EP Energy H1 2018 Results Call

August 29, 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, Adjusted EBITDA, Net Debt or net consolidated leverage ratio are not defined terms in IFRS and do not represent the term EBITDA, Adjusted EBITDA, Net Debt or net consolidated leverage ratio 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 the year 2018 for EP Energy, a.s.” as published on www.epenergy.cz

Summary of key results of EP Energy in H1 2018

LTM consolidated results

- For the last twelve months (LTM) the **consolidated sales** reached **EUR 1,809 million** and **Adjusted EBITDA**[1] amounted to **EUR 332 million** Indicative **net consolidated leverage ratio**[2] as of June 30, 2018 stood at **1.9x**

H1 2018 historical consolidated results

- The **historical consolidated sales** reached **EUR 917 million, EBITDA**[3] amounted to **EUR 156 million** and **Adjusted EBITDA**[1] was **EUR 193 million** for the first half of 2018
- The **consolidated net debt** as of June 30, 2018 was **EUR 641 million**[4]

Other information

- On May 1, 2018, EP Energy repaid EUR 598 million of bonds[5] using combination of intercompany loan provided by EP Infrastructure totalling EUR 250 million and own cash of EUR 348 million
- On May 9, 2018, EP Energy sold Plzeňská energetika ("PE") for EUR 41 million (purchase price ascertained by independent valuation specialist) to its parent, EP Infrastructure. As a result of the sale, PE ceases to be a guarantor of EP Energy'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. Adjusted EBITDA represents profit from operations plus depreciation of property, plant and equipment and amortization of intangible assets minus negative goodwill (if applicable) further adjusted to exclude (i) one-off items related to impairment of PPE and Goodwill recorded in first quarter 2018 of EUR 10 million (ii) result from sale of non-core assets and (iii) adding back (if negative) or deducting (if positive) the timing difference between (a) compensation for the expenses for mandatory purchase and off-take of energy from renewable sources pursuant to the Slovak RES Promotion Act and the Decree recognised in revenues in the relevant period and (b) net expenses accounted for the mandatory purchase of energy from renewable resources in accordance with the Slovak RES Promotion Act, in each case inclusive of accruals. For full details of adjustments see slide 14
2. This presentation includes the calculation of "Indicative Net Consolidated Leverage Ratio" as of June 30, 2018, as defined in the EP Energy Indentures. The calculation of our Net Consolidated Leverage Ratio differs from any leverage ratio included in the offering memoranda for the senior secured notes or otherwise included herein, and consistent with the definition, is made on the basis of certain good faith judgments made by us.
3. EBITDA represents profit from operations plus depreciation of property, plant and equipment and amortization of intangible assets minus negative goodwill (if applicable). For full details of adjustments see slide 14
4. Please refer to slide 15 for details on calculation of net debt
5. €598,000,000 4.375% Senior Secured Notes due 2018 (ISIN: XS0808636244)

Main events and effects driving the H1 2018 results

- The core business of the Group performed well in line with the prior period performance, the accounting results were however negatively impacted by the following either temporary or one-off factors:
  - Effect of a timing difference in System Operations Tariff („SOT“) temporarily worsening SSE‘s EBITDA by EUR 35 million in the first half 2018 as compared to the first half 2017
  - One-off impairment to Goodwill and PPE[1] of EUR 10 million recorded by Plzeňská energetika prior to its sale to EP Infrastructure and non-recurring disposal of non-core unutilized assets in H1 2017 (gain of EUR 7 million in H1 2017)

1. Property, Plant and Equipment

Key financial performance indicators of EP Energy

Overview

Consolidated financial results (m EUR)	H1 2017	H1 2018
Sales	941	917
EBITDA[1]	208	156
Adjusted EBITDA[2]	193	193
Total net debt[3]		641
CAPEX[4]	23	30

LTM[5] figures (m EUR)	FY 2017	H1 2018
Adjusted LTM EBITDA	332	332
Indicative net consolidated leverage ratio[6]	2.0x	1.9x

(1) EBITDA represents profit from operations plus depreciation and amortization minus negative goodwill (if applicable).

(2) Adjusted EBITDA represents profit from operations plus depreciation of property, plant and equipment and amortization of intangible assets minus negative goodwill (if applicable) further adjusted to exclude (i) one-off items related to impairment of PPE and Goodwill recorded in first quarter 2018 of EUR 10 million (ii) result from sale of non-core assets and (iii) adding back (if negative) or deducting (if positive) the timing difference between (a) compensation for the expenses for mandatory purchase and off-take of energy from renewable sources pursuant to the Slovak RES Promotion Act and the Decree recognised in revenues in the relevant period and (b) net expenses accounted for the mandatory purchase of energy from renewable resources in accordance with the Slovak RES Promotion Act, in each case inclusive of accruals. For full details of adjustments see slide 14

(3) 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)

(4) Excluding emission allowances and disregarding actual cash flows

(5) Last twelve months

(6) 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

Commentary

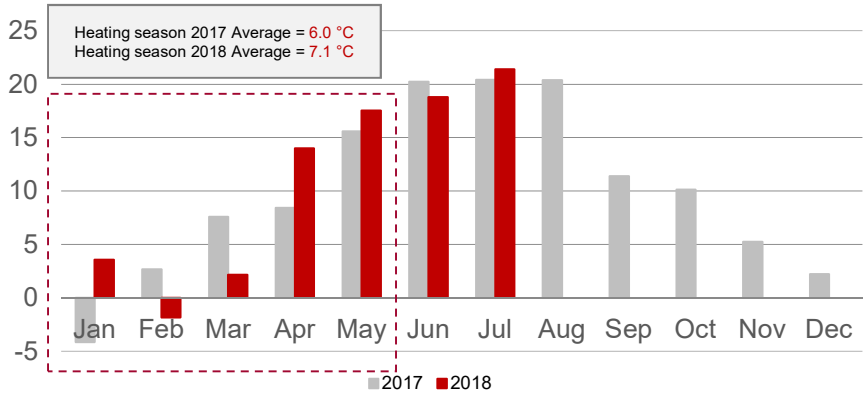
- In H1 2018, we report Adjusted LTM EBITDA[2] of EUR 332 million which is the same as a similar measure for FY2017. Accordingly, H1 2018 Adjusted EBITDA remains consistent with H1 2017 comparative financial information
- Our H1 2018 EBITDA[1] reached EUR 156 million which is lower by EUR 52 million than a similarly titled measure for H1 2017 (please refer to slide 8 for a detailed EBITDA and Adjusted EBITDA bridge)
- CAPEX higher due to a different timing of projects
- Indicative net consolidated leverage ratio[6] remains consistent period to period

Key developments in the Heat Infra segment

Overview

	Unit	H1 2017	H1 2018
Heat supplied[3]	TJ	12,943	11,956
Power production	GWh	2,170	1,927
Space heating needs	Day – degrees[2]	1,942	1,745
Sales[1]	mEUR	304	296
EBITDA[1]	mEUR	96	81
Adjusted EBITDA[3]	mEUR	89	91

Average temperatures in 2017 – H1 2018 (in °C) in Prague



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

Commentary

- For H1 2018, Heat Infra segment accounted for approx. 52% of consolidated EBITDA (before intersegment eliminations)
- In 2018 the supplied heat decreased by app. 1.0 PJ (-8%) due to (a) less favourable weather conditions in Q2 2018 and (b) as well as PE being deconsolidated from May 9, 2018
- Power production volume down by 11% predominantly due to sale of PE and less favourable conditions on market (higher emission allowances prices)
- Adjusted EBITDA (EBITDA cleansed for (a) the one-off impairment charge related to PE sale (EUR 10 million) and (b) EUR 7 million gain from sale of non-core unutilized assets in H1 2017) is stable between periods

1. Based on consolidated financial statements of EP Energy 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. Adjusted EBITDA is derived from EBITDA presented in the consolidated financial statements of the EP Energy Group – Segment Heat Infra according to IFRS, adjusted for effects (a) the one-off impairment charge related to PE sale (EUR 10 million) and (b) EUR 7 million gain from sale of non-core unutilized assets in H1 2017

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

Overview

	Unit	H1 2017	H1 2018
Sales[1]	mEUR	711	698
EBITDA[1]	mEUR	108	73
Adjusted EBITDA[5]	mEUR	100	100
Power distributed	GWh	3,162	3,219
Power supplied[4]	GWh	3,010	3,244

Commentary

- In H1 2018, Power Distribution & Supply segment accounted for approx. 46% of consolidated EBITDA (before intersegment eliminations)
- The H1 2018 results were primarily negatively impacted by SOT[2] timing difference („SOT gap“) of approximately EUR 35 million (see below) recorded by SSD. Apart from the SOT impact which is currently expected to be positively impacting the results in the following period, Segment EBITDA remained solid, which is in line with stable operational performance

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 SSD in next two years at the latest
- For the six-month period ended June 30, 2018, the SOT income statement impact amounted to negative EUR 27 million, which is EUR 35 million worse compared to the six-month period ended June 30, 2017

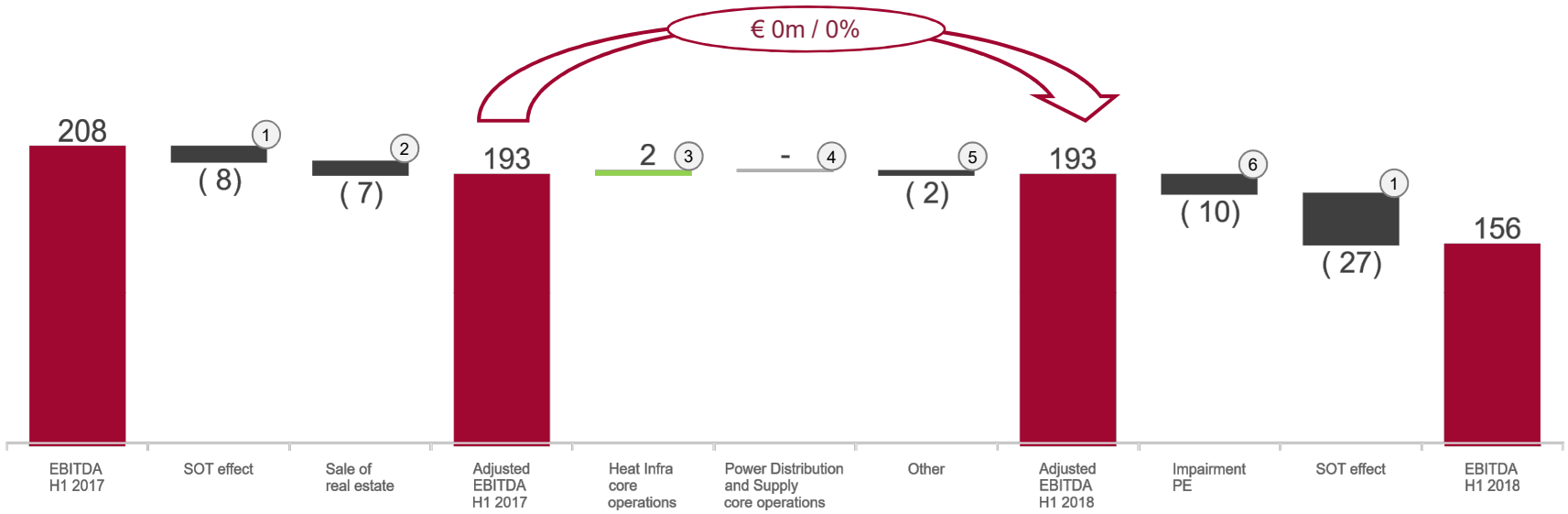
(m EUR)	H1 2017	H1 2018	Difference
SSE core business EBITDA[3]	100	100	-
SSE SOT I/S impact	8	(27)	(35)
SSE Simple EBITDA	108	73	(35)

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

1. Based on consolidated financial statements of the EP Energy Group – Segment Power distribution & Supply according to IFRS
2. System Operations Tariff („SOT“)
3. i.e. EBITDA adjusted for SOT impact
4. Including SSE and EPET on 100% basis
5. Adjusted EBITDA is derived from EBITDA presented in the consolidated financial statements of the EP Energy Group – Segment Power distribution & Supply according to IFRS, adjusted for effect of SOT temporary imbalance of negative EUR 27 million in H1 2018 and positive effect of EUR 8 million in H1 2017

EP Energy indicative EBITDA and Adjusted EBITDA bridge (H1 2018 vs. H1 2017)

Indicative EBITDA bridge[1] (m EUR)



(1) SOT timing difference of EUR 8 million surplus in H1 2017 while realising EUR 27 million deficit in H1 2018 (i.e. negative effect p/p of EUR 35 million)

(2) EP Energy sold unused real estate[2] with EBITDA gain of EUR 7 million in H1 2017

(3) The results of the Heat Infra segment (excluding the effects of (2) and (6)) increased by EUR 2 million as compared to H1 2017 primarily driven by better fuel management

(4) EBITDA of Power Distribution and Supply (excluding effect of (1)) was comparable to the same period of prior year

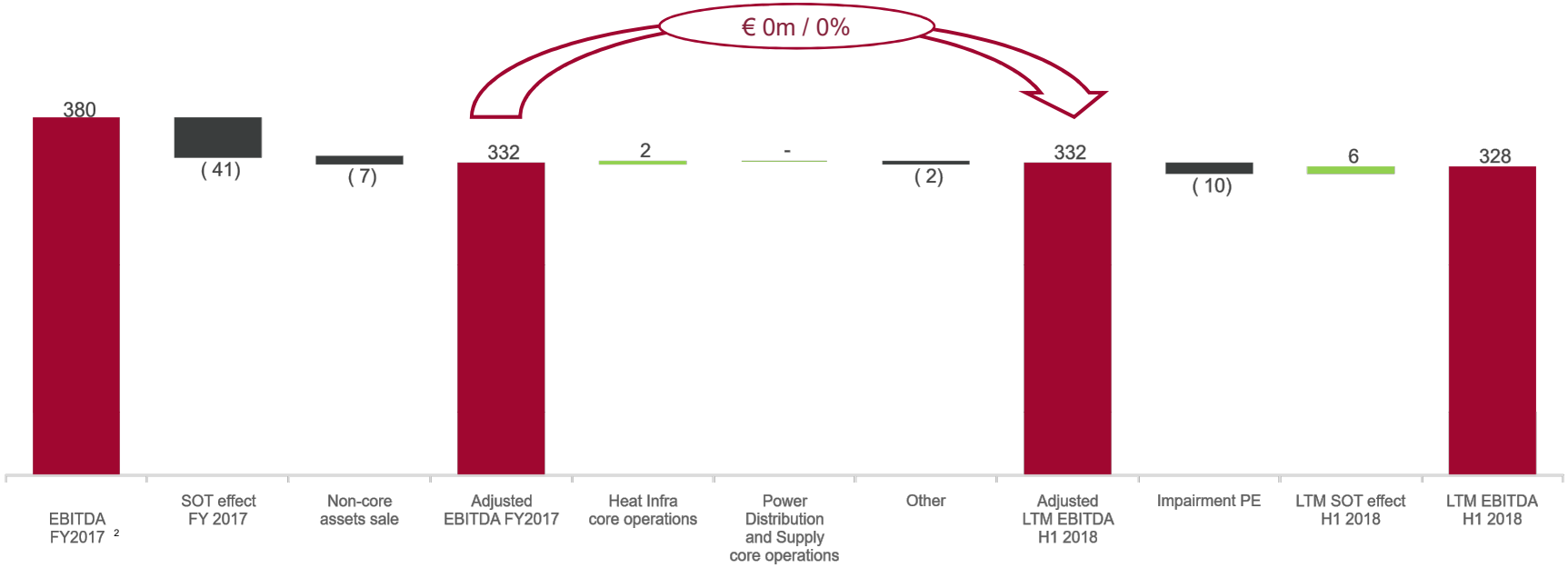
(5) Worse result of Other operation is combination of higher holding costs and no effect of intersegment eliminations in H1 2018

(6) EP Energy recorded one-off impairment to long term assets of EUR 10 million, which was based on independent valuation report prepared for sale of PE to EP Infrastructure

1. Figures might not add up due to rounding
2. Unused land plots and buildings in Prague 6

EP Energy indicative LTM EBITDA and LTM Adjusted EBITDA bridge (LTM H1 2018 vs. FY2017)

Indicative 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

- In July 2018, EP Energy and Pražská teplárenská Holding as a result of internal reorganisation became 98% shareholders of Pražská teplárenská, PT měření and PT Real Estate respectively. EP Energy and Pražská teplárenská Holding currently intend to squeeze-out the remaining minority shareholders and become sole owners of the respective subsidiaries. The purchase price for the minority shares is expected to be app. EUR 9 million

- On July 3, 2018, Fitch upgraded EP Energy´s credit rating from BB+ to BBB-, with 2019 Notes upgraded to BBB (both with outlook stable)

Wrap-up

- EP Energy's **Adjusted LTM EBITDA reached EUR 332 million** for H1 2018, which is **same** as the similar FY 2017 measure

- Simple EBITDA amounted to **EUR 156 million** in H1 2018 as compared to **EUR 208 million** in H1 2017, where the H1 2018 results were primarily affected by:
  - Negative effect of **timing difference resulting from System Operations Tariff („SOT") of EUR 35 million**
  - **One-off** impairment of PE assets of **EUR 10 million**
  - Positive result of **Heat Infra core business activities** which turned into better result of **EUR 2 million**
  - Comparability of results was further influenced by gain from sale of non-core assets of EUR 7 million recognized in H1 2017

- 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

- On July 3, 2018, **Fitch upgraded EP Energy´s credit rating from BB+ to BBB-** (outlook stable), with 2019 Notes upgraded to BBB (both with outlook stable)

Q&A

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Appendix – key operating performance indicators

Overview

Operating performance[1] (EPE excluding SSE)	Unit	H1 2017	H1 2018	Change
Installed heat capacity[2]	MW_{th}	3,276	3,126	(150)
Installed cogeneration capacity	MW_e	894	804	(90)
Installed condensation capacity	MW_e	360	339	(21)
Heat supplied	TJ[3]	12,943	11,956	(987)
Power produced	GWh	2,170	1,927	(243)
Grid balancing services	GWh	1,284	1,117	(167)
Power supplied	GWh	1,029	1,210	181
Natural gas supplied	GWh	1,220	1,134	(86)

Operating performance of SSE[1]	Unit	H1 2017	H1 2018	Change
Power distributed	GWh	3,162	3,219	57
Power supplied	GWh	1,981	2,034	53
Natural gas supplied	GWh	204	230	26

Commentary

- Heat supplied decreased by 987 TJ. Mainly affected by warmer weather in Q2 2018 and disposal of PE in May 2018[4]
- Installed heat capacity decreased by 150 MWth because of disposal of PE in May 2018
- Power production volume down by 11% partially due to less favourable emission allowance prices and less production because of PE´s disposal in May 2018
- Grid balancing services decrease of 13% reflects primarily disposal of PE in May 2018

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, PE is included in the figures for 1-4/2018 but not in the balances as of 30 June 2018
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 – Adjusted EBITDA calculation

EP Energy *(SSE on 100% basis)*

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

- The EBITDA or Adjusted EBITDA included in this presentation does not represent the term EBITDA as may be defined by any documentation for any financial liabilities of the EP Energy Group

- EBITDA and Adjusted EBITDA calculation:

Adjusted EBITDA calculation	Dec 31, 2017 (m EUR)	Jun 30, 2018 (m EUR)
EBITDA 1-6/2017 (per IFRS FS, Segment reporting)		208
EBITDA 1-12/2017 (per IFRS FS, Segment reporting)		380
EBITDA 1-6/2018 (per IFRS FS, Segment reporting)		156
LTM EBITDA	**380**	**328**
Impairment of PE assets (H1 2018)	-	10
Disposal of non-core real estate assets (H1 2017)	(7)	-
SOT impact (LTM: 41(FY2017; gain) - 8(H1 2017; gain) -27(H1 2018; loss))	(41)	(6)
Adjusted LTM EBITDA	**332**	**332**

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 Jun 30, 2018		m EUR
Loans and borrowings (non-current)	*add*	760
Financial instruments and financial liabilities (non-current)	*add*	14
Loans and borrowings (current)	*add*	17
Financial instruments and financial liabilities (current)	*add*	18
Cash and cash equivalents	*less*	168
Net Debt as of Jun 30, 2018		**641**

- 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