and will supply all of its brown coal needs from 2016 or 2017, when the reserves at the adjacent Schöningen mine (also part of the HSR Group) are depleted. In addition, MIBRAG supplies its own needs for brown coal for its cogeneration and power generation operations. Our external fuel costs make up (and, even with increased brown coal from our own sources, will in the future make-up) a large proportion of our overall costs and therefore price increases for fuel may lead to a significant impact on our results. Access to brown coal to fire our cogeneration plants in the Czech Republic is key to our business operations. However, due to the vertical integration with MIBRAG, we believe that we are now in a better position to cover potential shortages of brown coal by deliveries from MIBRAG, reducing our exposure to supply risks, with excess capacity to cover potential shortages of brown coal within the EPE Group, which will decrease as we expand our intra-group supply of brown coal as described above. After 2016 or 2017, when we begin to supply all of Buschhaus' brown coal needs, there will be little excess capacity at MIBRAG. See "Risk Factors—Risks Related to Our Businesses and Industries—Risks related to each of our segments—We frequently engage a very small number of suppliers, particularly in our power and heat businesses, which significantly magnifies the risk of disruptions in the supply of coal, natural gas and other necessary raw materials and services we receive from third parties."

Emissions allowances. In 2005, the European Union introduced an emissions allowance trading scheme governed by the EU ETS Directive which was later revised in 2009. In accordance with the regulations of the EU ETS Directive, we were allocated free emissions allowances by the Czech and German governments according to their respective National Allocation Plans until December 31, 2012. We acquire emissions allowances through governmental allocations as well as purchase emissions allowances on the open market, if needed to offset our actual emissions. We sell any excess emissions allowances not used in our production activities on the open market. Although the free allocation of allowances under the EU Emissions Allowances Trading System was largely discontinued effective January 1, 2013, on July 6, 2012, the European Commission announced in MEMO/12/530 that it had authorized the Czech Republic's request for a continued free allocation of emissions allowances to the Czech power sector beyond the end of 2012. The scope of these allowances is limited to installations that started to generate power before December 31, 2008 or for which the investment process was "physically initiated" by that date. All our Czech power plants are covered by the derogation. The extension period will last from 2013 to 2019, and the free allowance extension is limited to no more than 70% of emissions for domestic power supply in 2013 and no more than 60% of emissions for domestic power supply in 2014, with the percentage declining each year to 0% in 2020. The EU ETS Directive requires that installations benefitting from free allocations under the derogation invest in projects designed to modernize power generation in the Czech Republic. The value of these investments must mirror the value of the free allocation of emissions allowances, which we continue to achieve through our investments in our existing power plants, facilities and infrastructure to comply with this requirement.

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

Our ability to secure sufficient emissions allowances is essential to our results of operations. Our power generation operations in Germany, at MIBRAG and at Buschhaus, are required to purchase

emissions allowances, as are certain of our power and heat operations in the Czech Republic. In the Czech Republic, the amount we will need to purchase will increase over time as the result of the allocation system under which fewer emissions allowances are now allocated free of charge. Although the price of emissions allowances has decreased, we will need to buy increasingly larger amounts of emissions allowances as free allowances in our operations are phased out by 2020 for power and 2027 for heat. See “Risk factors—Risks related to governmental regulations and laws—We are exposed to changes in the way emissions allowances are allocated, including the conditions attaching to free allocations and the allocation of emissions allowances from 2013, as well as volatility in the market prices of emissions allowances that we need to acquire.”

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

Grid balancing services

In the Power Generation division of our Heat and Power segment, we provide grid balancing services to ČEPS, the Czech transmission system operator (“TSO”), and we also provide balancing services (i.e., decreases or increases in power supply on a short-notice basis (e.g., in some cases within 30 seconds)) to the TSO in order to help the TSO maintain a reliable transmission system. EPE is one of the certified providers of grid balancing services in the Czech Republic. EPE’s market share in the provision of grid balancing services in the Czech Republic was approximately 7.9% in 2012, 9.1% in 2013 and 8.8% in 2014. We generate two separate streams of revenues from the provision of grid balancing services, derived from two distinct fee arrangements: Capacity Fees and Activation Fees. Capacity Fees are those paid by the TSO for providing the service regardless of whether the power is actually provided, as we have reserved the required capacities for such services. Activation Fees, in contrast, are paid by the TSO for energy produced within the provided services, and are dependent on the TSO’s decision to request the service. The majority of our revenues from grid balancing services come from Capacity Fees. The volume of grid balancing services that we provide has an effect on the results of our Heat and Power segment.

Factors impacting the results of our Renewables segment

Regulation

In the European Union and, in particular, in the Czech Republic and Germany, there is significant focus on the importance of renewable energy. This focus has led to significant governmental intervention designed to incentivize the production of renewable energy in chosen sectors. However, supportive government policy can change rapidly if a government deems that it has given too much support to a particular sector or when there are unintended negative financial or other negative consequences. For example, in 2005 the Czech Republic enacted laws and regulations designed to promote the use of renewable energy. In 2007, the Czech regulator significantly increased off-take prices for solar energy, which led to distortive behavior and significantly increased the volume of solar energy generated. As the 2005 Czech Act on Promotion of Renewable Energy imposed a legal obligation on energy distributors to financially support (by means of obligatory purchases of energy produced from renewable sources) the owners of solar power plants, the increased off-take price

was paid by the energy distributors who passed the higher off-take prices on to the end customers, ultimately resulting in an increase in the price of power for the end customer. In 2010, the Czech Parliament approved significant changes in the law to counteract this price increase and the potentially destabilizing effects to the transmission network (for example through grid congestion, which could by itself impact the feed-in from our power plants), for example by significantly reducing eligibility for support, imposing a withholding tax on operators of solar facilities commissioned between January 1, 2009 and December 31, 2010 and abolishing an income tax exemption. In Germany, statutory law obligates grid operators to pay predetermined remuneration to operators of renewable energy plants for their feed-in to the grid. The costs of such remuneration are ultimately borne by the end customers as they are passed on via a so-called EEG surcharge and are paid as a part of the general electricity price. The applicable amount of feed-in remuneration differs depending on the respective renewable energy source. Once commissioned, the remuneration in general remains fixed for 20 years plus the year of commissioning. However, the amount of remuneration for feed-in from plants newly commissioned is subject to constant changes in the statutory law. For example, the Federal Parliament (Bundestag) together with the Council of the Federal States (Bundesrat) significantly reduced the feed-in remuneration for electricity from photovoltaic installations in 2012 and further amendments to the remuneration scheme for all other renewable energy sources are under discussion, and the coalition forming the Federal Government in Germany aims to quickly and fundamentally revise the act regulating renewable energy in Germany. These shifts in legislative strategy illustrates the potential that regulation has to significantly impact our results of operations if we make investments in certain kinds of renewable energy based on governmental policy, because the government can withdraw its support at any time. We are also the beneficiary of renewable energy subsidies at the EU, Czech and German levels and therefore are reliant on this type of continued financial support for renewables, something that we cannot control.

Project execution

The success of a renewables project is significantly influenced by external factors associated with obtaining required permits and approval processes. This mainly involves obtaining permits under applicable environmental protection legislation from the competent authorities, often including approval of an Environmental Impact Assessment (“EIA”), changes in land zoning plans, approval of all authorities and private parties affected by the planned project, and obtaining a land use decision by the state authority to satisfy zoning requirements, a construction permit and a usage permit. An EIA study has already been prepared or is under preparation for the projects we are currently planning. A negative ruling (or the absence of a ruling or the delay in receiving a ruling) by state administrative and government authorities or other legal entities can result in a delay or suspension of a project. Conditions imposed by authorities may negatively influence the timing or profitability of a project. During project development, obstacles can occur that we can not anticipate and that are not known to us at the time of project implementation. A project can also be negatively influenced by failure to reach agreement with a key land owner, as the project construction, including connection to energy mains, may need to pass through the land of a number of owners, so it is essential to obtain easements on the land concerned.

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

Factors impacting the results of our Power Distribution and Supply segment

Wholesale power prices

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

Commodity supply and trading

We supply and trade power and natural gas as part of our Power Distribution and Supply segment.

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

While our power and natural gas trading policies require that the majority of our trades are conducted on a back-to-back basis, i.e., we typically only purchase commodities on the market when we have an offsetting sales contract, and we do not maintain large open positions which expose us to downside risk, we also engage in limited opportunistic power and gas trading activities. These trades primarily relate to (a) speculation on seasonal differences in power and natural gas prices, i.e., we purchase gas in the spring and summer with the intention of selling it at a higher price in the winter; and (b) speculation based on announcements relating to the availability of emissions allowances, as a reduction in the number of available emissions allowances typically leads to an increase in emissions allowance prices and thus increasing power prices due to higher production costs. Additionally, in connection with the optimization of our supply and trading business, we are dependent on the liquidity of the wholesale market, and as a result, we may take limited open trading positions, i.e. not match a sale with a purchase until there is more liquidity in the market, or if prices are falling, wait to make the matching purchase transaction. Nevertheless, such opportunistic trading activity is fairly limited, and the maximum exposure we may take through proprietary trading is subject to limits that set the maximum risk of loss on trading portfolios. Under our current policies, EPET's open positions in power and gas over any period of time are limited by an aggregate mark-to-market value of EUR

5 million in power and EUR 1 million in natural gas. If we exceed these thresholds on our open positions, we are required by EPE Group policies to close out of our open positions to a value below these thresholds. Under the current SSE risk policy, exposure to market price risk in electricity and natural gas trading is set by the limits on open financial positions for each trading year and each market segment and by value-at-risk limits for a 12-month horizon (EUR 0.4 million for electricity and EUR 0.3 million for natural gas) and four-year (portfolio) horizon (EUR 0.9 million for electricity and EUR 0.5 million for natural gas).

Other factors impacting the results of the EPE Group

Capital expenditures

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

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

In EUR millions	For the year ended December 31,	
	2013	2014
Capital expenditures relating to tangible fixed assets.....	53.6	47.8
Capital expenditures relating to intangible fixed assets excluding emission rights	2.8	2.7

Capital expenditures relating to tangible fixed assets decreased by EUR 5.8 million, or 10.8%, to EUR 47.8 million in 2014 from EUR 53.6 million in 2013. The majority of these capital expenditures are directly connected to MIBRAG’s mining operations, notably the development of mining infrastructure in the mining field Peres within MIBRAG’s Vereinigtes Schleenhain mine.

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

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

In EUR millions	For the year ended December 31,	
	2013	2014
Capital expenditures relating to tangible fixed assets.....	31.3	51.1
Capital expenditures relating to intangible fixed assets excluding emission rights	0.5	1.0

Capital expenditures relating to tangible fixed assets increased by EUR 19.8 million, or 63.3%, to EUR 51.1 million in 2014 from EUR 31.3 million in 2013. This increase in capital expenditures in 2014 is mainly related to investments performed in EOP so as to be in line with the IED (the Industrial Emissions Directive – directive of the European parliament) of EUR 23.2 million in 2014 (EUR 8.3 million in 2013). The second reason for the increase is the change of scope, where acquisition of HSR⁸ materialized in approximately EUR 4.5 million, specifically general repairs of boiler and coal mills, steam/water circuit, fuel gas systems and electro filters.

⁸ HSR operations reflected in EPE’s capital expenditures since January 1, 2014

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

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

<i>In EUR millions</i>	For the year ended December 31,	
	2013	2014
Capital expenditures relating to tangible fixed assets	1.1	0.5
Capital expenditures relating to intangible fixed assets excluding emission rights	0.0	0.0

Capital expenditures relating to tangible fixed assets decreased by EUR 0.6 million, or 54.5%, to EUR 0.5 million in 2014 from EUR 1.1 million in 2013.

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

<i>In EUR millions</i>	For the year ended December 31,	
	2013	2014
Capital expenditures relating to tangible fixed assets.....	7.4	29.1
Capital expenditures relating to intangible fixed assets excluding emission rights	2.0	1.5

Capital expenditures relating to tangible fixed assets increased by EUR 21.7 million, 293.2%, to EUR 29.1 million in 2014 from EUR 7.4 million in 2013. The significant increase stems from the change in the consolidation scope. Acquisition of SSE resulted in capital expenditures of EUR 28.1 million in 2014 as compared to EUR 7.4 million⁹ in 2013.

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

<i>In EUR millions</i>	For the year ended December 31,	
	2013	2014
Capital expenditures relating to tangible fixed assets.....	0.1	0.0
Capital expenditures relating to intangible fixed assets excluding emission rights	0.0	0.0

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

The EPE Group

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

Key income statement line items

Sales: Energy. EPE presents Sales: Energy in five component parts: sales of electricity (incl. distribution), sales of heat, sales of gas, sales of coal and sales of other energy products across all of our segments. EPE recognizes revenue when persuasive evidence exists, usually in the form of an executed sales agreement, that the significant risks and rewards of ownership have been transferred

⁹ SSE operations reflected in EPE's capital expenditures since December 1, 2013

to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. Revenue from the sale of own products and goods in the course of ordinary activities is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Discounts are recognized as a reduction of revenue as the sales are recognized, if it is probable that discounts will be granted and the amount can be measured reliably. Revenues from services rendered are recognized in profit or loss in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed by reference to surveys of work performed. No revenue is recognized if there are significant uncertainties regarding the recovery of the consideration due, associated costs or the possible return of goods.

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

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

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

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

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

Profit/(loss) from 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 year, net of tax. Other comprehensive income represents the difference between net income in the income statement and comprehensive income (which is the

change in equity of a business enterprise during a period from transactions and other events and circumstances from non-owner sources; it includes all changes in equity during a period except those resulting from investments by owners and distributions to owners).

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

Results of operations of the EPE Group

The following sections provide a period-by-period comparison of the EPE Group’s historical income statement data. The financial data has been prepared in accordance with IFRS, and has been derived from the EPE’s consolidated financial statements for the year ended December 31, 2014 (which include financial information for the year ended December 31, 2013 as a comparison) and should be read in conjunction with and is qualified in its entirety by reference to these financial statements, including the notes thereto.

Results of operations of the EPE Group: Year 2014 compared to the year 2013

The following table sets forth our historical income statement data derived from the EPE’s consolidated financial statements for the year 2014, prepared in accordance with IFRS as adopted by the EU, as well as other financial data. For a description of the changes in the reporting perimeter, see “—Key factors affecting comparability of the results of operations of the EPE Group”.

Consolidated statement of comprehensive income

For the year ended 31 December 2014

In millions of EUR (“mEUR”)

	2014	2013 Restated*
Sales: Energy	2,266.6	1,779.2
<i>of which: Electricity</i>	1,493.9	982.6
Coal	295.9	281.6
Heat	271.3	321.1
Gas	205.5	193.9
Sales: Other	117.6	94.7
Gain (loss) from commodity derivatives for trading with electricity and gas, net	13.2	(3.2)
Total sales	2,397.4	1,870.7
Cost of sales: Energy	(1,512.9)	(1,155.2)
Cost of sales: Other	(50.4)	(25.5)
Total cost of sales	(1,563.3)	(1,180.7)
	834.1	690.0
Personnel expenses	(259.6)	(184.2)
Depreciation and amortisation	(297.9)	(239.7)
Repairs and maintenance	(12.7)	(12.2)
Emission rights, net	(20.3)	(32.6)
Negative goodwill	-	17.8
Taxes and charges	(13.6)	(11.6)

Other operating income	71.3	81.0
Other operating expenses	(144.7)	(150.1)
Profit (loss) from operations	156.6	158.4
Finance income	36.0	88.3
Finance expense	(90.7)	(97.6)
Profit (loss) from financial instruments	0.7	1.1
Net finance income (expense)	(54.0)	(8.2)
Share of profit (loss) of equity accounted investees, net of tax	(0.8)	(5.4)
Gain (loss) on disposal of subsidiaries, special purpose entities, joint-ventures and associates	-	(0.6)
Profit (loss) before income tax	101.8	144.2
Income tax expenses	(34.5)	(21.2)
Profit (loss) for the year	67.3	123.0
Items that are or may be reclassified subsequently to profit or loss:		
Foreign currency translation differences for foreign operations	9.1	21.4
Foreign currency translation differences from presentation currency	(7.2)	(100.8)
Fair value reserve included in other comprehensive income	(9.9)	(0.2)
Effective portion of changes in fair value of cash flow hedges, net of tax	(5.5)	(80.7)
Other comprehensive income for the year, net of tax	(13.5)	(160.3)
Total comprehensive income for the year	53.8	(37.3)
Profit (loss) attributable to:		
Owners of the Company	37.7	113.3
Non-controlling interest	29.6	9.7
Profit (loss) for the year	67.3	123.0
Total comprehensive income attributable to:		
Owners of the Company	29.9	(37.6)
Non-controlling interest	23.9	0.3
Total comprehensive income for the year	53.8	(37.3)

Key line items

Sales: Energy

Sales: Energy increased by EUR 487.4 million, or 27.4%, to EUR 2,266.6 million for the year 2014 as compared to EUR 1,779.2 million for the year 2013.

Sales of electricity

Sales of electricity increased by EUR 511.3 million, or 52.0%, to EUR 1,493.9 million for the year 2014 as compared to EUR 982.6 million for the year 2013. This increase in sales of electricity reflects mainly the change in the consolidation scope, i.e. the acquisition of Stredoslovenská energetika, a.s. ("SSE")¹⁰ in November 2013 and Helmstedter Revier GmbH ("HSR")¹¹ in December 2013. This increase was partially offset by decrease in sales of electricity by EPET due to lower power production in own power plants and warm winter which materialized in lower electricity offtake. The lower production of our power plants materialized chiefly at EOP that suffered a 44% drop in electricity sales in 2014.

¹⁰ SSE operations reflected in EPE's income statement since December 1, 2013. 49% stake in SSE is fully consolidated

¹¹ HSR operations reflected in EPE's income statement since January 1, 2014

Sales of coal

Sales of coal increased by EUR 14.3 million, or 5.1%, to EUR 295.9 million for the year 2014 as compared to EUR 281.6 million for the year 2013. This increase in sales of coal was due to the effect of EP Cargo (“EPC”) acquisition in July 2014¹² and due to increasing number of external contracts concluded by our subsidiary EP Coal Trading (“EPCT”) for the sale of MIBRAG brown coal and PG Silesia (a subsidiary of EPH not part of the EPE Group) hard coal. On the other hand, after HSR acquisition in December 2013, coal deliveries from MIBRAG to HSR are no longer counted for external sales.

Sales of heat

Sales of heat decreased by EUR 49.8 million, or 15.5%, to EUR 271.3 million for the year 2014 as compared to EUR 321.1 million for the year 2013. This decrease in sales of heat was primarily due to considerably warmer weather in 2014 as compared to the year 2013. As outlined previously in the Report, day-degrees, the metrics representing “coldness” of the weather pattern (difference between reference indoor temperature and actual outdoor temperature integrated over the given period of time) were in the areas where we deliver the heat period-to-period by 20.5% lower, which resulted in lower heat offtake at customers. As a result, heat supplied decreased by 3,281 TJ, or 17.4%, to 15,594 TJ for the year 2014 as compared to 18,875 TJ for the year 2013. However, due to decoupled capacity and energy pricing that we use in our key operations, the impact of the temperature was rendered below-proportional.

Sales of gas

Sales of gas increased by EUR 11.6 million, or 6.0%, to EUR 205.5 million for the year 2014 as compared to EUR 193.9 million for the year 2013. This increase in sales of gas was due to the change in the consolidation scope, i.e. the acquisition of SSE in November 2013, and also due to higher EPET trading activity on the whole-sale gas market (back-to-back contracts) and an increase in the supply of gas to end customers, which stems from an one-off contract with a significant off-taker in 2014.

Sales: Other

Sales: Other increased by EUR 22.9 million, or 24.2%, to EUR 117.6 million for the year 2014 as compared to EUR 94.7 million for the year 2013. This increase in Sales: Other was primarily driven by higher trading activity especially at EPCT POLSKA s.a. (“EPCT Polska”) and by the change in the consolidation scope, i.e. the acquisition of SSE in November 2013.

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 16.4 million to EUR 13.2 million for the year 2014 as compared to negative EUR 3.2 million for the year 2013. The improvement results from fair value re-measurement of trading derivatives at the date of financial statements and correspond to contracted trading margin during the year.

Cost of sales: Energy

Cost of sales: Energy increased by EUR 357.7 million, or 31.0%, to EUR 1,512.9 million for the year 2014 as compared to EUR 1,155.2 million for the year 2013. This increase in Cost of sales: Energy was primarily due to the following changes in scope: acquisition of SSE in November 2013, HSR in December 2013 and EPC in July 2014. The increase was partially offset by a reduction of trading by

¹² EPC operations reflected in EPE’s income statement since August 1, 2014. 60% stake in EPC is fully consolidated

EPET in the context of lower power production in own power plants due to warm weather in 2014, which also caused reduction in relation to heat production.

Cost of sales: Other

Cost of sales: Other increased by EUR 24.9 million, or 97.6%, to EUR 50.4 million for the year 2014 as compared to EUR 25.5 million for the year 2013. This increase in Cost of sales: Other was primarily due to the change in the consolidation scope: acquisition of SSE in November 2013, HSR in December 2013 and EPC in July 2014 and due to the increased Cost of sales: Other of EPCT and EPCT POLSKA.

Personnel expenses

Personnel expenses increased by EUR 75.4 million, or 40.9%, to EUR 259.6 million for the year 2014 as compared to EUR 184.2 million for the year 2013. This increase in Personnel expenses was primarily due to the change in the consolidation scope: acquisition of SSE in November 2013, HSR in December 2013 and EPC in July 2014.

Depreciation and amortization

Depreciation and amortization increased by EUR 58.2 million, or 24.3%, to EUR 297.9 million for the year 2014 as compared to EUR 239.7 million for the year 2013. This increase in Depreciation and amortization was primarily due to change in the consolidation scope: acquisition of SSE in November 2013, HSR in December 2013 and EPC in July 2014 that in each case increased the value of fixed assets. This effects were partially offset by lower Depreciation and amortization of MIBRAG and Pražská teplárenská ("PT").

Repairs and maintenance

Repairs and maintenance increased by EUR 0.5 million, or 4.1%, to EUR 12.7 million for the year 2014 as compared to EUR 12.2 million for the year 2013. Increase in Repairs and maintenance due to change in the consolidation scope: acquisition of SSE in November 2013 and HSR in December 2013 was partly offset by savings resulting from lower heat and power production in 2014.

Emission rights, net

Emission rights, net improved by EUR 12.3 million to negative EUR 20.3 million for the year 2014 as compared to negative EUR 32.6 million for year 2013. This improvement in Emission rights, net was primarily due to lower consumption of emission allowances by MIBRAG, EOP and UE. Effect was partially offset by acquisition of HSR in December 2013 that purchases emission allowances for its operation on the German market. Overall lower consumption of emission allowances was due to warm winter which translated into lower heat and power production and thus less exhausted emissions.

Negative goodwill

Negative goodwill decreased by EUR 17.8 million, or 100.0%, to EUR 0.0 million for the year 2014 as compared to EUR 17.8 million for the year 2013. Negative goodwill arising in 2013 stems from the acquisition of a 35.29% ownership share in PRVNÍ MOSTECKÁ, a.s. and the acquisition of 49% ownership share (associated with a management control) in Stredoslovenská energetika, a.s. Acquisitions in 2014 did not result in recognition of negative goodwill.

Taxes and charges

Taxes and charges increased by EUR 2.0 million, or 17.2%, to EUR 13.6 million for the year 2014 as compared to EUR 11.6 million for the year 2013. This increase in Taxes and charges is immaterial and mostly results from acquisition of SSE in November 2013 and HSR in December 2013.

Other operating income

Other operating income decreased by EUR 9.7 million, or 11.9%, to EUR 71.3 million for the year 2014 as compared to EUR 81.0 million for the year 2013. While 2014 Other operating income was positively influenced namely by acquisition of SSE in November 2013 and HSR in December 2013, Other operating income was positively affected in 2013 by the application of the new accounting standard IFRIC 20 (from January 1, 2013) resulting in the capitalization of expenses relating to overburden removal to inventories EUR 25.6 million.

Other operating expenses

Other operating expenses decreased by EUR 5.4 million, or 3.6%, to EUR 144.7 million for the year 2014 as compared to EUR 150.1 million for the year 2013. This decrease in other operating expenses is primarily due to the effect of impairment losses of EUR 13.2 million reported in our Renewables segment in 2013, no such major expense was recognised in 2014.

Finance income

Finance income decreased by EUR 52.3 million, or 59.2%, to EUR 36.0 million for the year 2014 as compared to EUR 88.3 million for the year 2013. This decrease in finance income was due to the slight decrease in interest income from loans and other receivables granted by EPE to EPH and primarily due to considerable FX gain realised in 2013 as a result of the Czech National Bank foreign exchange intervention from the beginning of November 2013 which resulted in devaluation of the Czech Crown by approximately 7%.

Finance expense

Finance expense decreased by EUR 6.9 million, or 7.1%, to EUR 90.7 million for the year 2014 as compared to EUR 97.6 million for the year 2013. This decrease in finance expense was primarily driven by one-off fees related to refinancing of bank loan in 2013, partly offset by higher interest expense from unwinding of provision discounting in 2014.

Profit/(loss) from financial instruments

Profit/(loss) from financial instruments decreased by EUR 0.4 million, or 36.4%, to a profit of EUR 0.7 million for the year 2014 as compared to a profit of EUR 1.1 million for the year 2013. This change in profit/(loss) from financial instruments was primarily due to losses from the revaluation of currency derivatives for trading at EOP and UE.

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

Share of profit/(loss) of equity accounted investees, net of tax decreased by EUR 4.6 million to a loss of EUR 0.8 million for the year 2014 as compared to a loss of EUR 5.4 million for the year 2013. This decrease in share of loss of equity accounted investees, net of tax was primarily due to a share of the loss of associates of MIBRAG (Mitteldeutsche Umwelt- und Entsorgung GmbH ("MUEG")), Fernwärme GmbH Hohenmölsen—Webau ("WEBAU"), and Ingenieurbüro für Grundwasser GmbH for the year 2014.

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

Gain/(loss) on disposal of subsidiaries, special purpose entities, joint ventures and associates decreased by EUR 0.6 million to EUR 0.0 million for the year 2014 as compared to a loss of EUR 0.6 million for the year 2013. This improvement in Gain/(loss) on disposal of subsidiaries, special purpose entities, joint ventures and associates stems from no disposals in 2014, while negative effect in 2013 resulted from the disposal of 85% investment in Areál Třeboradice, a.s. on June 28, 2013.

Income tax expenses

Income tax expenses increased by EUR 13.3 million, or 62.7%, to EUR 34.5 million for the year 2014 as compared to EUR 21.2 million for the year 2013 – while current income taxes expenses increased by EUR 0.6 million in 2014 as compared to 2013, deferred income taxes expenses increased by EUR 12.7 million as compared to 2013. With respect to the current income tax expense which increased by EUR 0.6 million to EUR 57.4 million in 2014 as compared to EUR 56.8 million for 2013, the increase in income tax expenses was primarily due to the acquisition of SSE in November 2013 and HSR in December 2013. The increase was partially offset by the decrease in the income tax for the current period at UE and EOP resulting from their lower heat and power production. Deferred income tax expense decreased by EUR 12.7 million to negative EUR 22.9 in 2014 as compared to negative EUR 35.6 million for 2013, which stems primarily from reversal of temporary differences at property, plant and equipment and provisions.

Other comprehensive income for the year, net of tax

Other comprehensive income for the year, net of tax, decreased by EUR 146.8 million to a negative EUR 13.5 million for the year 2014 as compared to a negative EUR 160.3 million for the year 2013. This positive development in Other comprehensive income for the year, net of tax, was primarily due to foreign currency translation differences from presentation currency and from changes in fair value of cash flow hedges predominantly relating to a cash flow hedge recognized on the EPE Group level.

Total comprehensive income for the year

Total comprehensive income for the year improved by EUR 91.1 million to EUR 53.8 million for the year 2014 as compared to negative EUR 37.3 million for the year 2013. This increase in Total comprehensive income for the period was primarily due to the increase in profit for the year 2014 further accompanied by improvement in other comprehensive income.

Liquidity and capital resources of the EPE Group

Capital resources

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

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

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

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

EPE believes that its operating cash flows, together with the cash reserves and future borrowings permitted under EPE's debt facilities, will be sufficient to fund EPE's working capital requirements, anticipated capital expenditures and debt service requirements as they become due. In the future, we intend to enter into one or more revolving credit facilities. However, the timing of such facilities is uncertain. Until such facilities are obtained, EPE intends to maintain cash balances at EPE to meet the Group's short-term liquidity needs, including working capital (which we intend to replenish periodically with cash from operations).

Cash flow

The following table summarizes selected positions from our consolidated cash flows for the years 2013 and 2014.

In millions of EUR ("mEUR")	2014	2013
OPERATING ACTIVITIES		
Operating profit before changes in working capital	493.0	514.5
<i>Selected changes to working capital</i>		
Change in financial instruments at other than fair value	(73.8)	(179.2)
Change in trade receivables and other assets	(21.4)	27.5
Change in inventories (including proceeds from sale)	(7.9)	(26.4)
Change in trade payables and other liabilities	(26.7)	(43.3)
Cash generated from (used in) operations	359.0	291.2
Interest paid	(65.3)	(83.4)
Income taxes paid	(59.4)	(55.8)
Cash flows generated from (used in) operating activities	234.3	152.0
INVESTING ACTIVITIES		
Received dividends	5.1	25.5
Acquisition of property, plant and equipment, investment property and intangible assets	(133.7)	(98.8)
Acquisition of subsidiaries and special purpose entities, net of cash acquired	3.5	(263.5)
Cash flows from (used in) investing activities	(123.3)	(340.1)
FINANCING ACTIVITIES		
Proceeds from loans received	164.3	772.5
Repayment of borrowings	(192.4)	(893.5)

Proceeds from bonds issued	-	591.7
Dividends paid	(162.9)	(315.5)
Cash flows from (used in) financing activities	(191.0)	156.3
TOTAL CHANGES IN CASH FLOW	(80.0)	(31.8)

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

Operating Activities

Cash flows generated from (used in) operating activities increased by EUR 82.3 million to cash in-flow from operating activities of EUR 234.3 million for the year 2014, as compared to cash in-flows from operating activities of EUR 152.0 million for the year 2013.

The principal reason for the improvement of working capital was a positive change in the financial instruments in other than fair value which primarily relates to upstream loans provided to shareholders (CEE/EPH) – even though the total upstreamed funds were of similar value in both years, 2014 part of the upstream totaling EUR 89.9 million was made via a declared dividend and therefore this dividend is not reported as a part of operating activities. Cash flow positive change in trade payables and other liabilities and Inventories was partially offset by negative change in trade receivables and other assets.

Investing Activities

Cash flows from (used in) investing activities changed by EUR 216.8 million to negative EUR 123.3 million in 2014, as compared to negative EUR 340.1 million in 2013. This change in cash flows from (used in) investing activities is primarily due to a net outflow of EUR 263.5 million for acquisition of Stredoslovenská energetika a.s. On the other hand, capital expenditures increased by EUR 34.9 million, or 35.3%, due to described acquisitions and IED related investments in 2014.

Financing Activities

Cash flows from (used in) financing activities changed by EUR 347.3 million to negative cash flows used in financing activities of EUR 191.0 million in 2014, as compared to cash flows from financing activities of EUR 156.3 million in 2013. This change in cash flows from (used in) financing activities is primarily due to borrowings and repayments of loans made in 2013, particularly drawing of the syndicated bank loan, subsequent repayment of shareholder debt and also issuance of the 2018 Notes (totalling EUR 591.7 million) in April 2013. In addition, cash flows from (used in) financing activities were influenced by an arrangement of a revolving credit facility in 2014 and its drawing in the amount of EUR 84.1 million as at December 31, 2014.

Capital expenditures

Our strategy is to focus capital investments on projects that maintain our technical equipment and increase operational efficiency. We have managed to keep capital expenditures at reasonably low levels by means of controlled business planning, engineering, procurement and project management at our operating subsidiaries. As noted above, the inclusion of SSE's and HSR's results in our financial statements increased correspondingly our capital expenditures. We have made, and expect to continue to make, expenditures to maintain compliance with environmental laws. For example, starting in 2016, the stricter emission targets set forth by the European Industrial Emissions Directive

(IED) will apply for large combustion plants, including those that we operate, which we estimate will require capital expenditures in excess of EUR 80 million for our power plants in the Czech Republic (predominantly at EOP and minor technology improvements at UE and PE) in period 2014 – 2016. In particular, EOP invested EUR 23.2 million into tangible fixed assets relating to the IED in 2014. In addition, IED capital expenditures planned in MIBRAG amounts to EUR 2.4 million that relates to DeNOx system in the Deuben plant in 2015.

We are also considering the construction of rail infrastructure (a train loading facility) for the transport of MIBRAG brown coal to off-takers EOP, UE and Buschhaus. In addition, we expect to incur a one-off capital expenditure in or around 2016 relating to the brown coal train unloading facilities at Buschhaus. We also expect to accelerate our capital expenditure on certain refurbishments to our heating network operations over the next two years in order to be eligible for approximately EUR 6 million in public subsidies in the Czech Republic. We also expect to incur one-off capital expenditures in relation to our two renewable energy projects that are in early development stage with an expected cost of EUR 1.5 million/MW of installed capacity.

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

	As of and for the year ended December 31,	
	2013	2014
Capital expenditures for tangible fixed assets.....	93.5	128.5
Capital expenditures for intangible fixed assets excluding emission rights	5.3	5.2
Capital expenditures for emission rights	12.5	28.0
Total capital expenditures	111.3	161.7
Property, plant and equipment, at cost	2,896.2	2,969.3

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

Capital expenditures for tangible fixed assets increased by EUR 35.0 million, or 37.4%, to EUR 128.5 million for the year 2014 as compared to EUR 93.5 million for the year 2013. This increase in capital expenditures for tangible fixed assets was primarily due to change in the consolidation scope (the effect of SSE's and HSR's inclusion) and increased capital expenditures in relation to the IED.

Capital expenditures for intangible fixed assets excluding emission rights immaterially decreased by EUR 0.1 million, or 1.9%, to EUR 5.2 million for the year 2014 as compared to EUR 5.3 million for the year 2013.

Capital expenditures for emission rights

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

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

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

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

Allocation and consumption of emissions allowances for the EPE Group for the year ended December 31, 2014:

in tons ⁽¹⁾	Allocated	Consumed	Surplus (+) / Deficit (-)
EOP.....	1,216,152	2,115,525	(8)
UE	530,126	777,903	(2)
PE	275,585	320,433	(
MIBRAG.....	58,664	1,181,485	(1,1
PT	205,001	103,926	101,075
HSR	0	2,753,777	(2,753,777)
Total	2,285,528	7,253,049	(4,9

⁽¹⁾ One emissions allowance equals one ton.

Emissions allowances granted to EOP without payment for the year ended December 31, 2014 were lower than the number of emissions allowances required by 899,373, or 42.5%. Emissions allowances granted to UE without payment for the year ended December 31, 2014 were lower than the number of emissions allowances required by 247,777, or 31.9%. Emissions allowances granted to PE without payment for the year ended December 31, 2014 were lower than the number of emissions allowances required by PE by 43,848, or 13.7%. Emissions allowances granted to MIBRAG without payment for the year ended December 31, 2014 were lower than the number of emissions allowances required by 1,122,821, or by 95.0%. No emissions allowances were granted to HSR without payment for the year ended December 31, 2014. Emissions allowances granted to PT without payment for the year ended December 31, 2014 exceeded the emissions allowances consumed by PT by 101,075, or 97.3%. MIBRAG purchased the necessary emissions allowances to meet its shortfall based on forward contracts with an average purchase price of 6.6 EUR/ton. PE’s shortfall in emissions allowances will be covered by emissions allowances PE had in its reserves. UE will purchase emissions allowances in 2015 to meet its shortfall based on forward contracts at an average purchase price of 5.9 EUR/ton. EOP purchased the necessary emissions allowances to meet its shortfall based on forward contracts with an average purchase price of 6.3 EUR/ton. HSR purchased the necessary emissions allowances to meet its shortfall based on forward contracts with an average purchase price of 6.1 EUR/ton.

Contractual and other material financial obligations of the EPE Group

The table sets out our loans and borrowings as of December 31, 2013 and 2014.

In EUR millions	December 31, 2013	December 31, 2014
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In EUR millions	December 31, 2013	December 31, 2014
Loans payable to credit institutions	325.1	199.3
Revolving credit facility	0.0	25.0
Loans payable to other than credit institutions	142.6	15.2
<i>of which owed to the parent company</i>	<i>2.3</i>	<i>2.5</i>
<i>of which owed to other related companies.....</i>	<i>140.3</i>	<i>12.7</i>
Bank overdraft	0.0	59.1
Notes.....	1,091.8	1,094.3
Liabilities from financial leases	0.2	0.9
Total.....	1,559.7	1,393.8

Non-current	1,513.8	1,267.3
<i>of which owed to the parent company</i>	0.0	0.0
<i>of which owed to other related companies</i>	139.1	12.5
Current	45.9	126.5
<i>of which owed to the parent company</i>	2.3	2.5
<i>of which owed to other related companies</i>	1.2	0.2
Total	1,559.7	1,393.8

Off-balance sheet arrangements of the EPE Group

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

In EUR millions	December 31, 2013	December 31, 2014
Granted pledges – securities	1,041.3	1,010.9
Other granted promises	330.6	292.6
Other granted guarantees and warranties	3.7	0.9
Other contingent liabilities	1,861.3	1,940.9
Total	3,236.9	3,245.3

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

Other contingencies relate to granted loans of EUR 1,394.2¹³ million (2013: EUR 1,284.2 million), pledged cash of EUR 102.2 million (2013: EUR 104.7 million) and further pledges of EUR 444.5 million (2013: EUR 472.4 million) that include pledged fixed assets of EUR 335.4 million (2013: EUR 343.1 million), pledged inventories of EUR 21.7 million (2013: EUR 17.9 million) and trade receivables of EUR 87.4 million (2013: EUR 111.3 million); all were used as collateral for external financing.

Other granted promises

Other granted promises comprise EUR 239.4 million (2013: EUR 261.7 million), which are represented by the contracts for future energy supply, and EUR 53.1 million (2013: EUR 68.9 million), which are represented by the contingent assets related to green energy for the year 2014 (2013: contingent assets cover years 2012 and 2013).

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 Regulatory Office for Network Industries ("URSO") and to purchase the green electricity generated, which is used to cover network losses. The purchase tariff for green energy is set by URSO and is covered by the Tariff for system operation ("TPS"). For the year ended 31 December 2014 the SSE Group recognised a loss of EUR 53.1 million (2013: EUR 41.5 million) as the difference between the costs of purchased green energy and costs related to the subvention of electricity produced from coal and revenues from TPS in the period from 1 January 2014 to 31 December 2014. The 2014 loss is included in the contingent asset of EUR 53.1 million (2013: EUR 68.9 million) specified above. Based on the current Regulatory Framework the losses incurred will be compensated in two years' time, i.e. relevant amounts in 2015 and 2016 through an increase of revenues from TPS (2013: in 2014 and 2015). Based on the URSO decision dated in December 2014 the resulting asset of EUR 41.5 million originating in the year 2013 was recognised as accrued income in the consolidated statement of financial position. The resulting asset originating in the year 2014

¹³ Total balance of pledged granted loans includes intercompany loans of EUR 846.1 million (2013: EUR 811.6 million)

was not recognised as the asset does not yet meet currently the recognition criteria set by IFRS as adopted by the EU.

Other commitments and contingencies

EPE's parent company, Energetický a průmyslový holding, a.s. ("EPH"), and a major energy company (the "Interested Party") are parties to contractual arrangements under of which they have agreed to use their best efforts to agree on the potential sale of certain heating assets currently held by a certain member of EPE Group (the "Transaction"), provided that the specified conditions will be met, inter alia, that the terms and conditions of the transaction will be agreed between the parties and the transaction will be approved by the respective corporate bodies of each relevant entity. If the Transaction is not completed within the agreed period, EPH will use its best efforts to provide the Interested Party with a similar alternative asset ("the Alternative Transaction"). If the transaction is not completed by the extended deadline either, EPH will pay to the Interested Party compensation of approximately EUR 7.2 million. As these transactions are subject to a confidentiality obligation, disclosure of more detailed information herein is prohibited.

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

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

Quantitative and qualitative disclosures about market risk for the EPE Group

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

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

Foreign exchange risk

We have exposure to transactional foreign currency risk on sales, purchases and borrowings that are denominated in currencies (primarily euro) other than the respective functional currencies of EPE Group entities in the Czech Republic (primarily Czech crowns). We use various types of derivatives, including forward exchange contracts with maturities of less than one year, to reduce the exchange rate risk on foreign currency assets, liabilities and expected future cash flows. These contracts are normally agreed with a notional amount and expiry date less than or equal to that of the underlying

financial liability or the expected future cash flows, so that any change in the fair value and/or future cash flows of these contracts stemming from a potential appreciation or depreciation of the Czech crown against other currencies is fully offset by a corresponding change in the fair value and/or the expected future cash flows of the underlying position. In respect of monetary assets and liabilities denominated in foreign currencies, we seek to keep our net exposure at acceptable levels by buying or selling foreign currencies at spot rates or forward rates when necessary to address short-term imbalances.

Interest rate risk

Our operations are subject to the risk of interest rate fluctuations to the extent that interest-earning assets (including investments) and interest-bearing liabilities mature or re-price at different times or in different amounts. The length of time for which the interest rate is fixed on a financial instrument indicates to what extent it exposes us to interest rate risk. We use interest rate swaps and other types of derivatives to reduce the amount of debt exposed to interest rate fluctuations and to reduce borrowing costs. These derivative contracts are normally agreed with a notional amount and maturity date lower than or equal to that of the underlying financial liability, so that any change in the fair value and/or expected future cash flows of these contracts is offset by a corresponding change in the fair value and/or the expected future cash flows from the underlying position.

Liquidity risk

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

Credit risk

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

Commodity risk

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

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

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

We manage the commodity price risks associated with our proprietary trading activities by generally trading on a back-to-back basis, i.e., purchasing from the market where we have a customer in place to purchase the commodity. It is our trading policy not to maintain any large open positions. EPET's potential open positions in electricity and gas over any period of time are limited by an aggregate mark-to-market value of EUR 5 million in electricity and EUR 1 million in natural gas. Under the current SSE risk policy, exposure to market price risk in electricity and natural gas trading is set by the limits on open financial positions for each trading year and each market segment and by value-at-risk limits for a 12-month horizon (EUR 0.4 million for electricity and EUR 0.3 million for natural gas) and four-year (portfolio) horizon (EUR 0.9 million for electricity and EUR 0.5 million for natural gas).

Critical accounting policies of the EPE Group

The financial statements for the EPE Group, included elsewhere in this Report, are prepared in conformity with IFRS¹⁴, which require us to make a number of estimates and assumptions. These estimates and assumptions affect the reported amounts of assets, liabilities, income and expenses, and the disclosure of contingent assets and liabilities. Estimates and assumptions may differ from actual future results. Our significant accounting policies are set out in full in Note 3 to EPE's consolidated audited financial statements for the years ended December 31, 2013 and 2014.

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

New debt facilities

European Investment Bank Facility – EP Energy Distribution Network Slovakia

In December 2014 the Company entered into a finance contract with the European Investment Bank ("EIB"). Under the finance contract, EIB provides for a facility of up to EUR 125 million for the purpose of financing of certain capital expenditure program for the power distribution network of Stredoslovenská energetika – Distribúcia, a.s.

No loan has been drawn under this facility yet. In the utilization request, the borrower may select the interest rate (fixed or floating), tenor and repayment (bullet or amortizing). As regards repayment, the Company may opt for up 8-years tenor for bullet repayment and up to 12-years tenor for amortizing loans.

The EIB facilities can be drawn in up to two loans within 18-month availability period.

When drawn, the EIB loans would be secured *pari passu* with other senior debt of the Company and benefit from the same guarantees.

Debt facilities

SSE Acquisition Credit Facility

Overview

On October 23, 2013, EPH Financing II, a.s., ("EPH Fin II") then a subsidiary of EPH and not a part of the EPE Group, entered into a senior term facilities agreement (as amended, supplemented or modified from time to time, the "SSE Acquisition Credit Facility Agreement") among, *inter alios*, EPH

¹⁴ International Financial Reporting Standards as adopted by the European Union

Fin II as borrower, UniCredit Bank AG, London Branch as agent and security agent, and the mandated lead arrangers party thereto, under which EPH Fin II borrowed EUR 240 million for the purpose of acquiring a 49% interest in SSE from E.D.F. International (the "SSE Acquisition"). On December 16, 2013, EPH Fin II was contributed to EP Energy, and on December 19, 2013, EPH Fin II became a guarantor of the 2019 Notes and the 2018 Notes and from that date the SSE Acquisition Credit Facility ranks *pari passu* with the 2019 Notes and the 2018 Notes with the same security and guarantees (the "Recollateralization Date"). In August 2014 EPE took over all assets and liabilities of EPH Fin II via merger and became the sole obligor under the facility.

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

The whole facility was utilized, i.e. EUR 240.0 million. Since then, the EPE made several voluntary prepayments. Currently, the outstanding principal is approximately EUR 134.5 million as at December 31, 2014.

Ranking

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

Interest

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

Maturity

Facility A is amortizing and is payable in installments of EUR 16.7 million on September 30 of each of 2014, 2015, 2016, 2017 and 2018. Facility A will terminate and a final installment of EUR 16.5 million is due on the date 72 months from the date of the agreement (the "Termination Date"). Facility B will terminate and be repayable in full on the Termination Date.

Guarantees and security

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

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

Prepayment

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

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

Covenants, representations and warranties and events of default

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

- create or permit to subsist any security interests over their assets;
- sell or dispose of their assets;
- substantially change the general nature of their business;
- merge with other companies;
- make or permit to subsist any loans or grant credit;
- engage in certain transactions on a non-arm’s-length basis;
- incur or have outstanding certain borrowings, financial indebtedness, guarantees, loans or treasury transactions;
- make certain acquisitions or investments, including certain joint ventures;
- declare or pay certain dividends or make certain other distributions to shareholders or share redemptions;
- repay or prepay, pay any interest or discharge the shareholder loans granted to EPH Fin II by EPH (the receivable for which was transferred to EP Energy) for the purpose of the SSE Acquisition; and
- make variations to the shareholder agreement between EPH Fin II and the majority shareholder of SSE or to the documentation governing the SSE Acquisition.

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

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

The SSE Acquisition Credit Facility Agreement contains customary events of default (in relation to (variously) EPH Fin II, each guarantor and each Material Company including, among other things, non-payment, breach of financial covenants or other obligations set forth in the SSE Acquisition Credit Facility Agreement, misrepresentation in respect of a representation or statement made in the SSE Acquisition Credit Facility finance documents, unlawfulness or repudiation of obligations, certain

insolvency, winding-up and related events, and cross default in relation to certain indebtedness not being paid when due or becoming due and payable before its specified maturity, the occurrence of each of which (subject to certain grace periods, *de minimis* thresholds and other exceptions) would allow the majority lenders under the SSE Acquisition Credit Facility to accelerate all outstanding loans and terminate their commitments under SSE Acquisition Credit Facility.

SSE-Solar—TB Loan Agreement

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

The SSE-Solar Loan Agreement provides for a loan (the “SSE-Solar Loan”) in the amount of EUR 24 million for the purpose of financing SSE-Solar’s investment activities. The SSE-Solar Loan has been fully drawn down, and as of December 31, 2014, EUR 14.4 million of the principal amount of the loan was outstanding.

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

The SSE-Solar Loan is secured and is subject to covenants, representations, undertakings and defaults typical for loans of this type.

SSE—SLSP Loan Agreement

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

The SSE SLSP Loan Agreement provides for a loan (the “SSE SLSP Loan”) in the amount of EUR 25 million for the purpose of financing of SSE’s operational and investment needs. The SSE SLSP Loan has been fully drawn down, as of December 31, 2014, EUR 22.5 million of the principal amount of the loan was outstanding.

The SSE SLSP Loan matures on June 30, 2023.

The SSE-SLSP Loan is neither guaranteed nor secured and is subject to covenants, representations, undertakings and defaults typical for loans of this type.

SSE Project Development—KB Loan Agreement

The following is a summary of the Investment Loan Agreement dated June 23, 2008 between Stredoslovenská energetika—Project Development, s.r.o. as a borrower and Komerční banka, a.s. (acting through its organizational unit in Slovak Republic) (the “KB”) as a lender (the “SSE Project Development KB Loan Agreement”) as amended by the Amendments No. 1 dated December 22, 2009, the Amendment No. 2 dated November 30, 2010 and the Amendment No. 3 dated October 31, 2011 and Amendment No. 4 dated November 24, 2014.

The SSE Project Development KB Loan Agreement provides for a loan (the “SSE Project Development KB Loan”) in the amount of EUR 21.6 million for the purpose of financing of 80% of the costs related to the construction of a gas-fired power plant. The SSE Project Development KB Loan has been fully drawn down and as of December 31, 2014, EUR 8.1 million of the principal amount of the loan was outstanding.

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

The SSE Project Development KB Loan is secured and is subject to covenants, representations, undertakings and defaults typical for loans of this type.

SSE – VÚB Loan Agreement

The following is a summary of the revolving and overdraft Loan agreement dated July 31, 2014 between Stredoslovenská energetika, a.s. as a borrower and Všeobecná úverová banka, a.s. (the “VUB”) as a lender (the “SSE VUB Loan Agreement”).

The SSE VUB Loan Agreement provides for a revolving and overdraft limit (the “SSE VUB Loan Limit”) in the amount of up to EUR 20 million for the financing of general operating needs. The SSE VUB Loan Limit is available to be utilized in form of revolving and overdraft loan. The availability of the SSE VUB Loan is from the signing date until July 31, 2015. As of December 31, 2014 none of the loan was utilized.

The SSE VUB Loan limit matures on July 31, 2017.

The SSE VUB Loan is neither guaranteed not secured and is subject to covenants, representations, undertakings and defaults typical for loans of this type.

EPE – HSBC Facility Agreement

The following is a summary of the revolving, overdraft and documentary facility agreement dated April 2, 2014 between EP Energy, a.s. (the “EPE”) and EP ENERGY TRADING, a.s. (the “EPET”) as borrowers and HSBC Bank plc acting through HSBC Bank plc – pobočka Praha (the „HSBC”) as a lender (the „EPE HSBC Loan Agreement”).

The EPE HSBC Loan Agreement provides for a revolving, overdraft and documentary facility limit („EPE HSBC Loan Limit“) in the amount of up to EUR 25 million (including certain sublimits) for the purpose of financing general corporate purposes.

The EPE HSBC Loan Limit matures on April 2, 2017 for revolving and overdraft facilities and on April 2, 2018 for documentary facilities.

The EPE HSBC Loan Limit is neither guaranteed nor secured and is subject to covenants, representations, undertakings and defaults typical for loans of this type.

EPE – KB Facility Agreement

The following is a summary of the revolving, overdraft and documentary facility agreement dated April 2, 2014 between EP Energy, a.s. (“EPE”) as borrower and Komerční banka, a.s. („KB”) as a lender („EPE KB Facility Agreement”).

The EPE KB Facility Agreement provides for a revolving, overdraft and documentary facility limit („EPE KB Facility Limit“) in the amount of up to EUR 50 million (with certain defined sublimits) for financing of general corporate purposes.

The EPE KB Facility Limit matures on April 2, 2017 for revolving and overdraft facilities and on April 2, 2018 for documentary facilities.

The EPE KB Facility Limit is neither guaranteed nor secured and is subject to covenants, representations, undertakings and defaults typical for loans of this type.

EPE – UniCredit Facility Agreement

The following is a summary of the revolving, overdraft and documentary facility agreement dated October 20, 2014 between EP Energy, a.s. (the “EPE”) as borrower and UniCredit Bank Czech Republic and Slovakia ,a.s. (the „UNI“) as a lender (the „EPE UNI Facility Agreement“).

The EPE UNI Facility Agreement provides for a revolving, overdraft and documentary facility limit (the „EPE UNI Facility Limit“) in the amount of up to EUR 50 million for financing of general corporate purposes.

The EPE UNI Facility Limit matures on October 20, 2017 for revolving and overdraft facilities and on April 2, 2018 for documentary facilities.

The EPE UNI Facility Limit is neither guaranteed nor secured and is subject to covenants, representations, undertakings and defaults typical for loans of this type.

EPE – RBS Facility Agreement

The following is a summary of the revolving, overdraft and documentary facility agreement dated May 26, 2014 between EP Energy, a.s. (the “EPE”) as borrower and The Royal Bank of Scotland plc (the „RBS“) as a lender (the „EPE RBS Facility Agreement“).

The EPE RBS Facility Agreement provides for a revolving, overdraft and documentary facility limit („EPE HSBC Facility Limit“) in the amount of up to EUR 25 million (subject to certain sub limits) intended for financing of general corporate purposes.

The EPE RBS Facility Limit matures on May 26, 2017.

The EPE RBS Facility Limit is neither guaranteed nor secured and is subject to covenants, representations, undertakings and defaults typical for loans of this type.

In October 2014, PT prolonged its two currently undrawn facilities, each in an amount up to CZK 200 million.

Subsequent events

EPE – HSBC Facility Agreement

On February 19, 2015 the EPE HSBC Loan Agreement was amended by amendment No. 1, which main purpose is the increase of the EPE HSBC Loan Limit from EUR 25 million to EUR 50 million subject to certain sublimits.

CEE – UniCredit Loan Agreement

On April 28, 2014 CE Energy, a.s. (the “CEE”) entered into a loan agreement as a borrower with *UniCredit Bank Czech Republic and Slovakia, a.s. (the “UNI”)* as a lender (the “*CEE UNI Loan Agreement*”). The *CEE UNI Loan Agreement* provides for a loan (the “*CEE UNI Loan*”) in the amount of up to EUR 100 million for the main purpose of refinancing a EUR 75 million loan between CEE and UNI and for financing of repurchase of the CE Energy Senior Notes 2014 by the borrower.

EPE – RBS Facility Agreement

EPE-RBS Facility Agreement was terminated based on a mutual agreement between EP Energy, a.s. and The Royal Bank of Scotland plc in April 2015.

Business

In this section, all references to “EPE Group”, “EPE”, “we,” “us,” and “our” are to EP Energy, a.s. and its consolidated subsidiaries. Any projections and other forward-looking statements in this section are not guarantees of future performance and actual results could differ materially from current expectations. Numerous factors could cause or contribute to such differences. See “Risk factors” and “Forward-looking statements.”

Overview

We are a leading vertically integrated energy utility with operations across the energy value chain, focusing on coal production, heat and power generation and distribution, as well as energy supply and trading. We generate a substantial percentage of our EBITDA in each of the Czech Republic, Germany and the Slovak Republic, where our principal operations are located. We are among the 10 largest industrial groups in the Czech Republic in terms of EBITDA. For the year ended December 31, 2014, the EPE Group had sales and consolidated EBITDA of EUR 2,397.4 million and EUR 454.5 million, respectively. A significant part of our business comes from regulated activities (*i.e.*, heat, power distribution and renewable energy), and business contracted through long-term agreements with a stable customer base (*i.e.*, mining), which we believe provides us with resiliency of cash flows and future performance.

We operate our group through four principal segments: Mining; Heat and Power (which has two divisions: Heat Generation, Distribution and Supply and Cogeneration (“Heat and Cogeneration”) and Power Generation); Renewables; and Power Distribution and Supply (which has two divisions: Power Distribution and Energy Supply). Beginning with the EPE Group financial statements for the year ended December 31, 2013, Energy Supply and Trading was renamed the “Power Distribution and Supply” segment, reflecting the change in focus of the segment after the contribution of the 49% interest in SSE to EPE from EPH. Our core segments, Mining, Heat and Power and Power Distribution and Supply, contributed 99.7% to the EPE Group’s consolidated EBITDA for the year ended December 31, 2014 (before intersegment eliminations). We expect these three segments to be the main value drivers in our business going forward. For the year ended December 31, 2014, Mining accounted for 33.8% of the EPE Group’s consolidated EBITDA, Heat and Power accounted for 32.4% of the EPE Group’s consolidated EBITDA (with Heat and Cogeneration being a more significant contributor to consolidated EBITDA than Power Generation) and Power Distribution and Supply accounted for 33.5% of the EPE Group’s consolidated EBITDA, in each case before intersegment eliminations.

Our Mining segment, which we undertake through our German subsidiary MIBRAG produces brown coal at relatively low cost, which it supplies to power plants under long-term supply agreements. Our two biggest customers (Lippendorf and Schkopau) are efficient, state-of-the-art power plants operating in base load and are well positioned in the German power merit order. We believe that our customers are limited in the extent to which they can switch suppliers because of geographical, logistical, technological and other commercial and physical barriers to obtaining and utilizing brown coal from other suppliers. We believe these characteristics provide security and stability of brown coal off-take and in turn stability of cash flows. We are, through MIBRAG, the third largest producer of brown coal in Germany with total annual production of approximately 20.9 million tons in 2014 and 19.1 million tons in 2013.

Our Heat and Power segment owns and operates three large-scale cogeneration plants in the Czech Republic and we also own and operate, through our 73.3% -owned subsidiary, PT, the most extensive district heating system in the Czech Republic, which supplies heat to the City of Prague. We are the largest heat supplier in terms of heat supplied in the Czech Republic (disregarding heat supplied by ET to PT), supplying 15.6 PJ of heat for the year ended December 31, 2014 and 18.9 PJ of heat for the

year ended December 31, 2013. We are one of the lowest cost providers of heat in the Czech Republic and we consistently charge lower heat tariffs than the national average in the Czech Republic¹⁵. The heat generated in our cogeneration power plants is supplied mainly to retail customers through well-maintained and robust district heating systems. Additionally, due to strict zoning requirements, as well as the capital intensive nature of the heat and cogeneration business, the Heat and Cogeneration division is characterized by high barriers to entry which we believe, coupled with off-take price regulation, do not make it economically feasible for new competitors to enter these markets. As a result, we believe that our exposure to the regulated heat business, support from the government for cogeneration production and our price leadership provides resiliency of cash flows.

Through our Heat and Power segment, we are the second largest producer of power in terms of electricity generated in the Czech Republic (including ancillary services reported by ERO) as of December 31, 2014 and 2013. Through our acquisition of Saale Energie in 2012, we own a 41.9% interest in Schkopau in Germany (representing a beneficial use right over 400 MW_e of the plant's total capacity). Our share of the capacity of the power plant is contracted for sale to Vattenfall Europe Generation AG until 2021 with fixed capacity revenue. Through our acquisition of HSR in 2013, we own Buschhaus, with 390 MW_e of installed power generation capacity.

The energy supply division ("Energy Supply") of our Power Distribution and Supply segment supplies power procured through our energy trading division ("Power Distribution") to end-consumers mainly in the Czech Republic and the Slovak Republic. The Energy Supply division of our Power Distribution and Supply is based in the Czech Republic and purchases and sells power, including sales in the wholesale market of electricity generated by us in our Heat and Power segment and purchases of electricity and natural gas to supply customers through our Power Distribution division. With acquisition of SSE, Power Distribution division also focuses on electricity distribution in the central Slovakia.

As one of the main focuses of our Power Distribution division is to purchase electricity and natural gas to service our customers, the majority of our trades are conducted on a back-to-back basis, which means we only purchase the amount of energy that we actually require to cover an existing contract to supply power or natural gas. However, we also engage in limited opportunistic power and gas trading activities. For more information on our Power Distribution and Supply segment, please refer to "—Segments—Power Distribution and Supply."

Beginning with the EPE Group financial statements for the year ended December 31, 2013, Energy Supply and Trading was renamed the "Power Distribution and Supply" segment to reflect the change in focus of the segment after the acquisition of the 49% interest in SSE, and will going forward mainly focus on the distribution of electricity to end customers. For more information on SSE see "Management's discussion and analysis of financial condition and results of operations". Following this change of focus, we expect the majority of the EBITDA in our Power Distribution and Supply segment to be generated from regulated activities. 80.6% of SSE's EBITDA for the year ended December 31, 2014 comes from its power distribution activities, which are regulated.

¹⁵ with the exception of PT heat sales in 2014, when selling price of GJ was slightly higher than the Czech average price

The Company

EP Energy is a joint-stock company, with its registered office at Příkop 843/4, 602 00 Brno, the Czech Republic.

Energetický a průmyslový holding, a.s. (“EP Holding” or “EPH”) founded EP Energy on December 16, 2010, as a subsidiary to act as a holding company for entities belonging to the energy businesses of EPH and its subsidiaries (the “EPH Group”), in order to separate its strategic energy assets from the other business activities of the EPH Group. However, EPH has additional energy business operations that are not part of the EPE Group. Although EP Energy was formed in 2010, many of the individual subsidiaries in the EPE Group have a long operating history and a track record of strong performance.

On January 24, 2014, CE Energy, a.s. (“CE Energy” or “CEE”), a 100% subsidiary of EPH, acquired all of the outstanding shares of EP Energy, a.s. from its sole shareholder EPH. CEE was founded by EPH on December 6, 2013 as a subsidiary that will hold/consolidate investments in entities belonging to the energy segment of EPH Group.

Shareholders

We are a wholly owned subsidiary of CEE, which is a joint-stock company established under the laws of the Czech Republic. The ultimate beneficial owners of EPE as of December 31, 2014 are Milees Limited (18.52%), Biques Limited (18.52%) and EP Investment S.à r.l. (18.52%). In addition, EPH holds its own shares representing 44.44% interest in share capital. Milees Limited is controlled by Mr. Patrik Tkáč. Biques Limited is owned by private individuals, none of whom owns individually more than a 20% stake in Biques Limited. Milees Limited and Biques Limited have formed partnerships with J&T Group, on the basis of which J&T Group participates in the beneficial ownership of their combined 37.04% interest in EPH, conferring on J&T Group, however, no rights of control. EP Investment S.à r.l. is controlled by Mr. Daniel Křetínský, the Chairman of the Board of Directors of EPE and a former corporate partner of the J&T Group. The J&T Group, together with its subsidiaries, is a leading investment group operating predominantly in the Czech and Slovak Republics with approximately EUR 8.4 billion in assets as of December 31, 2013.

In 2014 EPH reached an agreement with TIMEWORTH HOLDINGS LIMITED, a former shareholder controlled by PPF Group N.V., to repurchase its 44.44% interest in share capital in EPH. This was undertaken in two steps. As at 31 December 2014 own shares were reported within EPH’s equity as the shares were not yet cancelled.

Furthermore, on December 4, 2014 EP Investment S.à r.l. acquired from MACKAREL ENTERPRISES LIMITED (“MACKAREL”) all shares in EPH held by MACKAREL.

History and development of the EPE Group

The management team of the current EPE Group began to take shape in 2001 within the corporate investment branch of the J&T Group headed by Daniel Křetínský. Shortly after the formation of the team, it began to focus on corporate investments in the energy business and changed its approach from being a financial investor to being a strategic investor. With this change in strategy, the corporate investment branch reached the limits of its ability to further develop the business due to restrictions arising from its membership in the J&T Group.

As a result, the J&T Group and the PPF Group founded EPH in 2009 as a platform for strategic investments in the energy and ancillary industries. The J&T Group (through Milees Limited and Biques Limited) contributed its assets to EPH in exchange for a 40% participation in EPH, and the PPF Group purchased (partly from the J&T Group) a 40% participation for cash. Daniel Křetínský received a 20% participation in exchange for a contribution of assets and for his partnership interest in the J&T

Group. In 2010, EPE was formed by EPH and the interests in our current subsidiaries owned at that time by EP Holding (including those mentioned above (PE, UE and EPET)) were contributed to EPE.

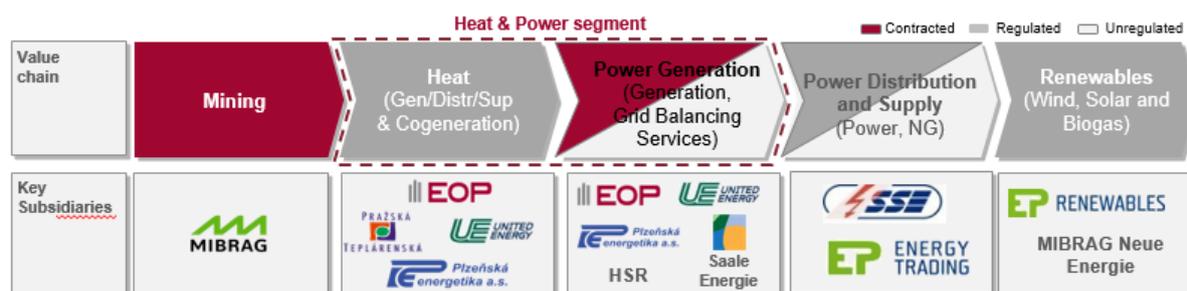
The following timeline provides an overview of the evolution of the EPE Group, through either direct acquisitions, or acquisitions by affiliates which were subsequently contributed to the EPE Group:

- In 2004, a 34% ownership interest in Pražská energetika a.s. (“PRE”) was acquired by the J&T Group;
- In 2005, an 85.16% ownership interest in United Energy a.s. (“UE”) was acquired by the J&T Group;
- Between 2006 and 2008, a 100% ownership interest in Plzeňská energetika a.s. (“PE”) was acquired by the J&T Group (50% in 2006 and 50% in 2008) and in 2008 the interest in PRE was increased to 41.1%;
- In 2009, a 50% ownership interest in MIBRAG was acquired by an entity controlled by Daniel Křetínský;
- In 2009, a 100% ownership interest in International Power Opatovice, a legal predecessor of EOP, and a minority share in PT were acquired by the J&T Group;
- In 2009 EPH was formed, and the ownership interests in PRE, PE, UE, PT, PEAS (now merged with EPET) and EPET (formerly, United Energy Trading, a.s.) were contributed to EPH by the J&T Group, and EOP was sold by the J&T Group to EPH;
- In 2010, as part of a swap transaction, EPH’s ownership interest in PT was increased to 72.98% and the stake in PRE was sold;
- In 2010, EPE was formed and the ownership interests in PE, UE, PEAS (now merged with EPET) and EPET, as well as a portion of the interest in PT, were contributed to it by EPH;
- In 2011, the 50% ownership interest in MIBRAG was contributed to EPE by an entity controlled by Daniel Křetínský and EOP and EPE’s remaining interest in PT were contributed by EPH to EPE;
- In 2011, EPE acquired an additional interest in PT, bringing our ownership to 73.3%;
- In 2012, as part of the same transaction, EPE acquired the remaining 50% ownership interest in MIBRAG and EPE (through PT) sold its interest in Energotrans a.s. (“Energotrans”), a heat producer in the Czech Republic, but retained a long-term contract with Energotrans for the purchase of heat which we distribute through PT;
- In 2012, EPE entered into an agreement with the City of Prague regarding the management of day-to-day operations of PT, under which EPE undertook the management of the company;
- In 2012, EPE acquired a 41.9% ownership interest in Schkopau (including our beneficial use right over 400 MW_e of the plant’s total capacity), one of MIBRAG’s customers for brown coal sales, through our acquisition of a 100% ownership interest in Saale Energie;
- In 2013, EPE completed the acquisition of HSR, including Buschhaus and the Helmstedt mining district, from E.ON;

- In 2013, EPH acquired a 49% interest (including management control) in SSE (a Slovak power distribution and supply company) from E.D.F. International through EPH Fin II. EPH contributed shares in EPH Fin II to EPE on December 16, 2013;
- In 2014, CE Energy, a.s., a 100% subsidiary of Energetický a průmyslový holding, a.s. (also “EPH”), acquired all of the outstanding shares of EP Energy, a.s. from EPH; and
- In 2014 the EPE Group acquired 60% share in EŽC a.s. (renamed to EP Cargo, a.s.) for EUR 5.8 million and 60% share in PGP Terminal, a.s. for EUR 0.7 million.

Segments

We operate our business through four principal segments: Mining; Heat and Power (which has two subdivisions: Heat Generation, Distribution and Supply and Cogeneration (“Heat and Cogeneration”) and Power Generation); Renewables; and Power Distribution and Supply (which has two subdivisions: Energy Supply and Power Distribution). Our core segments are Mining and Heat and Power and Power Distribution and Supply. The following presents how our business lines are vertically integrated and the focus of certain of our subsidiaries within our business lines. For operational data for our principal segments, see “Management’s discussion and analysis of financial condition and results of operations.”



Mining

We currently run this segment through our wholly owned subsidiary MIBRAG, 50% of which an entity controlled by Daniel Křetínský acquired in June 2009 and contributed to EPE in June 2011, and the remaining 50% of which we acquired in June 2012. Our Mining segment generated revenues of EUR 419.8 million and EBITDA of EUR 153.6 million for the year ended December 31, 2014. The Mining segment accounted for 33.8% of the EPE Group’s pro forma adjusted consolidated EBITDA for the year ended December 31, 2014 (before intersegment eliminations).

MIBRAG owns a brown coal mine south of Leipzig, Germany, and operates two open-pit brown coal mines Profen (Saxony-Anhalt) and Vereinigtes Schleenhain (Saxony), with a combined annual production of approximately 20.9 million tons of brown coal in 2014. Based on examination of our mining capacities, and as supported by IMC, we believe that we have the ability to increase our annual production at MIBRAG, with such ability decreasing as we expand our intragroup supply of coal. We have already begun supplying MIBRAG brown coal to Buschhaus and expect to increase deliveries gradually and eventually supplying all 2.5 Mt of Buschhaus’s brown coal needs from 2016/2017, when the reserves at the adjacent mine are depleted during 2016. In addition, in 2014 and in 2015, we are supplying a significant share of the brown coal required by our EOP facility with MIBRAG brown coal. Once we begin supplying all of the brown coal needs of Buschhaus, much of MIBRAG’s excess capacity will be consumed. In order to increase our production, we, among other things, intend to expand existing mining fields and make further mining fields accessible, which will in

some cases require the relocation of industrial or residential structures and communities. In addition to our permitted reserves, we are exploring potential strategic opportunities to expand our mining reserves. The most advanced of these opportunities is the mining field Pödelwitz, and in November 2012, a framework agreement on the relocation of the district of Pödelwitz was signed with the city of Groitzsch. As of December 31, 2014, MIBRAG has closed acquisition and relocation agreements with 30 out of 42 households (approximately 71% of total households) residing in Pödelwitz on the basis of this framework agreement. We currently estimate compensation payments to be paid by MIBRAG to the city of Groitzsch and the land owners and residents of Pödelwitz and related expenditures to amount to approximately EUR 40 million, for part of which a provision was made in 2013. Approximately 30% of the EUR 40 million has already been paid in accordance with the signed relocation agreements. The compensation payments and related expenditures may exceed this estimation and the relocation could be delayed, depending on the further process to agree on the exact conditions of the relocation. Although in October 2012 we received approval and a permit to extract brown coal from the Mining Authority, we have yet to apply for an amendment to the Main Operating Plan (*Hauptbetriebsplan*) and a new main operating plan to allow us to commence mining activities in this new mining field. Furthermore, MIBRAG is planning to replace the Framework Operating Plan (*Rahmenbetriebsplan*) accordingly. Following preparation of the site (including the relocation of the district of Pödelwitz pursuant to the framework agreement signed in November 2012), and subject to the receipt of the required permits, we expect to be able to begin to exploit the reserves. If this additional field is included in our Main Operating Plan (*Hauptbetriebsplan*), our proved reserves could increase by up to 25 million tons (including 12 million tons which are classified as probable reserves in the IMC Report). We believe that such an increase in brown coal production would not require any significant additional capital expenditures and could be achieved by employee shift alterations subject to workers' council consent and potentially limited additional hiring depending on the additional volume of production. Given the fact that our variable mining costs are relatively low compared to the fixed costs, such additional brown coal sales would substantially contribute to our margin. As of December 31, 2014, MIBRAG had proved and probable reserves (including the associated relevant licenses to mine) of approximately 420.3 million tons of brown coal. At current production rates, we believe our remaining reserves would last approximately 20 years.

Our Mining segment employed in 2014 on average 2,382 full-time equivalent employees and we believe that we are perceived as an important employer in the region in which MIBRAG operates, as well as a socially responsible corporate citizen, which allows us to maintain productive relationships with local municipalities and authorities, and we believe this will continue in the future should we expand our operations.

Other activities within our Mining segment

MIBRAG also undertakes certain ancillary activities, such as its ownership and operation of a brown coal dust manufacturing facility, brown coal briquette manufacturing facility and two CHP facilities with total installed electrical output of 123 MW_e. Other than in connection with the continuation of these services and the direct operations of MIBRAG, we do not expect these activities to grow in scale.

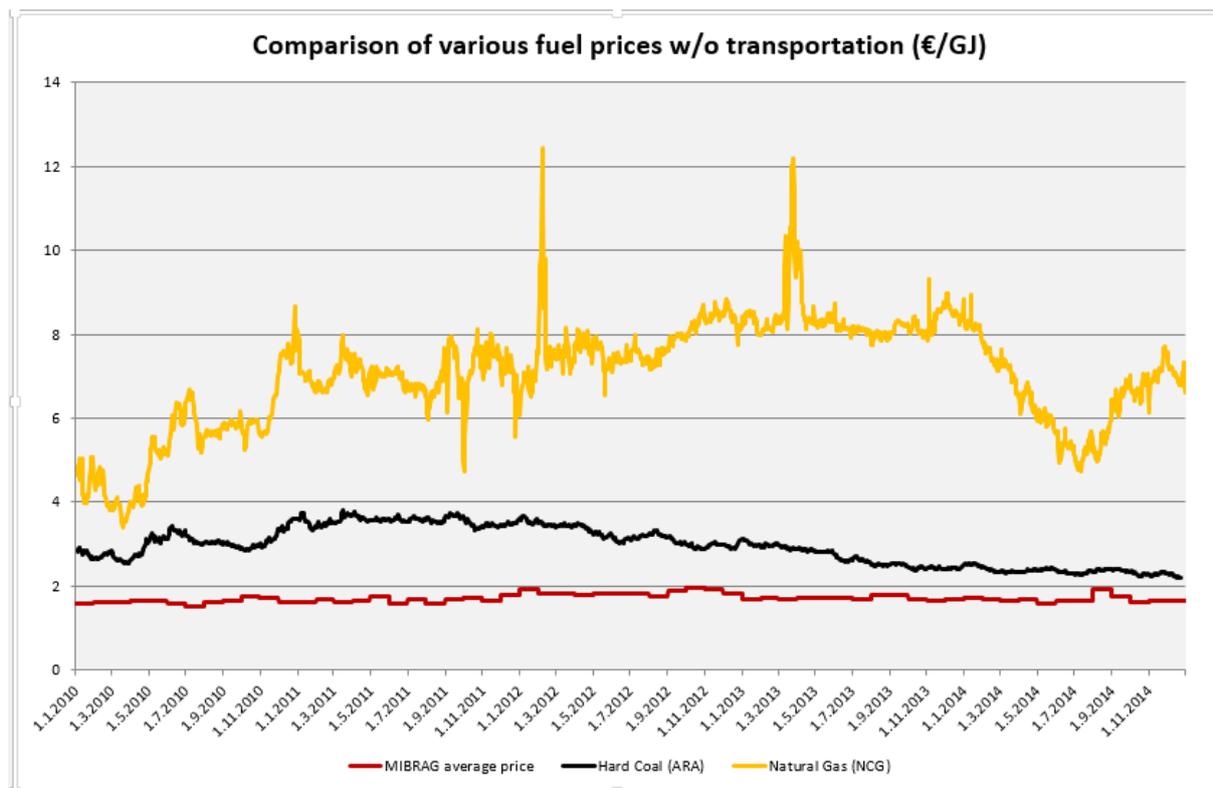
MIBRAG owns and operates a brown coal dust factory in Deuben, Germany where raw brown coal is dried and ground to a fine powder and sold as brown coal dust mainly to the cement and lime industry. In 2011, MIBRAG concluded a contract with an initial term ending in 2014 with a trading subsidiary of RWE AG to produce approximately 65,000 tons per year of brown coal briquettes. To fulfill this contract, MIBRAG re-activated its Deuben briquette factory where raw brown coal delivered by RWE is processed for regional sales by RWE. In 2013, the contract term was extended until April 2015 with 1-year automatic prolongation.

MIBRAG also owns and operates two CHP plants in Deuben and Wühlitz, Germany, with a total installed capacity of 419 MW_t and 123 MW_e. A third CHP plant at Mumsdorf, which was commissioned in 1968, was closed on June 30, 2013, due to its age. Through these CHP plants, MIBRAG supplies electricity to its mining operations and feeds the excess electricity into the local power distribution network. MIBRAG also provides grid balancing services. MIBRAG's CHP plants also generate heat, the majority of which is sold to local distributors, with only a small portion sold directly to end consumers, including the Zeitz industrial park and the adjacent municipalities of Meuselwitz, Lucka and Hohenmölsen. Our MIBRAG plants have a high utilization rate, running at an average 80-90% of their combined condensation-based maximum achievable installed capacity. Due to its age, the Deuben power plant is scheduled for closure at the end of 2020. Both CHP facilities, Deuben and Wühlitz, are fueled by MIBRAG brown coal and consumed around 1,060 Kt in 2014. These volumes are not included in MIBRAG's brown coal sales figures, since they pertain to internal MIBRAG consumption, but are included in our total production figures.

Customers and material sales contracts

The majority of the brown coal mined at the MIBRAG sites is directly supplied to three combined heat and power plants in the region, Lippendorf (installed capacity of 1,866 MW_e), Schkopau (installed capacity of 900 MW_e) and Chemnitz (installed capacity of 185 MW_e) through long-term contracts, which provide us with a significant degree of price stability and thus long-term visibility into our sales, cash flows and operating results over the course of the contracts. Under our coal supply agreement for Schkopau according to which we supply brown coal for the off-take of energy by Vattenfall, we have secured a fixed revenue stream per month which is based on a capacity fee, which we receive regardless of the actual supply of Schkopau with brown coal. Additionally, through our ownership of 41.9% of Schkopau through Saale Energie, which includes our beneficial use right over 400 MW_e of the plant's total capacity, we have effectively secured a customer for our brown coal for the future regardless of the current long-term brown coal supply contract with E.ON. While some part of our brown coal supply contracts do not guarantee off-take volumes or, except with respect to Schkopau-Vattenfall, fixed streams of revenue, we believe that our customers are limited by the extent to which they could switch suppliers, because of geographical, logistical, technological and other commercial and physical barriers to obtaining and utilizing brown coal from other suppliers. Thus, we believe that under current conditions, most of MIBRAG's customers, including its three core customers, have no economically viable fuel alternative to the brown coal supplied to them by MIBRAG.

Further, the price of MIBRAG's brown coal is low and stable compared to that of other fuels, since brown coal is not traded as a commodity and typically is sold close to the mines from where it is extracted, therefore, we believe MIBRAG's brown coal offers energy supply security to MIBRAG's customers. The following table provides a cost comparison of brown coal against other rival fuels:



For the year ended December 31, 2014, 75.9% of MIBRAG’s revenue according to German GAAP was derived from the sale of brown coal to the Lippendorf, Schkopau and Chemnitz power plants, which are our Mining segment’s three largest customers. We consider our customers to be highly creditworthy. Lippendorf is owned by Vattenfall and EnBW, which also off-take the power produced in Lippendorf. Lippendorf also supplies heat to local municipalities and process steam to adjacent chemical industrial plants. Schkopau, which is owned by E.ON and EPE, produces power and heat and process steam. Schkopau’s off-takers include Vattenfall (590 MW_e), which off-takes power, Dow Chemicals (200 MW_e), which off-takes power, heat and process steam supplied directly to its adjacent chemical industrial plants and Deutsche Bahn (110 MW_e). Schkopau has a unique power generation capacity since it has the only generator in eastern Germany that is able to produce the specific frequency of electricity used in Deutsche Bahn’s grid. Chemnitz is predominantly owned by local municipalities and provides heat and power to those municipalities through the local distribution network. Both Lippendorf and Schkopau benefit from a superior position within the brown coal power generation market, as they are state of the art plants with high efficiencies and lower marginal costs than hard coal-fired and natural gas plants, placing them ahead of such plants within the German power merit order. As a result, our customers’ state-of-the-art power plants operate in base load.

Permits and licenses

We are the legal owners of nearly all of the real property on which our active mines are located, and we regularly acquire land for future mining projects and sell land where reclamation projects have been completed. Although we own the land where we are actively mining, this ownership position does not automatically grant the right to exploit and use any mineral resources located there as in Germany, the ownership of land does not automatically include ownership of the brown coal located on or under the relevant piece of land. Ownership of the brown coal will be legally acquired upon extraction of the brown coal, which requires a mining right in the form of an exploitation permit (*Bewilligung*) or mining property (*Bergwerkseigentum*) granted by the Mining Authority. In return,

mining companies are generally required to make royalty payments. In Germany, a federal law provides for the general principles for royalties to be paid. The local state governments are entitled to further specify the amounts of royalty fees to be paid. So-called old mining rights (*alte Gewinnungsrechte*), generally including mining rights granted under the laws of the former German Democratic Republic, are permanently exempt from royalty payment obligations and approximately 71.8% of our brown coal reserves (excluding HSR) are covered by this general exemption. Approximately 0.6% of our current brown coal reserves (excluding HSR) are currently covered by rolling exemptions pursuant to regulations of the Federal States of Saxony and Saxony-Anhalt (in both cases until December 31, 2015). The remaining 27.5% of our brown coal reserves (excluding HSR) are currently subject to a royalty fee. See “Risk factors—Risks related to mining operations—We may be subject to mining royalty fee payments to certain governmental authorities, and any such imposition of fees could materially and adversely affect our business, financial condition, results of operations and cash flows.”

Under the current legal regime in Germany, MIBRAG, in pursuing its exploitation projects, is required to comply with two separate mining planning and approval processes. The first is the approval of a Framework Operating Plan (*Rahmenbetriebsplan*), which is a comprehensive regulatory requirement for mining projects that are subject to an environmental impact assessment and requires the cooperation and approval of the Mining Authority. Both of MIBRAG’s primary mines, the Vereinigtes Schleenhain and Profen sites, are covered under our current Framework Operating Plans. As of December 31, 2014, the remaining proved reserves are estimated to be 273.0 million tons and 147.3 million tons, respectively. These approvals are valid until December 31, 2029, for the Profen mine and until December 31, 2041, for the Vereinigtes Schleenhain mine. In addition to our permitted reserves, we have contractual rights to mine approximately 130 million tons of brown coal at Luetzen in Saxony-Anhalt, which we do not own (subject to our obtaining the necessary governmental approvals and the relocation of public infrastructure, including residential communities), and we also have certain options on potential mining fields in areas nearby our current mines. We are pursuing certain of these option rights. The most advanced of these opportunities is the mining field at Pödelwitz, as described above. Although in October 2012 we received approval and a permit to extract brown coal from the Mining Authority, we have yet to apply for an amendment to our Main Operating Plan (*Hauptbetriebsplan*) described below to allow us to commence mining activities in this new mining field. If this additional field is included in our Main Operating Plan (*Hauptbetriebsplan*), we could be able to present up to 25 million tons of additional proved reserves (including 12 million tons which are classified as probable reserves in the IMC Report). Furthermore, MIBRAG is planning to replace the Framework Operating Plan (*Rahmenbetriebsplan*) accordingly. Additionally, we have an option to extract an additional 75 million tons in Doebitschen, subject to our obtaining necessary governmental approvals. The quality of the brown coal and mining conditions in these additional sites is uncertain and may be less favorable than those at which we are currently mining.

The second permit process involves the Main Operating Plan (*Hauptbetriebsplan*), which must be renewed every two years for the respective mine. The Main Operating Plan specifies the development of the mining operations within the area covered by the Framework Operating Plan assuming a certain level of brown coal production in the respective two years. However, the Main Operating Plan does not limit our brown coal production in the respective period. See also “Risk factors—Risks related to our businesses and industries—Risks related to each of our segments—Our licenses may be suspended, amended or terminated prior to the end of their terms or may not be renewed.”

We seek to operate our mines within the confines of our permits and have not had any significant problems involving permit violations in the past, nor have we had to pay any penalties or fines. The permitting system involves permanent cooperation and discussions with the relevant state mining

authorities, sometimes on a weekly basis, about our current operations plans and we do not anticipate objections or other serious obstacles from the relevant state mining authorities in the future.

We are also subject to ongoing obligations under the MIBRAG privatization agreement and BvS Settlement Agreement. See “Risk factors—Risks relating to our mining operations—We are subject to ongoing obligations under the MIBRAG privatization agreement which might affect the operations and profitability of MIBRAG.”

Heat and Power

We conduct our Heat and Power operations in the Czech Republic and, since July 2012, Germany through the following subsidiaries: PT (Czech Republic), EOP (Czech Republic), UE (Czech Republic), PE (Czech Republic), since July 2012, Saale Energie (Germany) and, since December 2013, HSR (Germany).

The Heat and Power segment generated sales of EUR 638.5 million and EBITDA of EUR 147.0 million for the year ended December 31, 2014. EBITDA for the year ended December 31, 2014 for our Heat and Power segment reflects the items related to Saale Energie, which lead to an EUR 10.3 million decrease to EBITDA in the year ended December 31, 2014, which, due to the accounting treatment of the specific contractual arrangement with Schkopau, are charged to operating costs of Saale Energie but relate to entries that would otherwise not be included in EBITDA.

The Heat and Power segment accounted for 32.4% of the EPE Group’s consolidated EBITDA for the year ended December 31, 2014 (before intersegment eliminations) (with the Heat and Cogeneration division being a more significant contributor than Power Generation).

We are the leading heat supplier in terms of PJ of heat supplied in the Czech Republic and as of December 31, 2014, the second largest power supplier in terms of electricity generated in the Czech Republic (including ancillary services as reported by ERO).

We own and operate a group of plants in the Czech Republic and Germany, all of which, other than Schkopau, Buschhaus and those operated by PT, are cogeneration plants with the ability to operate in condensation mode and to only produce power when demand and prices warrant. The table below lists current operating data regarding each of our plants:

Company	Location	Type	Installed Capacity			Ownership
			Heat ⁽¹⁾	Cogeneration ⁽²⁾	Condensation ⁽²⁾	
HEAT & POWER FLEET						
Elektrárny Opatovice (EOP)	Opatovice Czech Republic	Cogeneration (CHP) Brown coal fired	932 MW _{th}	189 MW _e	189 MW _e	100%
United Energy (UE)	Komořany Czech Republic	Cogeneration (CHP) Brown coal fired	487 MW _{th}	89 MW _e	150 MW _e	100%
Plzeňská Energetika (PE)	Pilsen Czech Republic	Cogeneration (CHP) Brown coal fired	197 MW _{th}	90 MW _e	21 MW _e	100%
Pražská Teplárenská (PT)	Prague Czech Republic	Cogeneration (CHP), natural gas and hard coal fired	1,579 MW _{th}	132 MW _e	0 MW _e	73.3%
Saale Energie	Schkopau Saxony-Anhalt Germany	Brown coal fired power plant	n/a (virtual unit only)	0 MW _e	400 MW _e	100% ⁽³⁾
Helmstedter Revier GmbH (HSR)	Helmstedt/ Lower Saxony Germany	Brown coal fired power plant	0 MW _{th}	0 MW _e	390 MW _e	100%

- (1) Installed heat capacity on heat exchangers.
- (2) Installed cogeneration capacity represents the electrical capacity of generators that can deliver heat in cogeneration mode. Installed condensation capacity represents electrical capacity of generators that can produce power in condensation mode only. Total installed electrical capacity is determined by adding installed cogeneration capacity and installed condensation capacity together.
- (3) On July 17, 2012, we acquired 100% of Saale Energie, with a 41.9% interest in Schkopau, which includes our beneficial use right over 400 MWe of the plant's total 900 MWe power generating capacity, but none of its heat and process steam capacity.

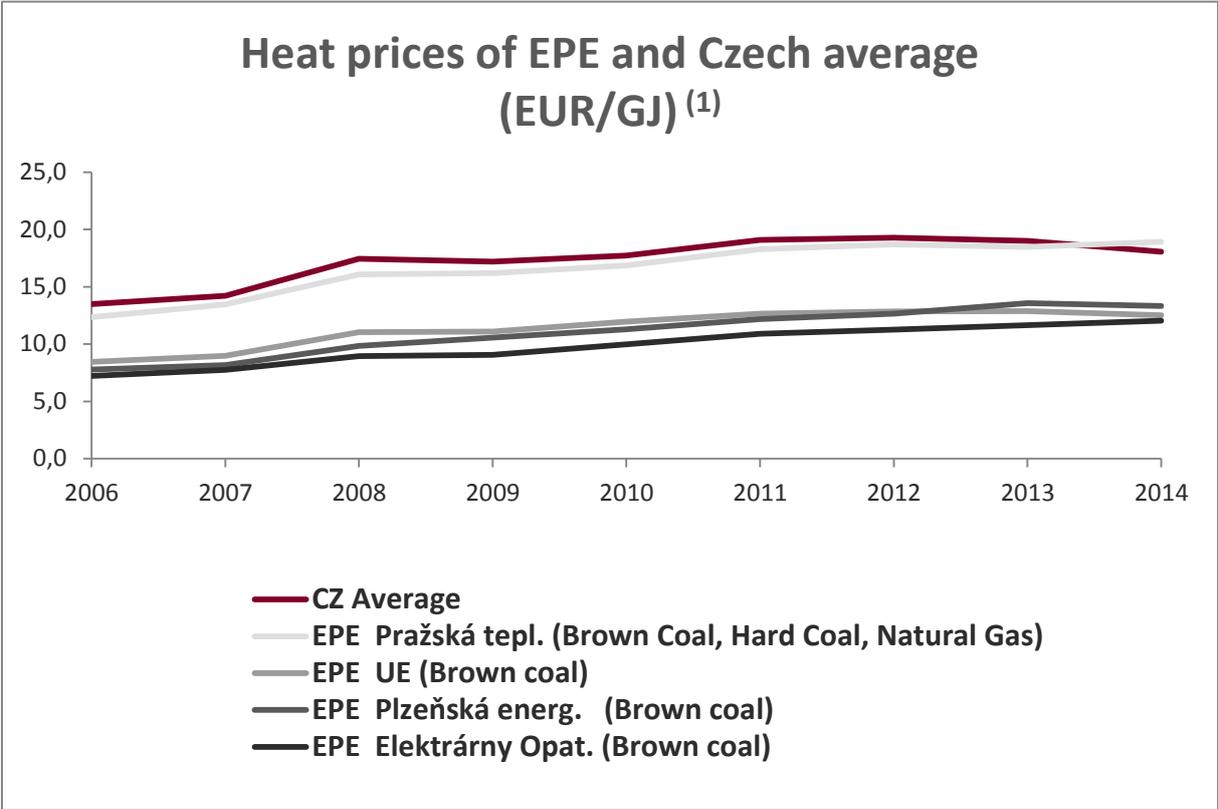
In the Czech Republic, heat generation and distribution is a regulated activity, whereby the applicable regulators approve the methodology by which annual tariff rates for heat are set. Such tariffs are set by the ERO based on direct costs plus justified indirect costs and an “appropriate” profit margin for the producers. The “appropriate” profit margin is set individually for each company and is based on historical margins both for the individual company as well as for peer companies. However, the regulation has not required heat suppliers to obtain explicit approval for their prices if their price of heat is lower than CZK 600/GJ or their profit is lower than CZK 200/GJ. The heat generation and distribution industry is generally characterized by high barriers to entry due to ownership restrictions imposed by the government of the sole regional heat distribution system. This, combined with the regulated prices in the heat generation and distribution business, underpins the resilience of the cash flows of the Heat division of our Heat and Power segment.

Our Heat division has a highly competitive cost structure, which is the product of (i) operational efficiency resulting from a mainly brown coal fuel base and cogeneration plant design, (ii) multiple long-term contracts securing our primary fuel sources (see “—Long-term fuel source contracting”), (iii) well-maintained district heating distribution networks that require low capital expenditures by us, (iv) a long-term supply contract between PT and Energotrans for the supply of heat by Energotrans to PT for distribution to PT's customers and (v) potential derogation from the EU ETS auctioning of emissions allowances until 2020.

These factors allow us to offer low-cost heating to our customers, with our subsidiary EOP providing heat at the lowest price point in the Czech Republic (approximately 43% below the average Czech market price in 2014) and both PE and UE providing heat at approximately 36% and 31% below the average Czech market price. Although our subsidiaries recently raised prices moderately, we currently offer prices below that of alternative heating solutions¹⁶, which allows us flexibility to further increase our prices, if necessary, while remaining competitive.

¹⁶ with the exception of PT heat sales in 2014, when selling price of GJ was slightly higher than the Czech average price

The following chart provides a comparison of the heat prices charged by various EPE Group companies, compared to the average heat prices charged by all heat distributors throughout the Czech Republic:



Sources: ERO and Company Data, 2014
 (1) Prices stated without relevant VAT

Cogeneration versus condensation mode

All of our plants (except Schkopau, Buschhaus and those operated by PT) are capable of being run in either cogeneration mode, whereby the byproduct of power generation, heat, is funneled into a heating distribution network, thus capturing otherwise wasted energy, and sold in the form of heat to our customers, or condensation mode, whereby only power is produced. We switch between cogeneration and condensation modes depending upon (1) the demand for heat and (2) the price of power. Although plants operating in cogeneration mode are more energy efficient, they will produce less power than the less efficient condensation mode. Therefore, when the price of power relative to the price of heat is high, we may operate in condensation mode for more of our capacity. Conversely, during the winter months, the demand for heat is high enough relative to the demand for power that it is economical for us to run most of our capacity in cogeneration mode.

Efficient and low-cost CHP plants

The Heat and Cogeneration and Power Generation divisions of our Heat and Power segment share the same CHP plants and technologies, which results in shared fixed costs and allows us to charge lower prices than many of our competitors and realize higher margins in both divisions.

Cogeneration is generally considered to be the most efficient way of using the primary energy in fuel. Typical steam condensing plants are only 25-40% efficient (i.e., only 25-40% of the fuel is converted

to energy), while even the most efficient natural gas fueled power plants are only 50-60% efficient. Our fleet of CHP plants, in contrast, operates at higher peak efficiencies in cogeneration mode up to efficiency of 80% by capturing some or all of the otherwise wasted by-product, heat, created in the power generation process.

In addition, our CHP plants are largely fueled by brown coal (EOP: 99.9%; PE: 99.6%; UE: 99.8 %), which allows us to maintain a highly competitive cost structure in both our Heat and Cogeneration and Power Generation divisions. 66% of the heat that PT sells is purchased from Energotrans, all of which is generated by brown coal. The cost of brown coal, the primary fuel for plants, and the cost of the CO₂ emissions permits under the EU ETS required to offset the CO₂ we produce, are significantly lower than those associated with either natural gas or hard coal.

Moreover, we source the majority of our brown coal for our CHP plants from suppliers under long-term contracts. Through these contracts we are able to purchase brown coal at relatively low and stable prices, which provide us with more predictable costs. Unless we are able to secure brown coal supplies from third parties at competitive prices, starting no later than 2016, we plan to supply our EOP CHP plant with MIBRAG brown coal, with the actual supply volume depending on developments in the Czech coal market in the meantime, which will further secure our supply of fuel. Our use of brown coal as our primary power source means we are able to operate our CHP plants more cheaply and more efficiently than our non-brown coal based competitors, which results in lower off-take prices for our customers.

In addition, there is significant support from EU energy and environmental regulations and initiatives, which adds to the advantageous positioning of our Heat and Power segment within the European heat and power sectors. Directive 2004/8/EC of the European Parliament and of the Council already affirmed that “promotion of high-efficiency cogeneration based on a useful heat demand is a Community priority” due to its ability to save primary energy, avoid network losses, reduce emissions and increase the security of Europe’s internal energy supply. More recently, Directive 2012/27/EU on Energy Efficiency (the “EED”) was adopted and entered into force on December 4, 2012 providing a common legal framework for the promotion of energy efficiency within the EU deemed to ensure the achievement of the EU’s target of a 20% increase in energy efficiency by 2020. According to the EED, electricity from high-efficiency cogeneration shall be afforded priority or guaranteed access to the transmission or distribution network and EU Member States shall carry out a comprehensive assessment of the potential for the application of high-efficiency cogeneration and efficient district heating and cooling and shall notify the EU Commission of the results. EU Member States shall also encourage the implementation of methods of high-efficiency cogeneration and take adequate measures for efficient district heating and cooling infrastructure to be developed. In light of the foregoing, cogeneration is expected to continue to be a cornerstone of EU energy strategy and a focus for support.

Furthermore, due to its efficiency, cogeneration is currently experiencing a positive market image and a high level of public and political support in the Czech Republic, Germany and in Europe in general, which we believe provides us with growth opportunities and a competitive advantage over our non-CHP competitors. Additionally, we receive a government subsidy, which was CZK 200 for every MWh of power generated in highly efficient cogeneration mode in the Czech Republic. 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. Additionally, as all of our power plants in the Czech Republic are directly connected to local power distribution networks, we benefit from a government subsidy for highly efficient cogeneration plants connected to regional distribution networks. This subsidy was

reintroduced at CZK 12/MWh in 2013 and decreased since January 1, 2014 to the level of the subsidy at CZK 9/MWh.

These two subsidies accounted for EUR 4.6 million in 2014 as compared to 7.0 million in 2013 especially due to lower production in cogeneration mode by 19.5% caused by warmer weather in 2014.

Long-term fuel source contracting

A significant proportion of our annual fuel consumption for our CHP plants is covered by long-term contracts or supplied by MIBRAG, which provides us with a certain degree of price stability and thus long-term visibility into our fuel costs.

- Our CHP plants in the Czech Republic: in aggregate, we have third party-contracted amounts of approximately 18 million GJ annually until 2017 and approximately 14 million GJ annually for years 2018 to 2035 for our CHP plants in the Czech Republic.
- Schkopau (through Saale Energie): annual contracted amount of 28.7 million GJ; the underlying brown coal supply agreement for the entire power plant stipulates annual supplies of up to 64.5 million GJ (28.7 million GJ correspond to our beneficial use right over 400 MW_e of Schkopau's total capacity of 900 MW_e).
- Buschhaus: currently supplied mainly by the adjacent mine in Schöningen, which we acquired in connection with the HSR acquisition; following the mine's expected depletion by 2016, we expect to supply the plant exclusively with brown coal from MIBRAG's mines.

Extensive heating distribution networks

All of our cogeneration plants are connected to large-scale district heating networks, which were built to connect to large numbers of households and to supply densely populated areas and therefore have a large and stable customer base.

We operate extensive heat distribution networks in the Czech Republic, which supply both residential and industrial clients with heat. We supply heat to the largest Czech cities, including Prague, Pilsen, Hradec Králové, Pardubice, Most and Litvínov. Extensive, highly-developed and well-maintained district heating systems in the Czech Republic allow us to cheaply and efficiently distribute the energy we capture in the cogeneration process as heat to end-consumers linked to those district heating systems. PT also purchases heat for distribution to our customers under a long-term contract with Energotrans. We have a stable customer base, with a significant portion of our heat off-take delivered to residential apartment blocks through district heating systems, which we believe means our Heat and Cogeneration division is less vulnerable to economic downturns and industrial cyclicalities. We believe district heating is an important and growing market in the Czech Republic.

In addition, in February 2013 the Czech government proposed the imposition of a carbon tax in its proposed Act on Changes to Taxation of Solid Fuels, Gas and Mineral Oils, which was to be applied from January 2014. However, the implementation of the carbon tax has been delayed so far, and we believe that the implementation of the carbon tax will continue to be significantly delayed. The proposed carbon tax would keep in place the current tax liberalization of individual households and would apply to facilities which are not part of the EU greenhouse gas emissions trading system and not subject to tax liberalization. Even though the system is not in effect as of the date of this report's issuance, we believe that, if implemented, the carbon tax would make district heating an even more

competitive form of heating in the Czech Republic, due to its low carbon emissions profile and the lack of emissions at the point of the end-consumer.

Derogation from EU ETS

On July 6, 2012, the European Commission announced in MEMO/12/530 that it had authorized the Czech Republic's request for a continued free allocation of EU ETS allowances to Czech power sectors beyond the end of 2012, which had initially been set as the date for the end of free allocations. The scope of these allowances is limited to installations that started to generate electricity before December 31, 2008 or for which the investment process was "physically initiated" by that date, and thus, all of our Czech power plants are covered by the derogation. The extension period lasts until 2019 at the latest, and the free allowance extension is limited to no more than 70% of emissions for domestic electricity supply in 2013 and approximately 60% in 2014, declining annually thereafter to zero from 2020 onwards. Additionally, the Directive requires that installations benefitting from free allocation under the derogation invest in projects designed to modernize power generation in the Czech Republic. The value of these investments must mirror the value of the free allocation, which we continue to achieve through our investments in our existing power plants, facilities and infrastructure to comply with this requirement.

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

The following table provides an overview of the actual and expected free allocation of emission allowances for our Heat and Power segment:

	2014	2015	2016	2017	2018	2019	2020
	(In thousand tons)						
Heat.....	758	648	551	470	402	336	270
Power Generation.....	1,589	1,324	1 059	794	529	265	0
Total	2,347	1,972	1,610	1,264	932	601	270

Source: Czech Ministry of the Environment

As all free allocations will be granted directly from the European Commission, the extent of any such allocations (either in respect of power generation or cogeneration) applicable to our businesses, if any, is uncertain.

Grid balancing services

In our Power Generation division, we are one of the largest certified providers of grid balancing services in the Czech Republic in terms of revenues and megawatt hours of capacity provided and in 2014 we had an approximately 8.8% market share in the Czech Republic in the provision of grid balancing services, according to data provided by ČEPS, the Czech Transmission System Operator.

Grid balancing services are balancing services (*i.e.*, decreases or increases in electricity supply on a short-notice basis (in some cases within 30 seconds of the order instructions)) offered by electricity producers to the transmission system operator (“TSO”) in order to assist the TSO in maintaining a reliable transmission system. As a result of the contracting process for the provision of grid balancing services through an advance auction process and a framework agreement with the TSO, we have visibility over the entire revenue stream for one year in advance and over 70%-80% for two years in advance. Therefore, this business provides a predictable and steady stream of revenue and a reliable contribution to our EBITDA. The grid balancing services portion of our Power Generation division is poised to grow as an increasing share of the power generation market moves to renewables, which will in turn increase the demand for grid balancing services as power produced through renewable sources can be more unpredictable and erratic than power produced through other sources of supply.

We have two separate revenue streams from the provision of grid balancing services, derived from two distinct fee arrangements: Capacity fees and “as-provided” fees. Capacity fees are those paid by the TSO regardless of whether an individual service is actually provided through a framework agreement with the TSO. As-provided fees, in contrast, are paid by the TSO for individual services (although we only receive capacity fees for some services) as and when they are actually supplied.

Our Power Generation division offers a wide range of grid balancing services. The table below summarizes the types of grid balancing services offered by our Power Generation division in 2014:

Name of Service	Nature of Service
Primary Frequency Control (PR)	<ul style="list-style-type: none"> • Ability to increase or decrease power output automatically based on grid frequency • Must be available within 30 seconds of the instruction • Capacity fee only
Secondary Power Control (SR)	<ul style="list-style-type: none"> • Change in power output of a regulated generating unit, as requested by the load frequency controller, a mechanism operated by the TSO • Must be enabled in full within 10 minutes of the request from the load frequency controller • Both capacity and as-provided fee
Minute Reserve Available Within 15 Minutes (Negative) (MR15-)	<ul style="list-style-type: none"> • Decrease in generating unit power output following a request from the TSO • Both capacity and as-provided fee
Minute Reserve Available Within 15 Minutes (Positive) (MR15+)	<ul style="list-style-type: none"> • Increase in generating unit power output following a request from the TSO • Both capacity and as-provided fee
Minute Reserve Available Within 5 Minutes (MR5)	<ul style="list-style-type: none"> • Ability to start power generation from 0 MW_e to certified capacity within 5 minutes • Both capacity and as-provided fee
Island Operations Capability (IO)	<ul style="list-style-type: none"> • Capability to generate power to supply an isolated part of the system (a so-called “island”) • Capacity fee only

Name of Service	Nature of Service
Black Start Capability (BS)	<ul style="list-style-type: none"> • Capability to start up without an external power supply, reach the set voltage value, connect to the grid and supply an island • Capacity fee only

Power Distribution and Supply

Through our Power Distribution and Supply segment we sell power and natural gas to end customers mainly in the Czech Republic and the Slovak Republic. For the year December 31, 2014, the Power Distribution and Supply segment generated sales and EBITDA of EUR 1,605.2 million and EUR 152.2 million, respectively. For the year ended December 31, 2013, the Power Distribution and Supply segment generated sales and EBITDA of EUR 968.6 million and EUR 18.7 million, respectively. The increase was mainly due to inclusion of SSE operations since December 1, 2013 that realised EBITDA of EUR 144.7 million in 2014 as compared to EUR 19.1 million in 2013.

Energy Supply

The Energy Supply division of the Power Distribution and Supply segment focuses on the supply of power and natural gas to end customers and, following our acquisition of a 49% interest in SSE, the distribution of power to end customers. We have a portfolio of large customers, not only in the commercial sector, but also in the public and municipal sector, and we are successfully expanding in the retail sector.

Acting as a supplier enables us to take advantage of synergies with our other segments, especially the Power Generation division of our Heat and Power segment, and the Trading division of the Power Distribution and Supply segment. Our Trading division buys power generated by our Heat and Power segment and sells it to the wholesale market while at the same time buying from the wholesale market and selling to the Energy Supply division the volume of power that the Energy Supply division will sell to end-customers. Our trading arm also allows us to perform power procurement for supplies to end customers through purchases from significant market players, independent traders, and the Power Exchange Central Europe, a.s. ("PXE"). As the final step of the value chain, Energy Supply provides a direct link to our customers and removes risks from potential redistributions of margins, allowing us to capture full margins across the value chain. Additionally, our Energy Supply division allows us to leverage existing relationships with customers by providing dual fuel solutions (*i.e.*, both power and natural gas). Following the acquisition of SSE, we sell to end customers, at least synthetically, volumes of power equivalent to approximately 117%¹⁷ of the total power that we produce, whereas before the acquisition the ratio was 70%. The increased level of vertical integration means that we retain the profit margins to third parties with respect to these sales. Furthermore, in line with our aim to strengthen our vertical integration, we have recently begun expanding our retail operations in our Power Distribution and Supply segment, with expansion into the retail sector for electricity in order to diversify and stabilize our customer base and to reduce risks associated with customer concentration.

SSE's supply of power in the Slovak Republic can be broken down into three categories: (i) business-to-business, (ii) mid-market and (iii) household. 47% of the electricity supplied by SSE is supplied to the business-to-business category. This category is characterized by high competition, and prices are not regulated. Therefore, customers use tenders and e-auctions to obtain price quotes, putting

¹⁷ Calculated as a share of volume of electricity supplied to end customers and gross volume of electricity produced

pressure on margins and favoring penetration pricing policies. In the past, SSE experienced a loss of customers to competitors who offered below-market rates. In the business-to-business category, SSE has already entered into power supply and power purchase contracts, representing 50% of its gross profit for 2015.

13% of the electricity supplied by SSE is supplied to the mid-market category. This is the most attractive category as it generates the highest gross profit. We believe that the high acquisition costs and low price sensitivity of customers, prevents competitors from offering discounts attractive enough to create major customer churn. In the mid-market category, SSE has already entered into power supply and power purchase contracts, representing 48% of its budgeted gross profit for 2015 and 46% of its budgeted gross profit for 2016.

40% of the electricity supplied by SSE is supplied to the household category, which is a regulated category. SSE has managed to keep its portfolio in this category generally stable and its switching rate lower than that in the mid-market and business-to-business categories, despite aggressive sales campaigns by its competitors.

We also trade power and natural gas primarily to fulfill our supply obligations or to virtually match our power production with our supply obligations.

Power distribution

After the contribution of EPH Fin II, the holding company for the 49% stake in SSE, from EPH to EPE on December 16, 2013, the focus of this segment shifted to power distribution to end customers. The distribution of power is a regulated activity in the Slovak Republic and can be broken down into high voltage, medium voltage and low voltage distribution.

Power distributed by SSE decreased by 73 GWh, or 1.2%, to 5,839 GWh for the year 2014 as compared to 5,912 GWh for the year 2013. Main driver for the decrease in volume was warm winter in 2014 resulting in decline on LV voltage levels, which includes both heating and non-heating tariffs. Due to enhanced insulation of houses, an ongoing slight decrease of consumption in heating tariffs can be expected.

Price-cap regulation has been implemented for the current regulatory period, meaning price regulation is implemented inter alia through limitation of the so-called "allowed profit," which is the profit allowed to be received by the relevant distribution system operator and is part of the relevant formula for the calculation of transmission and distribution tariffs. The allowed profit is determined for a given regulatory period as a rate of return on the regulatory asset base before tax. We believe this secures revenues for distribution system operators.

Energy production optimization and trading activities

Our Power Distribution and Supply segment provides our CHP plants with constant access to the power market, enabling us to utilize state-of-the-art energy production optimization based on market demand. As part of this strategy, we both sell electricity generated by us in our Heat and Power segment in the wholesale market and purchase electricity from the wholesale market for delivery by our power generation business at times when it is more economical for us to buy electricity for sale under our forward sale contracts rather than generate it ourselves. This decision depends on the price of power on the wholesale market. If the price of power on the wholesale market is lower than the cost of producing power, we will buy power, and if the price on the wholesale market is higher than the cost of producing power, we will produce it. The process of energy production optimization also involves selling and then reselling, potentially many times, the

power we produce or the power we buy on the wholesale market. We conduct this sale and resale process in order to take advantage of price changes for power on the wholesale market to allow us to capture additional margin on the price of power. For example, if after selling the power that we intend to produce and locking in the sale price, the price of power drops to below our marginal cost of production, we will instead purchase the required amount of power for delivery. If the price of power then increases above our marginal cost of production, we will once again sell power we intend to produce, again locking in the sale price. If prices rise and fall further, we will repeat the process.

While our power and natural gas trading policies require that the majority of our trades are conducted on a back-to-back basis (for example, we typically only purchase commodities on the market when we have an offsetting sales contract, and we do not maintain large open positions which expose us to downside risk), we also engage in limited opportunistic power and gas trading activities. These trades primarily relate to (a) speculation on seasonal differences in power and natural gas prices, i.e., we purchase gas in the spring and summer with the intention of selling it at a higher price in the winter; and (b) speculation based on announcements relating to the availability of emissions allowances, as a reduction in the number of available emissions allowances typically leads to an increase in emissions allowance prices and thus increasing power prices due to higher production costs. Additionally, in connection with the optimization of our supply and trading business, we are dependent on the liquidity of the wholesale market, and as a result, we may take limited open trading positions, i.e., not matching a sale with a purchase until there is more liquidity in the market, or if prices are falling, waiting to make the matching purchase transaction. Nevertheless, such opportunistic trading activity is fairly limited, and the maximum exposure we may take through proprietary trading is subject to limits setting the maximum risk of loss on trading portfolios. Under our current policies, EPET's potential open positions in power and gas over any period of time are limited by an aggregate mark-to-value of EUR 5 million in power and EUR 1 million in natural gas. If we exceed these thresholds on our open positions, we are required by EPE Group policies to close out of our open positions to a value below these thresholds. Under the current SSE risk policy, exposure to market price risk in electricity and natural gas trading is set by the limits on open financial positions for each trading year and each market segment and by value-at-risk limits for a 12-month horizon (EUR 0.4 million for electricity and EUR 0.3 million for natural gas) and four-year (portfolio) horizon (EUR 0.9 million for electricity and EUR 0.5 million for natural gas).

Renewables

For the year ended December 31, 2014, the Renewables segment generated sales and EBITDA of EUR 6.1 million and EUR 3.7 million, respectively. For the year ended December 31, 2013, the Renewables segment generated sales and EBITDA of EUR 6.1 million and negative EUR 9.2 million, respectively. This increase in EBITDA was mainly due to one-off non-cash effects, specifically an impairment of acquisition goodwill of EUR 8.6 million and an impairment of EUR 4.6 million related to a cancelled project, both recognised in other operating expenses of Renewables segment in 2013.

Our renewable energy output is fed into the national grid, and in general, off-take prices and feed-in tariffs for solar, wind and biogas energy are fixed for 15 years for facilities that became operational before January 1, 2013 and for 20 years for facilities that became operational in 2013 in the Czech Republic and the Slovak Republic, in each case following the commissioning date. In Germany, off-take prices and feed-in tariffs are fixed for 20 years, not including the year of commissioning. We believe this pricing framework allows for reliable visibility into our future results of operations.

Our wind operations are conducted in the Czech Republic through VTE Pchery, s.r.o., in which we hold a 64% stake, with an installed capacity of 6.0 MW_e. In the Czech Republic, we also own and operate one solar facility with an installed capacity of 3.1 MW_e and have a 41.7% ownership interest in another solar facility, which we also operate, with an installed capacity of 4.0 MW_e. We own one

wind farm in Germany at our MIBRAG facilities with an installed capacity of 6.9 MW_e, two solar power plants in the Slovak Republic, each with an installed capacity of 1 MW_e, and a 72% interest in a biogas facility in the Slovak Republic with an installed capacity of 3.0 MW_e. The total installed capacity remained at 25.0 MW_e at December 31, 2014 and December 31, 2013.

We intend to further develop two wind park projects, one in the Czech Republic (VTE Moldava) and the other in Germany (on land owned by MIBRAG). We believe that VTE Moldava it is on track to be commissioned in 2017. While we believe that we will continue to experience growth in our Renewables segment through the development projects currently in progress, we expect that it will remain a relatively small part of our business. We are focusing less on our Renewables segment due to less favorable legislation and delays in the permitting process. For example, our VTE Pastviny project was discontinued because we did not obtain a permit before 2013. In addition, due to delays in obtaining permits, we downsized the wind park project in development in Germany.

We are also developing our capability in waste-to-energy facilities in order to take advantage of this potential growth area of business. For example, in 2012 in the Czech Republic 67% of solid municipal waste was landfilled, while 24% was recycled and only 9% was used in waste-to-energy plants. A waste-to-energy project at the Komořany site owned by our subsidiary United Energy in the Czech Republic is currently in an advanced state of development and would have a fuel input capacity of 150 kt per annum. The technical design for this site has been prepared and agreed upon, and the requisite environmental impact assessment has been granted. In order to comply with public procurement rules, we have signed a contract with a general contractor, but the project is currently only hold with no additional costs. Although we have the required permits, we do not intend to proceed with further implementation of the project until the regulatory framework changes so that the economic viability of the project is guaranteed. Under the current legislative environment in the Czech Republic, it is very unlikely that we would proceed with the development of this plant.

Employees

In 2014, we had on average 6,585 full-time equivalent employees in our operations, whereas 6,187 on average in 2013. The majority of our employees is employed in the Mining, Heat and Power and Power Distribution and Supply segments. In 2014, these segments contain 36.2%, 36.1% and 27.0% of our full-time equivalent employees, respectively. In 2013, these segments contain 32.2%, 40.1% and 27.0% of our full-time equivalent employees, respectively.

In order to ensure a steady flow of qualified, skilled mining employees for MIBRAG, we operate a training school curriculum designed to train previously inexperienced candidates to fill our technical mining personnel needs. Training for industrial mechanics and electronics technicians lasts 3.5 years, with 2 years being spent at MIBRAG's training centre at Deuben and the last 1.5 years assigned to various technical tasks in production or maintenance. At December 31, 2014, MIBRAG employed approximately 118 trainees and approximately additional 24 young people in a junior manager program.

Historically we have enjoyed good labor relations and we are committed to maintaining these relationships. Other than management and professional personnel, the majority of our employees is represented by local trade unions and is covered by a number of collective bargaining and works council agreements, which usually last between 12 and 18 months. In February 2014, we concluded a collective remuneration agreement for employees employed by MIBRAG, effective from April 1, 2014 until at least March 31, 2016. Similarly, effective January 1, 2013, we entered into a collective bargaining agreement for employees of PT which extends until December 31, 2016, and, effective January 1, 2015, the collective bargaining agreements for employees of UE and PE, respectively, were amended. We extended the framework collective bargaining agreement for employees employed by

SSE through December 31, 2015. On December 2, 2011, we entered into a collective bargaining agreement at EOP that will need to be renegotiated upon the responsible union providing us with six months' notice. We continue to enter into further collective bargaining agreements as required in the Czech Republic and the Slovak Republic.

Environmental matters

Operations in our Mining, Heat and Power and Renewables segments often involve the requirement to comply with regulatory regimes designed to protect the environment. We endeavour to comply with all known environmental regulations and have not been made aware of any material breaches of applicable environmental regulations by any member of the EPE Group.

European Union

Czech, Slovak, German and EU regulations impose strict standards for CO₂, SO_x, NO_x, CO and solid particulate matter emissions. Starting in 2016, the stricter emission targets set by the European Industrial Emissions Directive ("IED") principally apply for large combustion plants. We estimate that complying with these targets by the 2016 deadline will require investments in the Czech Republic in excess of EUR 80 million across the EPE Group (predominantly at EOP and minor technology improvements at UE and PE). We estimate that we will invest an additional EUR 6.5 million total to comply with the IED at our Schkopau (primarily mercury-related) and MIBRAG power plants in Germany, and no additional IED investment is required at HSR or SSE at this time.

Czech Republic

The key law focusing solely on the energy sector is Act No. 458/2000 Coll., on conducting business and governmental supervision in the energy sectors, as amended (the "Czech Energy Act"), which provides the legal basis for conducting business in the energy sector and obtaining the necessary licenses for the generation, distribution and sale of electricity, natural gas and heat. The Czech Parliament enacted the Czech Energy Act in 2000 and broadly amended it in August 2011 as a means of implementing the EU Third Electricity Directive. The Czech Energy Act contains provisions in compliance with applicable EU legislation. Its main principles are: (i) the conduct of business in the electric energy sector only with licenses issued by the ERO; (ii) the unbundling of transmission and distribution system operations; (iii) the liberalization of the market by allowing competition in the energy sector; (iv) the establishment of a strong and independent regulatory authority (*i.e.*, the ERO); and (v) the protection of end-consumers.

We believe that we are in full compliance with all applicable regulations and requirements under the Act No. 201/2012 Coll., on protection of the air, as amended (the "Czech Air Protection Act"). Since we own numerous coal-fired power plants classified as "existing particularly large combustion plants," under applicable legislation we may exchange and allocate the assigned aggregate emission limits between our coal-fired power plants in such a way as to ensure compliance with the Czech Air Protection Act and we are therefore able to optimize heat and power generation.

Slovak Republic

The main law in the Slovak Republic regulating the energy sector is Act No. 251/2012 Coll., on the Energy Sector and on amendments to certain acts, as amended (the "Slovak Energy Act"), which regulates the conduct of business in the electricity and gas energy sector, particularly production, transmission, distribution and supply of electricity and gas. Conducting business in the field of thermal energy, *i.e.*, heat production, heat production and distribution or heat distribution is governed by Act No. 657/2004 Coll., on the Thermal Energy Sector, as amended (the "Slovak Thermal Energy Sector Act"). The Slovak Energy Act and Slovak Thermal Energy Sector Act also regulate requirements for obtaining licenses to conduct business in the respective fields of the energy sector.

Furthermore, the Slovak Energy Act also regulates measures aimed at securing the supply of electricity and gas and the functionality of the internal market for electricity and gas. The Slovak Thermal Energy Sector Act determines the rights and obligations of the heat market stakeholders. Both acts have implemented relevant EU energy legislation.

We believe that we are in full compliance with all applicable regulations and requirements under the Slovak IPPC Act, the Slovak Water Act and the Slovak Waste Act.

Germany

Our mining permits require us to submit a reclamation plan which obligates us to restore our mining sites in accordance with specific standards. We may further be required to create and maintain a cash reserve to cover the costs of implementing our reclamation plan.

MIBRAG

The IMC Competent Persons Report (the "IMC Report") estimates reclamation costs of approximately EUR 344 million, which is based on a 2010 expert opinion. In late 2012, MIBRAG obtained an updated expert opinion regarding estimated reclamation costs of both the Profen and Vereinigtes Schleenhain mines, and on that basis the latest estimate of such reclamation costs is on actual price base EUR 324.7 million. As at December 31, 2014, MIBRAG and HSR had a EUR 311.6 million non-cash ecological provision for restoration, decommissioning and other mining provisions booked as a liability included in the consolidated EPE balance sheet pursuant to IFRS, and no cash reserves. Reclamations with respect to MIBRAG's Profen mine are currently planned to begin in 2030 and with respect to MIBRAG's Vereinigtes Schleenhain mine in 2040. We expect to fund the Profen mine reclamation plan with cash from our ongoing operations. We expect to begin accumulating substantial cash reserves to fund the Vereinigtes Schleenhain mine reclamation plan after 2030. We may be required to accumulate cash reserves earlier. We currently incur cash costs of approximately EUR 2-3 million per year for ongoing reclamation and other measures.

HSR

Based on a third-party evaluation opinion dated June 26, 2013, which was updated in late 2014, HSR recorded total mine reclamation provisions of EUR 71.2 million according to IFRS as at December 31, 2014 and EUR 71.2 million booked as a liability pursuant to German GAAP as of December 31, 2014. For the Schöningen mine, our main reclamation actions are expected to begin in 2017 with the greatest impact on cash flow occurring from 2017 to 2020 (expected to be around EUR 10 million per annum). Reclamation of the old exhausted mines is already ongoing at an annual expenditure of approximately EUR 2 million, and together with Schöningen the reclamation activities will continue beyond 2020, mainly due to the necessary flooding of future end lakes. In addition to its reclamation provisions, HSR also has certain personnel-related provisions, including for social plan obligations, which are reflected in the purchase price of HSR.

Legal proceedings

Companies in our segments often face litigation both on a private commercial level, as well as litigation commenced by national and local regulatory bodies.

EBEH Opatovice, a.s. is also subject to a dispute with its former minority shareholders claiming inadequacy of the compensation received for their shares subject to a compulsory sell-out procedure ("squeeze-out"), challenging an underlying expert valuation. As the compensation was not paid by EBEH 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.

UE is also subject to several disputes with its former shareholders claiming inadequacy of the compensation received for their shares subject to a compulsory sell-out procedure (“squeeze-out”), challenging the validity of the underlying resolution of the general shareholder meeting. The outcome of this matter is unforeseeable and we intend to defend ourselves vigorously. In May 2014, Court of appeal came to the conclusion that one claim challenging the validity of the underlying resolution of the general shareholders meeting is not relevant and UE believes that this conclusion may serve as a precedent for the other claims.

MIBRAG is subject to an ongoing dispute filed by 50Hertz Transmission GmbH (“50Hertz”) in Germany in 2011. 50Hertz operates an upstream transmission grid and seeks retroactive payment from MIBRAG for costs under the burden-sharing mechanism related to the promotion of renewable energies (so-called EEG surcharge) between August 2004 and December 2008 under the German Renewable Energies Act (Erneuerbare Energien Gesetz). Transmission grid operators generally charge energy supply companies with the EEG surcharge depending on the quantity of electricity delivered by them to end customers. Energy supply companies are in turn entitled to pass the EEG surcharge on to end customers as a part of the electricity price. In March 2013, the District Court of Halle (Landgericht Halle) rendered a partial judgment in favor of 50Hertz ordering MIBRAG to provide detailed data on its deliveries of electricity to end customers from August 2004 to December 2008 to allow for a calculation of EEG surcharge payments potentially owed by MIBRAG. On 6 February 2014, MIBRAG’s appeal was turned down by the Higher Regional Court, however, a further appeal of the partial judgement is possible and has already been filed with the Federal Supreme Court (Bundesgerichtshof). A decision is expected in 2015. If the court ultimately decides in favour of 50Hertz that detailed data should be provided by MIBRAG to 50Hertz for the purposes of the calculation of a potential EEG surcharge for the above period, MIBRAG’s liability could be significant.

In May 2010, the European Commission initiated formal proceedings against EPH, EPE’s parent company, and EP Investment Advisors, s.r.o. (“EPIA”), an affiliated company, for potential breach of their procedural obligations during the on-site inspection in November 2009 undertaken as part of an antitrust investigation. As a result of the proceeding, on March 28, 2012 the European Commission imposed a fine of EUR 2.5 million (CZK 60 million). EPH and EPIA are jointly and severally liable for the fine and have recorded adequate provisions with respect thereto. In June 2012, EPH and EPIA appealed the Commission’s decision. The appeal by EPH and EPIA was dismissed by the EU General Court in November 2014.

In August 2012, Škoda Investment a.s. filed a claim for unjust enrichment against Plzeňská energetika a.s. for approximately EUR 2.3 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. EPE Group’s management believes that the claim is unfounded and should be dismissed by the court. For this reason Plzeňská energetika a.s. did not create a provision for this litigation as at December 31, 2014. First court hearing already took place on October 14, 2014 with no outcome. Škoda Investment a.s. was asked to provide further details clarifying the claim by mid of December 2014. These details were delivered in time and PE was then asked to provide its opinion. Following court hearing is planned to be scheduled for the end of first half of 2015.

SSE faces a claim for an amount of EUR 43.0 million (derived from a historical conversion of the original claim base of Slovak crowns equivalent to \$30.0 million) related to an unfulfilled loan contract with a private person. According to the contract, the person was obliged to provide SSE with a loan of \$20.0 million, secured by a promissory note worth \$30.0 million, representing the loan principal plus interest owed. However, the loan was never provided. The court dismissed the claim in December 2013, but the claimant appealed. Given the circumstances surrounding this claim, SSE has

not recorded a provision since the SSE Group's management does not expect an impact on the SSE Group and considers the risk of failure in these proceedings to be unlikely. Furthermore, the SSE Group is a party to various legal proceedings. As of December 31, 2014 the legal provisions amount to EUR 0.1 million (as of December 31, 2013 amount to EUR 1.3 million).

Other than the private commercial litigation described above, we are not involved in any legal or arbitration proceedings that are expected to have, either individually or in the aggregate, a material adverse effect on our financial position. To our knowledge, no such other legal or arbitration proceeding is currently threatened.

Information technology systems

Our operational efficiency, which we believe is core to our competitive advantage, is partly a result of group-wide investments in information technology systems which allow our operating entities to coordinate their operations and help us to maintain group-wide policies and management of our operations. This is especially important in the coordination between the Power Generation division of our Heat and Power segment and our Power Distribution and Supply segments, which requires minute-by-minute information about levels of supply available to be sold or traded and the prices of power and natural gas on the wholesale market. In addition, the Trading division of our Power Distribution and Supply segment relies on proprietary software for the monitoring and clearing of trades in electricity and natural gas.

Safety systems

Safety and quality management covering health and safety ("HSE") management systems, technology and people is an integrated part of our management system. We believe, we, as well as our facilities and equipment, are in compliance with all legal requirements and best practices and continually attempt to improve the level of safety in our operations by implementing measures to evaluate, avoid, remove and mitigate risks. Furthermore, we maintain comprehensive training programs designed to ensure the safety of our employees. Additionally, when selecting and evaluating our suppliers, we take their approach to safety issues into account.

Our subsidiaries operating in the Heat and Power segment have implemented an integrated health and safety management system, BOZP (*bezpečnost a ochrana zdraví při práci*), which complies with the standards set by international norm ISO 14001, as well as Czech norm ČSN OHSAS 18001, and which provides HSE guidelines and best practices, as well as training programs for our employees.

For the year ended December 31, 2014, our subsidiaries operating in the Heat and Power segment had the following accident rates (expressed in number of accidents per one million hours): EOP (4.82), PT (0.88), UE (2.84), PE (0.0), SSE (1.48) and HSR (4.41).

In our Mining segment, MIBRAG maintains its own occupational health and safety system, internally known as Arbeitsschutz Management System ("AMS"). The department responsible for overseeing AMS has 1 director HSE, 6 safety engineers, 1 manager of health and 1 assistant, 1 physician, 2 medical assistants and 30 firefighters and paramedics. AMS contains guidelines for employee HSE, environmental protection and fire-fighting that are based on an analytical documentation of accidents and near-accidents, incidents, risks, safety evaluations, inspection plans and implementation of preventative or corrective measures. Furthermore, AMS involves regular training and risk assessments and safety audits and meetings that help MIBRAG improve its safety performance.

The company's accident frequency rate of reportable accidents per one million hours was 5.30 in 2014. In 2013, this rate was 2.29 and 1.1 is the long-term target for MIBRAG. The average of brown coal mining companies in Germany in 2014 was 2.8 reportable accidents per one million hours. Although the accident frequency rate in the year ended December 31, 2014 of 5.30 is higher than our long term rate, we do not view this as a permanent departure from the past, lower accident frequency rate.

The EPE Group subsidiaries have the following certificates in the area of health protection, safety and processes:

- EOP – ISO 14001:2004, ISO/IEC 17021: 2007
- PT – ISO 9001:2001, ISO 14001:2005
- EPET – ISO 9001:2009
- MIBRAG – ISO 9001:2000, ISO 3834-3

As of December 31, 2014, SSE employed 12 full-time equivalent employees in HSE management and HSR employed 3.7 full-time equivalent employees in HSE management.

Insurance

While all commercial, procedural and supervisory decisions regarding insurance policies are made by EPE senior management, we do not enter into insurance contracts at the EPE Group-level. As at March 19, 2015, our individual operating subsidiaries maintain insurance policies with Total Sum Insured EUR 6,346 million with different coverage limits applying to each company. Our main insurance carriers are currently Generali and Allianz. At the individual company-level including the key operating companies MIBRAG, EOP, PT, UE, PE, HSR and SSE, our policies cover risk to property damage (fire, flood, earthquake, natural hazards and theft) with Total Sum Insured EUR 5,453 million, third-party liability with various limits of indemnity up to EUR 12.5 million, business interruptions with Total Sum Insured EUR 574 million, machinery loss of profit with Total Sum Insured EUR 188 million and risk of machinery breakdown with Total Sum Insured EUR 130 million. We believe that our policies are in accordance with customary industry practices, including deductibles, limits of indemnity and scope of coverage.

Management

Executive officers and directors of EP Energy, a.s. (“EP Energy”)

The following table sets forth the name, age (as of December 31, 2014) and principal position of each of EP Energy’s current members of the board of directors (the “Board”) and officers:

Name	Age	Position
Daniel Křetínský.....	39	Chairman of the Board
Jan Špringl.....	36	Vice Chairman of the Board; Director of Power Distribution and Supply
Tomáš David	43	Member of the Board; Chief Executive Officer
Pavel Horský	41	Member of the Board
Jiří Feist.....	52	Member of the Board; Chief Strategic Officer
Marek Spurný	40	Member of the Board
Dr. Joachim Geisler.....	59	Director of Mining and Power Generation
David Onderek.....	44	Director of Heat and Cogeneration
Tomáš Novotný	41	Director of Logistics and Coal Trading
Filip Bělák.....	36	Chief Financial Officer
Pavel Bureš	41	Procurement Director

The members of the Board and officers listed above can be reached at Příkop 843/4, 602 00, Brno, Czech Republic, telephone number +420 232 005 300 or Pařížská 130/26, 110 00 Prague 1, Czech Republic.

There are no potential conflicts of interest between any duties of any of the member of the Board or officers listed above and their private interests or other duties, except for any such potential conflict described in “Certain relationships and related party transactions,” “Risk Factors—Risks related to our structure—The interests of our controlling shareholders may differ from the interests of the holders of the Notes” and “Principal Shareholders.”

Daniel Křetínský has been the Chairman of the Board since EP Energy was founded on December 16, 2010 and through his role as a partner in the J&T Group, was also involved in the founding of EP Energy’s parent company, Energetický a průmyslový holding a.s. (“EPH”). At EP Energy, he is also a member of the Strategic committee. Mr. Křetínský holds board positions at certain of EP Energy’s subsidiaries. Mr. Křetínský also serves on several boards of companies that are affiliated with EP Energy, including its parent company EPH, SPP-I, eustream, NAFTA and EP Investment Advisor, s.r.o., and also holds positions at companies unaffiliated to EP Energy, including Vice Chairman of the Board of AC Sparta Praha fotbal, a.s. Mr. Křetínský was previously on the board of several EP Energy companies as well as on the board of several companies unaffiliated with EP Energy. Mr. Křetínský holds a bachelor degree in political science and master and doctoral degrees in law from the Masaryk University in Brno.

Jan Špringl has been a member of the Board of EP Energy since December 16, 2010 and a Vice Chairman of the Board since March 5, 2013, and was the Chief Executive Officer until March 2013. At EP Energy, he is also a member of the Strategy and Investment Committees. As part of his role on the EPH management team, Mr. Špringl is a member of the board of SSE, SPP-I and NAFTA, and holds management and board positions at certain of EP Energy’s subsidiaries and other affiliates. Mr. Špringl has also served in the past and now serves as acting secretary or member of the board of directors at several companies affiliated and unaffiliated with EP Energy. Before he joined EP Energy,

Mr. Špringl served in various management and supervisory board positions at other affiliated companies. Mr. Špringl holds a degree from the Faculty of Business Administration of the University of Economics in Prague.

Tomáš David has been the Chief Executive Officer and a member of the Board of EP Energy since March 5, 2013, and had been the Head of the Heat and Power segment since EP Energy's incorporation in 2010. He acted as the Director of Renewables and Power Distribution and Supply since March 2012 till September 2014. At EP Energy, he is also a member of each of the Strategy, Investment and Compliance Committees. Mr. David has also served on the board of directors of Elektrárny Opatovice, a.s. and as a member of the supervisory board of NPTH, a.s., both subsidiaries of EP Energy, since August 1, 2010. Mr. David holds various positions with companies affiliated with EPH, for example as the Director of Energy Sector Development of EPH. Prior to that, he worked as the Chief Strategy Officer at Eurotel Praha, a leading Czech mobile phone operator, and 9 years in A.T. Kearney, a leading global management consulting firm. He holds an M.Sc. degree in Nuclear Physics from the Charles University in Prague and an M.B.A. degree from Rochester Institute of Technology, New York.

Pavel Horský has been a member of the Board of EP Energy since March 20, 2012 and served as EP Energy's Chief Financial Officer since September 1, 2012 until May 1, 2014 and till now serves as a member of the Risk and Strategy Committees of EP Energy. He is the Head of Treasury of EPH and he holds positions on the boards of directors or the supervisory boards of several other companies that are affiliated with EP Energy, including EPH and Slovak Gas Holding B.V. Prior to joining EPH, he held a market risk advisory position at RBS. Mr. Horský has a master's degree in mathematics and physics from Masaryk University in Brno.

Jiří Feist has been the Chief Strategy Officer since April 1, 2012 and has been a member of the Board of EP Energy since March 5, 2013. Mr. Feist formerly served as the Strategy and Business Development Director for the ČEZ Group and Chief Strategy Officer for ČEPS, a.s. Mr. Feist holds a master's degree from ČVUT FEL Praha.

Marek Spurný has been a member of the Board since EP Energy was founded in 2010, and was the Vice Chairman of the Board until March 2013. He also serves on EP Energy's compliance committee and on boards of directors and supervisory boards of several of EP Energy's subsidiaries and affiliates, including SPP Bohemia, a.s. (a subsidiary of SPP) and EP Investment Advisors. Mr. Spurný has been a member of the board of directors of EPH since October 7, 2009. Before joining EP Energy, Mr. Spurný served in various supervisory board positions at other affiliated companies of EP Energy. He has a law degree from Palacký University in Olomouc.

Dr. Joachim Geisler has been Director of Mining of EP Energy since February 20, 2012. Dr. Geisler has been the Chief Executive Officer of MIBRAG since January 2008 and became a Managing Director of JTSD Braunkohlebergbau GmbH (the parent company of MIBRAG) in April 2010. Prior to joining MIBRAG, he served as a board member of other mining companies, such as Deutsche Steinkohle AG and RAG Saarberg AG and worked as a free-lance consultant engaging in international mining M&A consultancy. Dr. Geisler holds a PhD degree in Mining Science and Technology from RWTH Aachen (Germany).

David Onderek has been the Director of Heat and Power since March 7, 2013. He also serves on various management boards of companies that are affiliated with EP Energy. Prior to joining EP Energy in July 2012, Mr. Onderek held the position of Vice Chairman of the Supervisory Board of PPC Úžín, a.s., an affiliate of ČEZ, and he previously worked for companies affiliated with the ČEZ group from January 1994. He holds a Master's degree in Economics of Power Generation from the Czech

Technical University in Prague and a Master of Business Administration degree from the University of Pittsburgh.

Tomáš Novotný has been Director of EP Energy's Coal Trading and Logistics since February 2012 and also serves as the Chairman and Executive Head of EP Coal Trading a.s. (a subsidiary of EP Energy). Mr. Novotný also serves as a member of the board of directors and as Executive Head of EP Cargo a.s. (a subsidiary of EPE), a supplier of logistics to EP Energy, and holds various management board positions at other companies affiliated with EP Energy. Mr. Novotný holds a Master of Economics degree from the University of Economics in Prague.

Filip Bělák has been EP Energy's Chief Financial Officer since May 1, 2014 and also serves as a member of the Risk and Investment Committees of EP Energy. Before joining EP Energy, Mr. Bělák spent 11 years at KPMG, a multinational accounting and consulting firm where he held various positions. He holds a Master of Economics degree from the University of Economics in Prague and is a member of two professional finance and accounting associations.

Pavel Bureš has been Procurement Director of EP Energy since August 25, 2014. He is also a member of the Investment Committee. Before joining EP Energy, Mr. Bureš spent 10 years at A.T. Kearney, a leading global management consulting firm. He holds a Master degree in Finance from the University of Economics in Prague and an M.B.A. degree from Rochester Institute of Technology.

The board of directors of EPH, as appointed by Daniel Křetínský, appoints the members of the Board that conducts EP Energy's operations. However, the EP Energy Board requires the approval from its supervisory board (composed of members appointed by each of Biques Limited and Milees Limited) to undertake certain significant transactions and measures. These include, *e.g.*, material debt financing, material acquisitions and divestitures and mergers.

Principal shareholders

We are a wholly owned subsidiary of CEE, which is a joint-stock company established under the laws of the Czech Republic. The ultimate beneficial owners of EPE as of December 31, 2014 are Milees Limited (18.52%), Biques Limited (18.52%) and EP Investment S.à r.l. (18.52%). In addition, EPH holds its own shares representing 44.44% interest in share capital. Milees Limited is controlled by Mr. Patrik Tkáč. Biques Limited is owned by private individuals, none of whom owns individually more than a 20% stake in Biques Limited. Milees Limited and Biques Limited have formed partnerships with J&T Group, on the basis of which J&T Group participates in the beneficial ownership of their combined 37.04% interest in EPH, conferring on J&T Group, however, no rights of control. EP Investment S.à r.l. is controlled by Mr. Daniel Křetínský, the Chairman of the Board of Directors of EPE and a former corporate partner of the J&T Group. The J&T Group, together with its subsidiaries, is a leading investment group operating predominantly in the Czech and Slovak Republics with approximately EUR 8.4 billion in assets as of December 31, 2013.

In 2014 EPH reached an agreement with TIMEWORTH HOLDINGS LIMITED, a former shareholder controlled by PPF Group N.V. , to repurchase its 44.44% interest in share capital in EPH. This was undertaken in two steps in 2014. As at 31 December 2014 own shares were reported within EPH's equity as the shares were not yet cancelled.

Furthermore, on December 4, 2014 EP Investment S.à r.l. acquired from MACKAREL ENTERPRISES LIMITED ("MACKAREL") all shares in EPH held by MACKAREL.

All the shares of the Company are owned by EPH. The rights of EP Holding as a shareholder in the Company are contained in the Articles of Association of the Company and the Company will be managed by its directors in accordance with the Articles of Association and with the provisions of the laws of the Czech Republic.

Certain relationships and related party transactions

We enter into transactions with certain related parties or our affiliates from time to time and in the ordinary course of our business. For all transactions above a certain monetary threshold we follow arm's length principles, and we apply unified standards with regards to dealings with affiliates, especially those that function as investment advisors, and we believe these agreements are on terms no more favorable to the related parties or our affiliates than what they would expect to negotiate with disinterested third parties.

For the purposes of this discussion:

- Accounts receivable and other financial assets represent money owed to EPE;
- Accounts payable and other financial liabilities represent money owed by EPE;
- Revenues means income of EPE; and
- Expenses means costs of EPE.

Relationship with EPH

EPH is our ultimate parent company, owning 100% of the shares in CEE that is our parent company.

The total value of transactions and balances between EPH and EPE and its subsidiaries as of and for the years ended December 31, 2013 and 2014 are set out below:

	As of and for the year ended December 31,	
	2013	2014
	(EUR in millions)	
Accounts receivable and other financial assets	471.3	491.7
Accounts payable and other financial liabilities.....	3.6	2.5
Revenues.....	18.3	20.4
Expenses.....	0.1	0.4

Loan Agreements

Our transactions and balances with EPH primarily consist of loans incurred or extended between EPH and EPE, each acting as both lender and borrower, as well as the obligations between the EPE and EPH described above.

As of December 31, 2014, we had EUR 2.5 million outstanding in shareholder loans and borrowings owed to EPH and had EUR 491.7 million of receivables due from EPH, out of which EUR 486.1 relates to loans due from EPH. The revenues and expenses presented above are primarily interest paid or received by each of EPE and EPH under the transactions mentioned above.

EPH acts as a guarantor under certain of our credit facilities.

Other relationships

Although we do not have formal arrangements with EPH, management level EPE employees have assisted, and in the future will assist on, projects at EPH, as EPH seeks to support the operations of EPE. Additionally, we share certain business operation services with EPH, for example our email servers and computer systems. We intend to continue these relationships going forward.

Further, in the past, EPH has entered into agreements that affect the EPE Group. For example, under an agreement between EPH and an interested party (the "Interested Party") under certain circumstances EPH is required to offer for sale certain assets of one of our subsidiaries (the "Seller Subsidiary") to the Interested Party. If the Seller Subsidiary does not sell the assets or equivalent assets to the Interested Party, EPH is required to pay a fee instead of approximately EUR 7.2 million.

Relationship with CEE

CEE is our parent company, owning 100% of the shares in EPE.

On 24 January 2014, CE Energy, a.s., a 100% subsidiary of EPH, acquired all of the outstanding shares of EP Energy, a.s. from its sole shareholder EPH.

The total value of transactions and balances between CEE and EPE and its subsidiaries as of and for the years ended December 31, 2013 and 2014 are set out below:

	As of and for the year ended December 31,	
	2013	2014
	(EUR in millions)	
Accounts receivable and other financial assets	0.0	80.0
Accounts payable and other financial liabilities.....	0.0	0.0
Revenues.....	0.0	2.0
Expenses.....	0.0	0.0

Loan Agreements

Our transactions and balances with CEE primarily consist of loans incurred or extended between CEE and EPE, each acting as both lender and borrower, as well as the obligations between the EPE and CEE described above. The revenues and expenses presented above are primarily interest paid or received by each of EPE and CEE under the transactions mentioned above.

As of December 31, 2014, we had EUR 62.0 million outstanding in borrowings due from CEE and EUR 18.0 million outstanding advance payment due from CEE.

Relationship with EP Investment Advisors

EP Investment Advisors ("EPIA") is a company wholly-owned by EPH, which makes it our affiliate.

The total value of transactions and balances with EPIA as of and for the periods ended December 31, 2013 and 2014 are set out below:

	As of and for the year ended December 31,	
	2013	2014
	(EUR in millions)	
Accounts receivable and other financial assets	0.1	0.2
Accounts payable and other financial liabilities.....	2.3	0.4
Revenues.....	0.3	0.0
Expenses.....	3.2	0.3

EPIA provides consulting services to the EPE Group through a number of specific consulting agreements as well as more informal arrangements. This includes certain members of our senior management. The balances at period ends and expenses incurred to EPIA for these consulting services are set out above.

In addition to these agreements, EPIA has entered into a number of other agreements with certain of the subsidiaries related to the provision of various consultancy services (for instance, in relation financing and merger and acquisition arrangements) and other business operations services.

EPIA also provides more informal services at the management level to both EPE and EPH. For example, most of the legal counsel and financial and technical analysts at the company are employees of EPIA, but provide assistance to both EPE and EPH on a project-by-project basis. We intend to put in place a framework agreement to formalize these arrangements in the future.

Relationship with EP Industries

EP Industries ("EPI") is a company owned by certain of our shareholders. We have no formal arrangements with EPI, however our employees will at times assist with specific projects at EPI or will provide services to EPI in relation to specific projects.

Relationships with certain other institutions

Certain credit institutions are treated as "Other related parties." The total value of material transactions with certain of these credit institutions, namely J&T BANKA, a.s. ("J&TB") which mainly related to bank account deposits and loans used to finance our operations, were as follows as of December 31, 2013 and December 31, 2014.

PPF banka a.s ("PPFB"), as an affiliate to TIMEWORTH HOLDINGS LIMITED (a former EPH shareholder controlled by PPF Group N.V.) was treated as "Other related party" until June 20, 2014 when EPH acquired from TIMEWORTH HOLDINGS LIMITED all shares in EPH held by TIMEWORTH HOLDINGS LIMITED.

	As of and for the year ended December 31,	
	2013	2014
	(EUR in millions)	
Accounts receivable and other financial assets	J&TB: 5.4	J&TB: 0.0
	PPFB: 12.0	PPFB: 0.0
Accounts payable and other financial liabilities.....	J&TB: 3.7	J&TB: 0.0
	PPFB: 0.0	PPFB: 0.0
Revenues.....	J&TB: 0.0	J&TB: 0.0
	PPFB: 0.1	PPFB: 0.0
Expenses.....	J&TB: 0.0	J&TB: 0.0

As of and for the year ended
December 31,

2013 2014

PPFB: 0.0 PPFB: 0.0

Glossary

Unless otherwise indicated or where the context otherwise requires, references to:

"2004 JORC Code" are to the 2004 version of the Australasian Joint Ore Reserves Committee Code;

"2012 JORC Code" are to the version of the Australasian Joint Ore Reserves Committee Code that was published on December 20, 2012 and came into effect on December 1, 2013;

"2012 Senior Credit Facility" are to the term loans and revolving facilities under an agreement entered into on October 18, 2012 among EP Energy and the lenders and other parties named therein, which was repaid in full and canceled on April 18, 2013;

"2018 Indenture" are to the indenture dated April 18, 2013 among EP Energy as issuer, certain subsidiaries of EP Energy as guarantors and the Existing Notes Trustee, pursuant to which the 2018 Notes were issued;

"2018 Notes" are to the €600,000,000 aggregate principal amount of 4.375% senior secured notes due 2018 issued by EP Energy under the 2018 Indenture;

"2019 Indenture" are to the indenture dated October 31, 2012 among EP Energy as issuer, certain subsidiaries of EP Energy as guarantors and the Existing Notes Trustee, pursuant to which the 2019 Notes were issued;

"2019 Notes" are to the €500,000,000 aggregate principal amount of 5.875% senior secured notes due 2019 issued by EP Energy under the 2019 Indenture;

"Brown coal" are to lignite, or a coal with a higher water content and lower calorific value than hard coal, which is mined by MIBRAG and is the type of fuel used to power our CHP plants (other than those operated by PT);

"Buschhaus" are to the Buschhaus brown coal-fired power plant in Lower Saxony (Niedersachsen), Germany;

"Calorific value" are to a measure of heating power or energy content;

"CCGT" are to combined cycle gas turbines;

"Coalition Agreement" are to an agreement among the political parties in Germany forming the coalition for the Federal Government following the 2013 Federal election in which the coalition parties have recently set out their joint objectives for the current legislative period;

"Cogeneration" are to the process by which CHP plants produce both power and heat;

"Collateral" are to the rights, property and assets securing the notes and any rights, property or assets over which a lien has been granted to secure the obligations of the Issuer under the notes and the Indenture;

"Combined Heat and Power plants" or *"CHP plants"* are to plants that capture some or all of the heat generated during the power generation process and convert it into thermal energy, usually in the form of hot water or steam;

"Czech Coal" are to Czech Coal a.s., a Czech mining company;

“District heating” are to the supply of buildings and homes with heat (by using hot water or steam as a carrier) within a heat transmission network of pipes from a central heat source;

“EEA” are to the European Economic Area;

“EEG” are to the Federal Renewable Energy Act (*Erneuerbare-Energien-Gesetz*);

“EEX” are to the European Energy Exchange;

“EIA” are to Environmental Impact Assessment;

“E.ON” are to E.ON SE and all of its subsidiaries;

“EOP” are to Elektrárny Opatovice, a.s.;

“EPC” are to EP Cargo a.s.;

“EP Energy” are to EP Energy, a.s.;

“EPE” and *“EPE Group”* are to EP Energy and its direct and indirect subsidiaries, unless otherwise indicated or where the context otherwise requires;

“EPET” are to EP ENERGY TRADING, a.s. (formerly known as United Energy Trading, a.s.);

“EPH” or *“EP Holding”* are to Energetický a průmyslový holding, a.s.;

“EPH Fin II” are to EPH Financing II, a.s., the entity through which we hold our 49% interest in SSE;

“EPH Group” are to EPH and its subsidiaries;

“ERO” are to the Czech Energy Regulatory Office;

“EU” are to the European Union;

“EU ETS” are to the European Trading System for CO₂ emission allowances;

“Eurozone” are to the 18 EU Member States that have adopted and retained the euro as their common currency and sole legal tender;

“Existing Notes” are to the 2018 Notes and the 2019 Notes;

“Existing Notes Guarantors” are to the guarantors who guarantee the Existing Notes and the SSE Acquisition Credit Facility;

“FIT” are to feed-in tariff;

“GAAP” are to generally accepted accounting principles;

“GDP” are to Gross Domestic Product;

“GJ” are to gigajoules, a measure of heat equal to 10⁹ joules (3.6 GJ = 1 MWh);

“Group,” “we,” “us” and *“our”* are to the EP Energy and its direct and indirect subsidiaries, unless otherwise indicated or where the context otherwise requires;

“GWh” are to gigawatt hours, a measurement of electricity volume equal to a steady power of one billion watts running for one hour;

“HSR” are to Helmstedter Revier GmbH, which owns Buschhaus and the Helmstedt mining district, and its consolidated subsidiaries (Norddeutsche Gesellschaft zur Ablagerung von Mineralstoffen mbH and Terrakomp GmbH), unless otherwise indicated or where the context otherwise requires.

“IFRS” are to the International Financial Reporting Standards promulgated by the International Accounting Standards Board or any successor board or agency as endorsed by the European Union;

“Indenture” are to the indenture governing the terms of the notes between, among others, the Issuer and the Trustee, dated the Issue Date;

“*JORC Code*” are to the Australasian Joint Ore Reserves Committee Code;

“*J&T Group*” are to J&T Finance Group a.s. and its subsidiaries;

“*Kt*” are to kiloton, a measure of volume of brown coal equal to one thousand metric tons;

“*KWh*” are to kilowatt hours, a measure of power volume equal to a steady power of one thousand watts running for one hour;

“*Lippendorf*” are to the brown-coal fired power plant in Lippendorf;

“*Member States*” are to the countries that are members of the EU;

“*Merit order*” are to a system of ranking different sources of power generation, in ascending order of their short-run marginal costs of production, so that those with the lowest marginal costs are the first sources of power generation to be brought online to meet demand for power, and the sources with the highest marginal costs are the last to be brought online;

“*MIBRAG*” are to Mitteldeutsche Braunkohlengesellschaft mbH;

“*MIBRAG Group*” are to MIBRAG, MIBRAG Consulting International GmbH, GALA-MIBRAG-Service GmbH, Bohr & Brunnenbau GmbH Stedten (which was not part of the consolidated EPE Group for the years ended December 31, 2010, 2011 and 2012 (as it was acquired in December 2012), but it is now included as part of the consolidated EPE Group), Mitteldeutsche Umwelt- und Entsorgung GmbH, Fernwärme GmbH Hohenmölsen—Webau, Ingenieurbüro für Grundwasser GmbH and MIBRAG Neue Energie GmbH;

“*Mining Authority*” are to the relevant state governmental mining authority in Germany;

“*MJ*” are to megajoules, a measure of energy equal to one million joules;

“*Mt*” are to million tons, a measure of brown coal volume equal to one million metric tons;

“*MW_e*” or “*MW*” are to megawatt electrical, a measure of installed power capacity;

“*MWh*” are to megawatt hours, a measure of power volume equal to a steady power of one million watts running for one hour;

“*MW_t*” or “*MW_{th}*” are to megawatt thermal, a measure of thermal power capacity equal to one million thermal watts;

“*NPF*” are to the National Property Fund of the Slovak Republic;

“*On boilers*” are to maximum installed thermal capacity;

“*Open-pit mining*” are to method of extracting coal from the earth by its removal from an open pit as opposed to extracting coal from underground mines;

“*Overburden*” are to the excess geological material that lies above a coal seam, and which needs to be removed in order to mine coal;

“*PE*” are to Plzeňská energetika a.s.;

“*PEAS*” are to První energetická a.s., which merged with EPET on January 1, 2013;

“*PGPT*” are to PGP Terminal, a.s.;

“*PJ*” are to petajoules, a measure of heat equal to 10¹⁵ joules (3.6 PJ = 1 TWh);

“*Process steam*” are to high pressure steam;

“*PT*” are to Pražská teplárenská a.s.;

“*Purchase Agreement*” are to the purchase agreement between the Issuer and the Initial Purchasers, in relation to the Notes offered hereby;

“PXE” are to the Power Exchange Central Europe, a.s.;

“RO” are to the Regulatory Office for Network Industries of the Slovak Republic;

“Saale Energie” are to Saale Energie GmbH;

“Schkopau” are to the Schkopau CHP plant in Germany;

“SEC” are to the United States Securities and Exchange Commission;

“SEPS” are to Slovenská elektrizačná prenosová sústava, a.s., the Slovak transmission system operator;

“SPP” are to Slovenský plynárenský priemysel, a.s., a Slovak integrated gas utility;

“SSE” are to Stredoslovenská energetika, a.s. and its consolidated subsidiaries, in which EPH acquired a 49% interest on November 27, 2013 and which was contributed to EPE on December 16, 2013;

“SSE Acquisition Credit Facility” are to the senior secured term facilities under an agreement entered into among, *inter alia*, EPH Fin II as borrower, the agents and the mandated lead arrangers party thereto;

“Stripping Ratio” are to the ratio of volume of overburden required to be handled in order to extract a volume of coal;

“TJ” are to terajoules, a measure of heat equal to 10^{12} joules (3.6 TJ = 1 GWh);

“Ton,” “ton,” “T” or “t” are to metric

ton, a measure of volume of brown coal;

“Trustee” are to Citibank, N.A., London Branch in its capacity as trustee under the Indenture;

“TSO” are to transmission system operator;

“TWh” are to terawatt hour, a measure of power volume equal to a steady power of 10^{12} watts running for one hour;

“UE” are to United Energy, a.s.;

“U.S. Exchange Act” are to the U.S. Securities Exchange Act of 1934, as amended;

“U.S. Securities Act” are to the U.S. Securities Act of 1933, as amended; and

“VTEs” are to wind parks.

Attachments:

EP Energy, a.s. - Unaudited condensed consolidated interim statement of comprehensive income for the period from October 1 to December 31, 2014

EP Energy, a.s. - Unaudited condensed consolidated interim statement of cash flows for the period from October 1 to December 31, 2014

EP Energy, a.s. - Consolidated financial statements as of and for the year ended December 31, 2014 are presented in a separate file as an attachment to this report

EP Energy, a.s.

Unaudited condensed consolidated interim statement of comprehensive income

For the period from October 1 to 31 December 31, 2014

In thousands of EUR ("TEUR")

	October 1 to December 31, 2014 (unaudited)	October 1 to December 31, 2013 (unaudited)
Sales: Energy	688 836	536 070
<i>of which: Electricity</i>	438 761	310 195
<i>Heat</i>	91 838	100 101
<i>Gas</i>	96 749	69 228
<i>Coal</i>	61 488	56 546
Sales: Other	37 328	30 155
Gain (loss) from commodity derivatives for trading with electricity and gas, net	2 503	28
Total sales	728 667	566 253
Cost of sales: Energy	(443 745)	(354 043)
Cost of sales: Other	(11 415)	(8 592)
Cost of sales	(455 160)	(362 635)
Gross profit	273 507	203 618
Personnel expenses	(70 672)	(49 649)
Depreciation and amortization	(75 358)	(60 329)
Repairs and maintenance	(2 073)	(1 699)
Emission rights, net	(4 538)	(6 403)
Negative goodwill	-	15 624
Taxes and charges	(4 406)	(4 153)
Other operating income	26 512	30 002
Other operating expenses	(45 227)	(68 205)
Profit/(loss) from operations	97 745	58 806
Finance income	8 144	66 913
Finance expense	(12 382)	(17 369)
Profit/(loss) from financial instruments	(2 310)	5 613
Net finance income/(expense)	(6 548)	55 157
Share of profit of equity accounted investees, net of tax	413	(18)
Gain/(loss) on disposal of subsidiaries, special purpose entities, joint ventures and associates	-	-
Profit/(loss) before income tax	91 610	113 945
Income tax expenses	(30 685)	(3 459)
Profit/(loss) for the period	60 925	110 486

EP Energy, a.s.

Unaudited condensed consolidated interim statement of cash flow

For the period from October 1 to 31 December 31, 2014

In thousands of EUR ("TEUR")

	October 1 to December 31, 2014 (unaudited)	October 1 to December 31, 2013 (unaudited)
OPERATING ACTIVITIES		
Profit (loss) for the period	60 925	110 486
<i>Adjustments for:</i>		
Income taxes	30 685	3 459
Depreciation and amortization	75 358	60 329
Dividend income	(930)	-
Impairment losses on property, plant and equipment and intangible assets	383	17 636
Change in fair value of investment property	-	11
Gain/Loss on disposal of property, plant and equipment, investment property and intangible assets	217	3 057
Gain / Loss on disposal of inventories	273	(215)
Emission rights	4 538	6 403
Share of profit of equity accounted investees	(413)	18
Gain / Loss on financial instruments	13 024	(5 641)
Net interest expense	11 124	11 360
Change in allowance for impairment to trade receivables and other assets, write-offs	1 534	9 684
Change in provisions	27 948	(789)
Negative goodwill	-	(15 624)
Unrealized foreign exchange gains/(losses), net	10 602	51 510
Operating profit before changes in working capital	235 268	251 684
Change in financial instruments not at fair value	(17 542)	(26 627)
Change in trade receivables and other assets	(77 947)	6 432
Change in inventories (including proceeds from sale)	159	5 294
Change in extracted minerals and mineral products	(1 980)	(639)
Change in assets held for sale and related liabilities	(5 462)	-
Change in trade payables and other liabilities	202	(38 523)
Cash generated from (used in) operations	132 698	197 621
Interest paid	(28 558)	(48 221)
Income taxes paid	(9 496)	(15 258)
Cash flows generated from (used in) operating activities	94 644	134 142
INVESTING ACTIVITIES		
Received dividends	931	(199)
Proceeds from sale of financial instruments - derivatives	(4 349)	3 860
Acquisition of property, plant and equipment, investment property and intangible assets	(49 423)	(43 423)
Purchase of emission rights	(9 839)	(6 584)
Proceeds from sale of emission rights	5 992	729
Proceeds from sale of property, plant and equipment, investment property and other intangible assets	4 305	1 112

Acquisition of subsidiaries and special purpose entities, net of cash acquired	5 803	(263 452)
Increase in participation in existing subsidiaries and special purpose entities	-	45
Proceeds from sale of participations with significant influence	-	(233)
Interest received	345	342
Cash flows from (used in) investing activities	(46 235)	(307 803)
FINANCING ACTIVITIES		
Proceeds from loans received	80 436	241 443
Repayment of borrowings	(73 042)	(23 146)
Proceeds from bonds issued	-	(2 851)
Payment of finance lease liabilities	-	(81)
Dividends paid	(19 044)	2 438
Cash flows from (used in) financing activities	(11 650)	217 803
<i>Net increase (decrease) in cash and cash equivalents</i>	<i>36 759</i>	<i>44 142</i>
Cash and cash equivalents at beginning of the period	165 798	246 513
Effect of exchange rate fluctuations on cash held	(1 579)	(7 586)
Cash and cash equivalents at end of the period	200 978	283 069