



# EP Energy H1 2017 Results Call

29 August 2017

# Disclaimer

## 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.

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:

- negative or uncertain global and regional economic conditions;
- failure to implement our key strategies;
- in the supply of, or the unexpected increase in the price of, fuel and other raw materials, as well as transportation costs;
- reliance on a small number of suppliers in our power and heat business;
- failure to successfully integrate and manage acquired companies; and
- changes in laws or regulatory schemes.

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.

Financial indicators such as EBITDA or Net Debt are not defined terms in IFRS and do not represent the term EBITDA or Net Debt as may be defined by any documentation for any financial liabilities of the group.

This presentation should be read in conjunction with the "Report on the first half of year 2017 for EP Energy, a.s." as published on [www.epenergy.cz](http://www.epenergy.cz)

# Summary of key results of EP Energy in H1 2017

## Pro forma consolidated results

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- The **pro forma (also „PF“) consolidated sales** reached **EUR 1,823 million** and **pro forma adjusted EBITDA<sup>1</sup>** amounted to **EUR 321 million** for the Last Twelve Month („LTM“) as at June 30, 2017
- Indicative **PF net consolidated leverage ratio<sup>2</sup>** as of June 30, 2017 stood at **1.9x**

## Historical consolidated results

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- The **historical consolidated sales** (i.e. without pro forma effect of acquisitions, disposals and other adjustments) reached **EUR 941 million** and **EBITDA** amounted to **EUR 208 million** for the first half of 2017
- The **consolidated net debt** as of June 30, 2017 was **EUR 636 million<sup>3</sup>**

## Other information

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- Both pro forma and historical consolidated results exclude disposed Mining and Power generation operations in Germany and pro forma excludes results of non-core assets disposal, consisting of unused land bank and buildings
- In Q3 2016, EPE undertook a collateral sale offer relating to the disposal of the German assets. Following the collateral sale offer completion, EPE is using the proceeds for its general corporate purposes like, but not limited, to repayment of the indebtedness, capital expenditures, etc.
- On June 20, 2017 Fitch affirmed the EP Energy's Group rating at BB+, Stable Outlook. Management anticipates to continue in current business strategy supporting the BB+ rating

1. Pro forma Adjusted LTM 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). For full details of pro forma adjustments see slide 14

2. This presentation includes the calculation as of June 30, 2017 of „Indicative Net Consolidated Leverage Ratio“, as defined in the EP Energy Indentures. The calculation of 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 EP Energy

3. Please refer to slide 15 for details on calculation of net debt

# Main events and effects driving the H1 2017 results

## Changes in ultimate shareholders of EP Energy Group

- ❑ On February 24, 2017 the transaction with Macquarie Infrastructure and Real Assets (MIRA) was closed. As a result, MIRA gained 31% in EP Infrastructure (EPIF), the parent company of EP Energy. The remaining 69% of EPIF remained with EPH, which also retained management control over EPIF. The MIRA-managed consortium is led by Macquarie European Infrastructure Fund 5 and includes other global institutional investors
- ❑ Following the sale of a minority shareholding in EPIF changes also occurred in the shareholder structure of EPH. The current shareholders of EPH concluded a series of transactions, through which Daniel Křetínský (94%) and selected members of the existing management of EPH (6%) became sole owners of EPH

## Main drivers behind the performance of the six-month period ended June 30, 2017

- ❑ Favourable weather conditions affecting positively the volume of heat supplied and power produced in cogeneration
- ❑ Disposal of LPZ on June 1, 2016 whose operations contributed EUR 7 million to EBITDA in first half of 2016 (while zero in the first half of 2017)
- ❑ Disposal of non-core real estate asset Nový Veleslavín for sale proceeds of EUR 9 million and disposal impact on EBITDA of EUR 6 million in March 2017
- ❑ Positive effect of a timing difference in System Operations Tariff („SOT“) improving SSE's EBITDA by EUR 46 million in first half 2017 as compared to first half of 2016
- ❑ Negative impact on SSE's results of EUR 9 million mainly attributable to losses in supply portfolio management (EUR -7 million) where the losses were caused by limited ability of SSE (as well as other market participants) to convert the pre-hedged position into the exact daily and hourly profiles because of extremely high peak power prices in January and February resulting from strong winter and outage of nuclear power plants in France

# Key financial performance indicators of EP Energy

## Overview

Consolidated financial results (m EUR)	H1 2016	H1 2017
Sales	960	941
EBITDA <sup>1</sup>	174	208
Total assets		2,585
Total net debt <sup>2</sup>		636
CAPEX <sup>3</sup>	46	23
Pro Forma adjusted figures <sup>4</sup> (m EUR)	FY 2016	H1 2017
Pro forma adjusted LTM EBITDA	286	321

(1) EBITDA represents profit from operations plus depreciation and amortization 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 EP Energy

(2) Total net debt per financial statements balance is based on the consolidated financial statements (Total Loans and borrowings plus Total Financial instruments and financial liabilities less Cash and cash equivalents). The Total net debt included in this report does not represent the term Indebtedness as may be defined by any documentation for any financial liabilities of the EPE Group. For detailed calculation of Net Debt calculation see appendix (slide 15)

(3) Excluding emission allowances and disregarding actual cash flows

(4) Pro forma adjusted EBITDA reflects disposal of non-core assets in March 2017 and LPZ disposal in June 2016. For more detail refer to slide 14

## Commentary

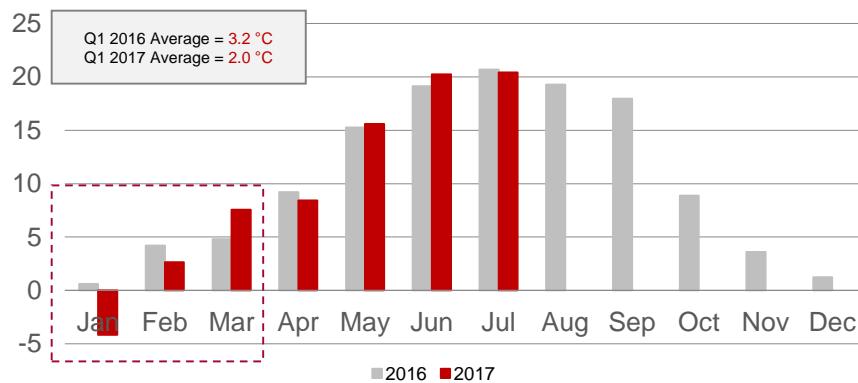
- In H1 2017, we report Pro forma adjusted LTM EBITDA of EUR 321 million with an increase of 12% against a similar measure for 2016 (please refer to slide 9 for a detailed EBITDA bridge)
- Our H1 2017 IFRS EBITDA reached EUR 208 million (please refer to slide 8 for a detailed EBITDA bridge)
- CAPEX decreased by 50% due to ongoing CAPEX optimization and different timing of projects

# Key developments in the Heat Infra segment

## Overview

	Unit	H1 2016	H1 2017
Heat supplied	TJ	13,027	12,943
Power production	GWh	1,563	2,170
Space heating needs	Day – degrees <sup>2</sup>	1,838	1,942
Sales <sup>1</sup>	mEUR	303	304
EBITDA <sup>1</sup>	mEUR	100	96

Average temperatures in 2016 – H1 2017 (in °C) in Prague



Source: Internal analysis based on data from Czech Hydrometeorological Institute, temperatures measured in Prague, Libuš

## Commentary

- For H1 2017, Heat Infra segment accounted for approx. 47% of consolidated EBITDA (before intercompany eliminations and holding results)
- In H1 2017 the supplied heat decreased slightly by 0.08 PJ (-1%) where the decrease due to disposal of LPZ in June 2016<sup>3</sup> was almost fully compensated by lower average temperatures (characterised by Day-degrees up by 5.6%) and thus higher heat delivery
- Power production volume up by 39% partially due to favourable conditions on market (higher power prices). In addition, higher heat production was coupled with higher power cogeneration production (+149 GWh) in H1 2017
- EBITDA decreased by 4 million in H1 2017 as compared to H1 2016:
  - Disposal of LPZ (EBITDA contribution of EUR 7 million in H1 2016) in June 2016
  - Worse margin on sale of heat and power from Hungarian operations as compared to 2016
  - Higher power produced and higher heat offtake because of more favourable weather conditions
  - Positive effect from sale of unused real estate included in Heat segment with EBITDA gain of EUR 6 million in H1 2017

1. Based on consolidated financial statements of EPE Group – Segment Heat Infra according to IFRS

2. Day-degrees measure integrates the difference between reference indoor temperature and outdoor temperature over the given period of time. A higher value indicates that the temperature in the given period was below the reference temperature for a longer period of time. Day-degrees relate to all areas in the Czech Republic where EPE delivers heat

3. While LPZ supplied 970 TJ of heat in H1 2016, none was supplied in H1 2017

# Key developments in the Power Distribution & Supply segment (presented including 100% of SSE)

## Overview

	Unit	H1 2016	H1 2017
Sales <sup>1</sup>	mEUR	716	711
EBITDA <sup>1</sup>	mEUR	73	108

## Overview of SOT gap mechanism

□ SSE-D, a subsidiary of SSE is, in its role of Distribution System Operator (“DSO”), obliged to purchase electricity from renewables at regulated prices, which are higher than market prices. The DSOs are then compensated through SOT collected from the final electricity consumers. As per current regulation, any negative balance between the DSO’s costs and the SOT revenues should be taken into account when assuming new tariffs and compensated to EPE in next two years at the latest

□ For the six-month period ended June 30, 2017, the SOT income statement impact amounted to positive EUR 8 million, which is EUR 46 million better compared to the six-month period ended June 30, 2016

1. Based on consolidated financial statements of EPE Group – Segment Power distribution & Supply according to IFRS

2. System Operations Tariff („SOT“)

3. i.e. SOT adjusted EBITDA

## Commentary

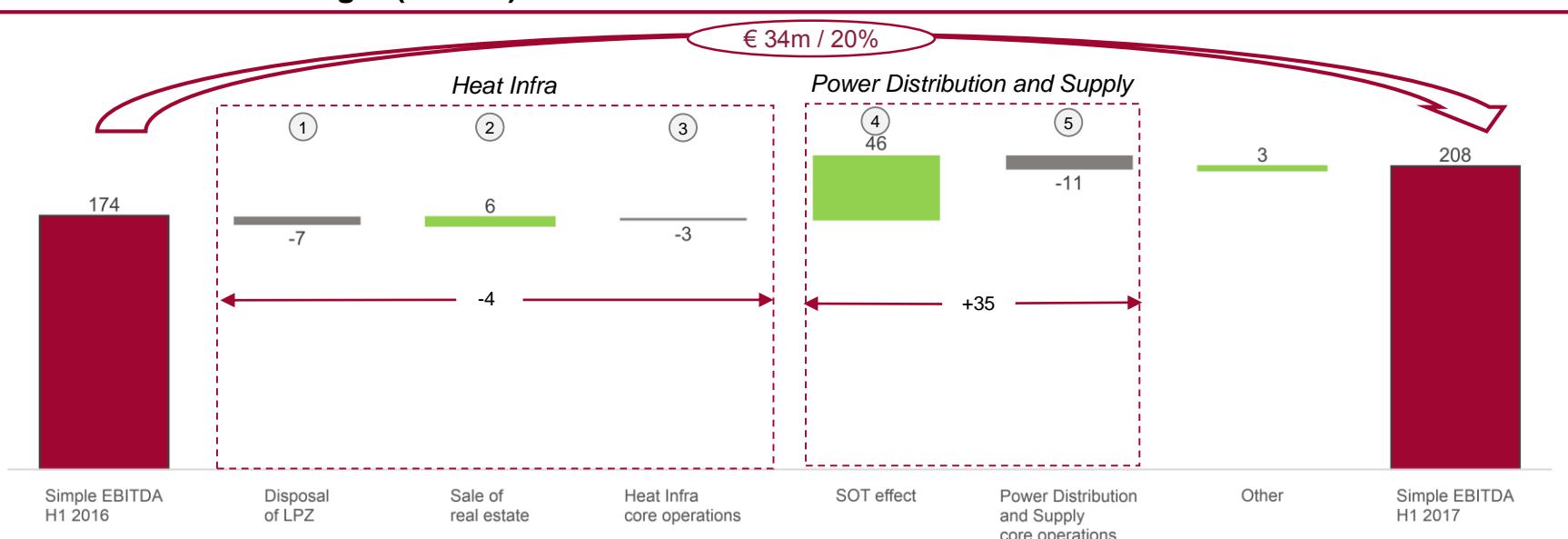
- In H1 2017, Power Distribution & Supply segment accounted for approx. 52% of consolidated EBITDA (before intercompany eliminations and holding results)
- The H1 2017 results were primarily positively impacted by SOT<sup>2</sup> timing difference („SOT gap“) of approximately EUR 46 million (see below). On the contrary, SSE’s core business EBITDA decreased by approximately EUR 9 million, which stems mainly from portfolio supply management losses originating from extremely high peak power prices in January and February 2017, which was also the case for other market players. Beside two aforementioned effects, power distribution activity, which represent majority of EBITDA, showed resilient performance with EUR 1 million improvement to EUR 97 million in H1 2017

(m EUR)	H1 2016	H1 2017	Difference
SSE core business EBITDA <sup>3</sup>	103	94	(9)
SSE SOT I/S impact	(38)	8	46
SSE Simple EBITDA	65	102	37

- SSE continues to negotiate the situation with the Slovak regulator to accelerate cash collection relating to SOT

# EP Energy indicative simple EBITDA bridge H1 2017 vs. H1 2016

## Indicative EBITDA bridge<sup>1</sup> (m EUR)



(1) EPE divested LPZ on June 1, 2016, which resulted in decrease of EPE's EBITDA by EUR 7 million

(2) EPE sold unused real estate with EBITDA gain of EUR 6 million in H1 2016

(3) The results of the Heat Infra segment (excluding for effect of (1) and (2)) decreased by EUR 3 million as compared to H1 2016 driven by lower margin on sale of heat and power by Hungarian operations and by higher emission allowances consumption and continuing decrease in allocated emission allowances, which was partially offset by higher condensation and cogeneration power production

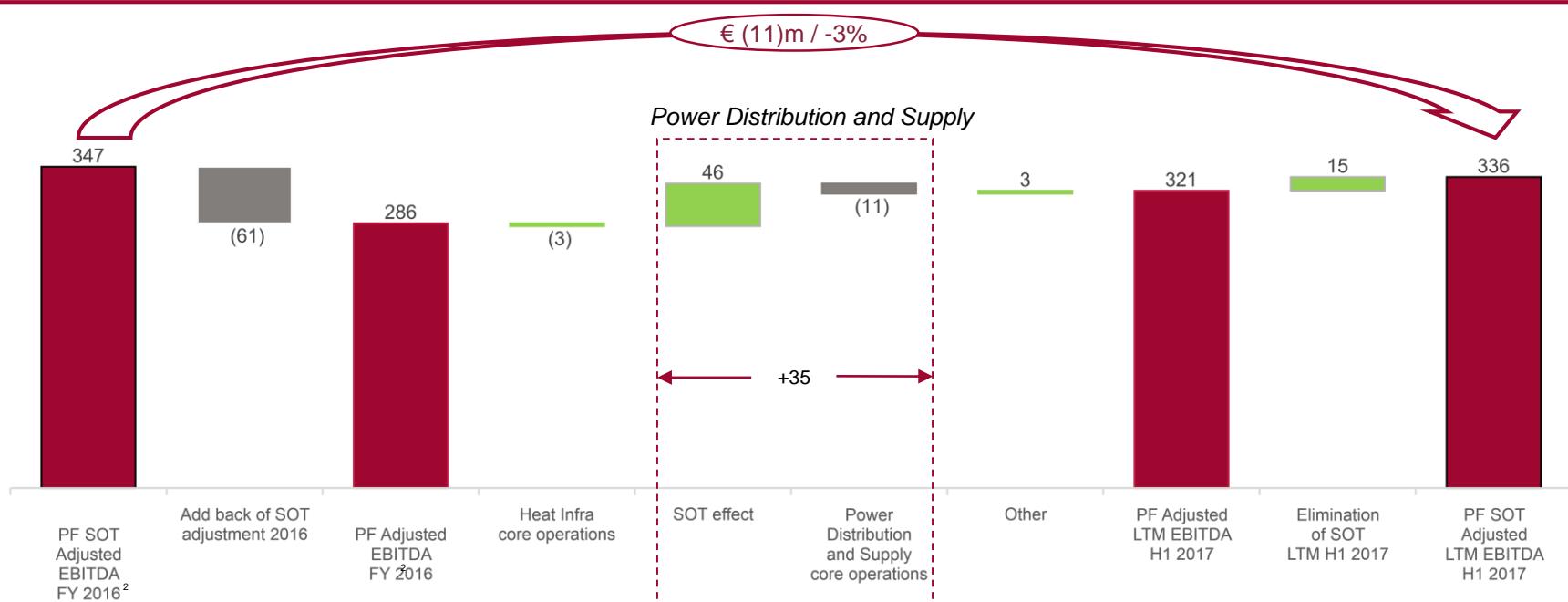
(4) H1 2017 Power Distribution and Supply results were primarily positively impacted by SOT timing difference of approximately EUR 46 million (see slide 7)

(5) EBITDA of Power Distribution and Supply (excluding effect of (4)) was worse by EUR 11 million resulting primarily from SSE's losses on portfolio supply management caused by extremely high peak power prices in January and February 2017 (EUR 7 million), which was also the case for other market players

1. Figures might not add up due to rounding

# EP Energy indicative PF adjusted LTM EBITDA H1 2017 vs. PF adjusted EBITDA 2016

## Indicative LTM EBITDA bridge<sup>1</sup> (m EUR)



1. Figures might not add up due to rounding

2. As presented on slide 9 in FY 2016 result presentation published on April 28, 2017

## Subsequent events

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- ❑ On July 13, 2017, the real estate company Pod Juliskou holding unused assets was sold. Transaction completion date is expected to take place in early 2018
- ❑ Except for matter described above, the management is not aware of any other material subsequent events that could have a significant effect on the H1 2017 results

## Wrap-up

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- ❑ EP Energy's Pro forma LTM EBITDA adjusted for SOT effect reached EUR 336 million in twelve-month period ended June 30, 2017, which is comparable to the similar FY 2016 measure of EUR 347 million. Simple EBITDA amounted to EUR 208 million in first half of 2017 as compared to EUR 174 million in first half of 2016
- ❑ The first half 2017 results are primarily affected by:
  - Positive effect of timing difference resulting from System Operations Tariff („SOT“) of EUR 46 million
  - Stable volume of heat supplied and higher power produced that was off-set by declining heat and power prices in Hungary and with decreased free allocation of emission allowances
  - One-off gain from sale of unused real estate of EUR 6 million
- ❑ On June 20, 2017 Fitch affirmed the EP Energy's Group rating at BB+, Stable Outlook. Management anticipates to continue in current business strategy supporting the BB+ rating
- ❑ Change in shareholder structure of ultimate shareholders of EP Energy during the first half 2017:
  - New minority shareholder Macquarie Infrastructure and Real Assets with indirect share of 31%
  - Daniel Křetínský gained 94% in EPH

# Q&A

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# Appendix – key operating performance indicators

## Overview

Operating performance <sup>1</sup> (EPE excluding SSE)	Unit	H1 2016	H1 2017	Change
Installed heat capacity <sup>2</sup>	MW <sub>th</sub>	3,331	3,276	(55)
Installed cogeneration capacity	MW <sub>e</sub>	894	894	–
Installed condensation capacity	MW <sub>e</sub>	360	360	–
Heat supplied	TJ <sup>3</sup>	13,027	12,943	(84)
Power produced	GWh	1,563	2,170	607
Grid balancing services	GWh	1,166	1,284	117
Power supplied	GWh	1,166	1,029	(137)
Natural gas supplied	GWh	1,013	1,220	207

Operating performance of SSE <sup>1</sup>	Unit	H1 2016	H1 2017	Change
Power distributed	GWh	2,999	3,162	162
Power supplied	GWh	1,999	1,981	(18)
Natural gas supplied	GWh	170	204	34

## Commentary

- Heat supplied decreased slightly by 84 TJ primarily attributable to disposal of LPZ (H1 2016 contribution of 970 TJ), compensated by higher supply due to colder weather (+6%)<sup>4</sup>
- Installed heat capacities decreased by 55 MWth because of decommissioning of source by PT at the end of 2016
- Power production volume up by 39% partially due to more favourable power prices and EOP in production for full period. In addition higher heat production was coupled with higher power cogeneration production (+144 GWh) in H1 2017
- Grid balancing services increase of 10% reflects primarily higher deliveries of the service in Hungary. In addition a higher success rate in winning tenders for these services in the Czech Republic increased the Grid balancing services for 55 GWh in H1 2017
- Natural gas supplied increased by 20%, which was mainly driven by colder winter in H1 2017
- Power distributed by SSE increased by 5%

1. 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. H1 2016 includes operations of Pražská teplárenská LPZ, a.s. ("LPZ") for five months only as it was disposed on June 1, 2016

2. Installed heat capacity on heat exchangers

3. 1 TJ = 0,2778 GWh

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

# Appendix – Pro forma adjusted EBITDA calculation

## EP Energy (SSE on 100% basis)

- 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 disposal of non-core real estate assets
- Since SOT gap is temporary in nature and per current legislation shall be compensated at the latest in two year time, Pro forma Adjusted EBITDA was further adjusted in order to present normalised business operations of the EPE Group
- Pro Forma EBITDA and Pro Forma SOT Adjusted EBITDA calculation:

Pro forma Adjusted EBITDA calculation	Dec 31, 2016 (m EUR)	LTM Jun 30, 2017 (m EUR)
Actual IFRS EBITDA 1-6/2017		208
Actual IFRS EBITDA 1-12/2016		293
Actual IFRS EBITDA 1-6/2016		(174)
<b>Simple EBITDA</b>	<b>293</b>	<b>327</b>
LPZ Pro Forma Adjustment (2016)	(7)	-
Disposal of non-core real estate assets (2017)	-	(6)
<b>Pro forma Adjusted EBITDA</b>	<b>286</b>	<b>321</b>
SOT I/S impact	+61	+15
<b>Pro forma SOT Adjusted EBITDA</b>	<b>347</b>	<b>336</b>

# Appendix – Other

## Discontinued operations

- As part of the reorganization of EPIF in 2016, the Company sold-off its power generation activities in Germany as well as its mining operations in Germany to its ultimate parent company EPH (effective on April 1, 2016). The decision to sell-off these activities, which comprise an isolated geographical segment (Germany), was reached at the end of 2015. Due to the fact that these operations were predominantly representing the whole German operations, mining operations and condensation power production, the Company presents these activities as discontinued operations as of and for the year 2015. Gain on disposal of the German assets is presented as part of profit (loss) from discontinued operations in the statement of comprehensive income for the year ended December 31, 2016 and LTM as at June 30, 2017 (i.e. does not affect EBITDA)

## Net Debt calculation

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

Net Debt calculation as of June 30, 2017		m EUR
Loans and borrowings (non-current)	<i>add</i>	518
Financial instruments and financial liabilities (non-current)	<i>add</i>	1
Loans and borrowings (current)	<i>add</i>	616
Financial instruments and financial liabilities (current)	<i>add</i>	10
PTH liability (prepayment for a dividend)	<i>less</i>	-
Cash and cash equivalents	<i>less</i>	509
<b>Net Debt as of June 30, 2017</b>		<b>636</b>

- The 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 EP Energy