EP Energy Q1 2018 Results Call

May 30, 2018

EP ENERGY

Tomáš David, Chairman of the Board, CEO
Filip Bělák, CFO

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 quarter of the year 2018 for EP Energy, a.s.” as published on www.epenergy.cz

Summary of key results of EP Energy in Q1 2018

Pro forma consolidated results

- The **pro forma (also „PF“) consolidated sales** reached **EUR 1,789 million** and **pro forma adjusted EBITDA**[1] amounted to **EUR 366 million** for the Last Twelve Month („LTM“) as at March 31, 2018
- Indicative **net consolidated leverage ratio**[2] as of March 31, 2018 stood at **1.9x**

Historical consolidated results

- The **historical consolidated sales** (i.e. without pro forma effect of acquisitions, disposals and other adjustments) reached **EUR 520 million** and **EBITDA** amounted to **EUR 117 million** for first quarter of 2018
- The **consolidated net debt** as of March 31, 2018 was **EUR 689 million**[3]

Other information

- In January 2018 EP Energy paid deferred consideration of EUR 3 million to EDF, which related to acquisition of Budapesti Erömü Zrt. in 2015 which was previously booked in liabilities in 2017
- As of March 31, 2018 the Group recognized one-off non-cash impairment of EUR 3 million to Goodwill and of EUR 7 million to PPE[4] recorded by Plzeňská energetika (“PE”) based on the independent valuation made for purpose of a Share purchase agreement on sale of 100% PE´s shares to EP Infrastructure (carried out on May 9, 2018)
- On May 1, 2018, EP Energy repaid EUR 598 million of bonds using combination of intercompany loan provided by EP Infrastructure totalling EUR 250 million and own cash of EUR 348 million

1. 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). For full details of pro forma adjustments see slide 14
2. This presentation includes the calculation 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 judgements made by EP Energy
3. Please refer to slide 15 for details on calculation of net debt
4. PPE = Property, Plant and Equipment

Main events and effects driving the Q1 2018 results

- Favourable weather conditions influenced positively the volume of heat supplied and power produced in cogeneration
- Negative effect of a timing difference in System Operations Tariff („SOT“) temporarily worsening SSE‘s EBITDA by EUR 19 million in first quarter 2018 as compared to first quarter of 2017
- Impairment to Goodwill and PPE[1] recorded by Plzeňská energetika of EUR 10 million based on the independent valuation for purpose of Share purchase agreement on sale of 100% PE‘s share to EP Infrastructure

1. Property, Plant and Equipment

Key financial performance indicators of EP Energy

Overview

Consolidated financial results (m EUR)	1-3/2017	1-3/2018
Sales	543	520
EBITDA[1]	141	117
Total assets		2,610
Total net debt[2]		689
CAPEX[3]	8	10

Pro Forma adjusted figures[4] (m EUR)	FY 2017	Q1 2018
Pro forma SOT adjusted LTM EBITDA	332	344
Pro forma adjusted LTM EBITDA	373	366

(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 impairment to PE assets in March 2018. For more detail refer to slide 14

Commentary

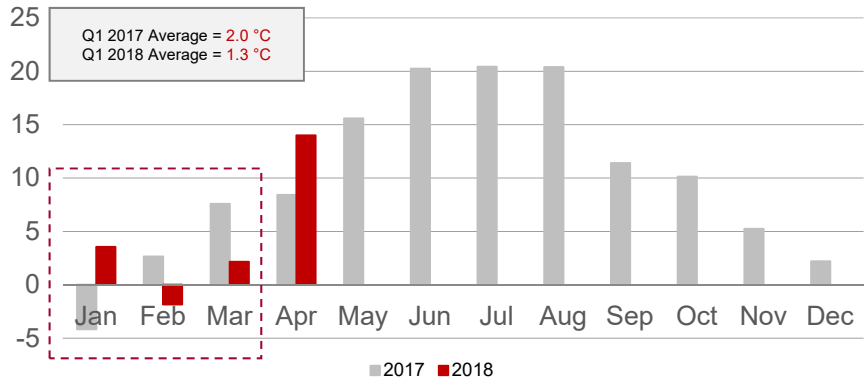
- In Q1 2018, we report Pro forma adjusted LTM EBITDA of EUR 366 million down by 2% against a similar measure for FY 2017. Main segments contributed to the decrease as follow (please see slide 9 for details):
  - Heat Infra segment adjusted LTM EBITDA increased by EUR 7 million
  - Power Distribution & Supply segment adjusted LTM EBITDA decreased by EUR 15 million where the decline is represented by accounting for SOT (see slide 7 for more details)
- Our Q1 2018 IFRS EBITDA reached EUR 117 million (please refer to slide 8 for a detailed LTM EBITDA bridge)
- CAPEX higher due to a different timing of projects

Key developments in the Heat Infra segment

Overview

	Unit	Q1 2017	Q1 2018
Heat supplied[3]	TJ	9,837	9,933
Power production	GWh	1,558	1,460
Space heating needs	Day – degrees[2]	1,617	1,655
Sales[1]	mEUR	211	221
EBITDA[1]	mEUR	76	67

Average temperatures in 2017 – Q1 2018 (in °C) in Prague



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

Commentary

- For Q1 2018, Heat Infra segment accounted for approx. 57% of consolidated EBITDA (before intersegment eliminations)
- In 2018 the supplied heat increased slightly by 0.1 PJ (+1%) due to more favourable weather conditions
- Power production volume down by 6% predominantly due to less favourable conditions on market (higher emission allowances prices). On the other hand, higher heat production was coupled with higher power cogeneration production (+41 GWh) in Q1 2018
- EBITDA decreased by EUR 9 million in Q1 2018 as compared to Q1 2017 as result of the following events:
  - Higher heat offtake because of more favourable weather conditions
  - Non-cash negative effect of assets impairment recorded (EUR 10 million) by Plzeňská energetika which was disposed in May 2018
  - Prior period quarter results positively influenced by one-off profit from sale of unused real estate included in Heat segment with EBITDA gain of EUR 6 million

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

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

Overview

	Unit	Q1 2017	Q1 2018
Sales[1]	mEUR	381	348
EBITDA[1]	mEUR	64	49
Power distributed	GWh	1,742	1,758
Power supplied[4]	GWh	1,637	1,744

Commentary

- In Q1 2018, Power Distribution & Supply segment accounted for approx. 42% of consolidated EBITDA (before intersegment eliminations)
- The Q1 2018 results were primarily negatively impacted by SOT[2] timing difference („SOT gap“) of approximately EUR 19 million (see below) recorded by SSD. Apart from the SOT impact, SSD‘s EBITDA remained solid, which is in line with stable operational performance given by steady power distribution volume. On the contrary, SSE‘s core business EBITDA increased by approximately EUR 4 million

Overview of SOT gap mechanism

- SSD, 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 three-month period ended March 31, 2018, the SOT income statement impact amounted to negative EUR 4 million, which is EUR 19 million worse compared to the three-month period ended March 31, 2017

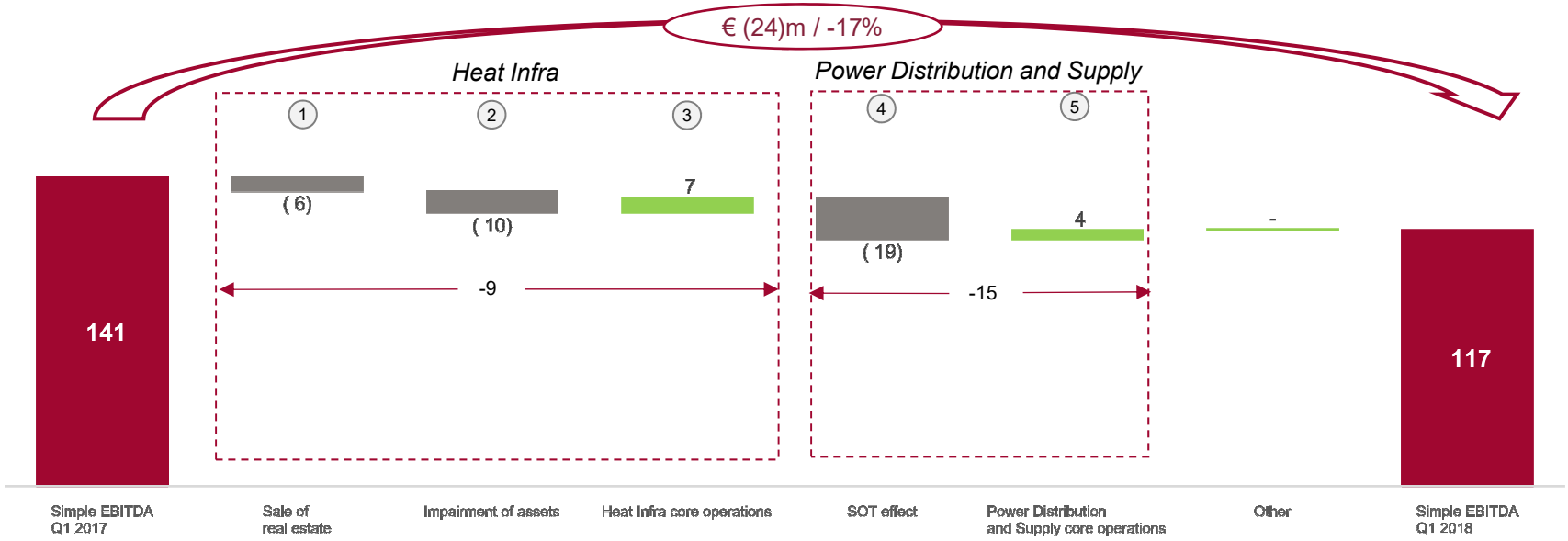
(m EUR)	Q1 2017	Q1 2018	Difference
SSE core business EBITDA[3]	46	50	4
SSE SOT I/S impact	15	(4)	(19)
SSE Simple EBITDA	61	46	(15)

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

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
4. Including SSE and EPET on 100% basis

EP Energy indicative simple EBITDA bridge Q1 2018 vs. Q1 2017

Indicative EBITDA bridge[1] (m EUR)



① EPE sold unused real estate with EBITDA gain of EUR 6 million in Q1 2017

② EPE recorded one-off non-cash impairment to long term assets of EUR 10 million, which was based on independent valuation prepared for purpose of SPA

③ The results of the Heat Infra segment (excluding for effect of ① and ②) increased by EUR 7 million as compared to Q1 2017 driven by higher volumes of distributed heat

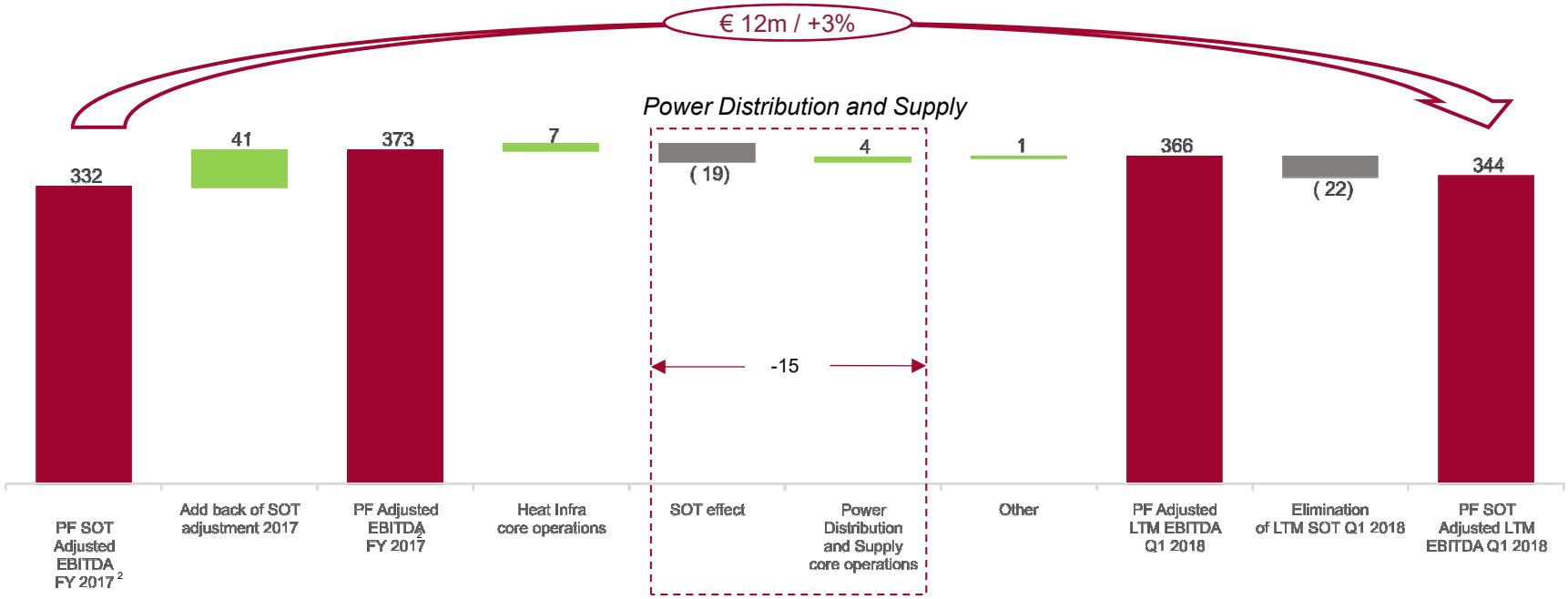
④ Q1 2018 Power Distribution and Supply results were primarily negatively impacted by SOT timing difference of approximately EUR 19 million (see slide 7)

⑤ EBITDA of Power Distribution and Supply (excluding effect of ④) was better by EUR 4 million resulting primarily from SSE's supply related activities, while SSD's power distribution performance remained stable

1. Figures might not add up due to rounding

EP Energy indicative PF adjusted LTM EBITDA Q1 2018 vs. PF adjusted EBITDA 2017

Indicative adjusted EBITDA bridge[1] (m EUR)



- See previous slide for details

1. Figures might not add up due to rounding
2. As presented on slide 9 in FY 2017 results presentation published on March 29, 2018

Subsequent events

- On April 5, 2018, EP Energy, a.s. (“the Company”) granted an intercompany loan to VTE Pchery that used the funds to repay its bank loan of EUR 2 million

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

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

1. €598,000,000 4.375% Senior Secured Notes due 2018 (ISIN: XS0808636244)

Wrap-up

- EP Energy‘s **Pro forma SOT adjusted LTM EBITDA reached EUR 344 million** for Q1 2018, which is **slightly higher (+3%)** than the similar 2017 measure of EUR 332 million
- Simple EBITDA amounted to EUR 117 million in Q1 2018 as compared to EUR 141 million in Q1 2017
- The Q1 2018 results were primarily affected by:
  - Negative effect of **timing difference resulting from System Operations Tariff („SOT“) of EUR 19 million**
  - **One-off non-cash loss** related to impairment of PE assets of EUR 10 million
  - Increased volume of heat supplied which was positively reflected in **improved performance of Heat Infra activities** by **EUR 7 million**
  - Positive result of **SSE supply related activities** which turned into better result of SSE´s core operations of **EUR 4 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
- On May 1, 2018, **EP Energy repaid EUR 598 million of bonds** using combination of loan provided by parent company of EUR 250 million and own cash of EUR 348 million

Q&A

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Appendix – key operating performance indicators

Overview

Operating performance[1] (EPE excluding SSE)	Unit	Q1 2017	Q1 2018	Change
Installed heat capacity[2]	MW_{th}	3,276	3,323	47
Installed cogeneration capacity	MW_e	894	894	–
Installed condensation capacity	MW_e	360	360	–
Heat supplied	TJ[3]	9,837	9,933	96
Power produced	GWh	1,558	1,460	(98)
Grid balancing services	GWh	799	767	(32)
Power supplied	GWh	532	614	82
Natural gas supplied	GWh	848	832	(16)

Operating performance of SSE[1]	Unit	Q1 2017	Q1 2018	Change
Power distributed	GWh	1,742	1,758	16
Power supplied	GWh	1,105	1,130	25
Natural gas supplied	GWh	150	180	30

Commentary

- Heat supplied increased slightly by 96 TJ. Higher supply due to colder Q1 2018[4]
- Installed heat capacity increased by 47 MWth because of replacement of one source by PT in Q4 2017
- Power production volume down by 6% partially due to less favourable emission allowance prices
- Grid balancing services decrease of 4% reflects primarily result of new 3 years contract tendered
- Natural gas supplied decreased by 2%
- Power distributed by SSE was stable

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
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, 2017 (m EUR)	Mar 31, 2018 (m EUR)
Actual IFRS EBITDA 1-3/2017		141
Actual IFRS EBITDA 1-12/2017		380
Actual IFRS EBITDA 1-3/2018		117
Simple LTM EBITDA	**380**	**356**
Impairment of PE assets (Q1 2018)	-	10
Disposal of non-core real estate assets (2017)	(7)	-
Pro forma Adjusted EBITDA	**373**	**366**
SOT I/S impact	(41)	(22)
Pro forma SOT Adjusted EBITDA	**332**	**344**

Appendix – Net debt calculation

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 EPE Group

Net Debt calculation as of March 31, 2018		**m EUR**
Loans and borrowings (non-current)	*add*	515
Financial instruments and financial liabilities (non-current)	*add*	9
Loans and borrowings (current)	*add*	628
Financial instruments and financial liabilities (current)	*add*	6
Cash and cash equivalents	*less*	469
Net Debt as of March 31, 2018		**689**

- 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