# EP Energy H1 2019 Results Call

August 29, 2019

ENERGY

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# 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 2019 for EP Energy, a.s.” as published on www.epenergy.cz

# Summary of key results of EP Energy for H1 2019

## LTM H1 2019 consolidated results

- For the last twelve months (LTM) **consolidated sales** reached **EUR 1,957 million** and **Adjusted EBITDA**[1] amounted to **EUR 326 million** compared to EUR 321 million[1] in 2018

- Indicative **net consolidated leverage ratio**[2] as of June 30, 2019 stood at **1.4x**

## H1 2019 consolidated results

- The **consolidated sales** reached **EUR 1,036 million, Adjusted EBITDA**[1] (i.e. considering the effects as described in the notes below) was **EUR 192 million** compared to EUR 187 million in the first half of 2018

- The **consolidated net debt** as of June 30, 2019 was **EUR 554 million**[3]

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 (i) exclude one-off items related to impairment of PPE and Goodwill at Plzeňská energetika a.s. recorded in the first quarter 2018 totalling EUR 10 million related to impairment charged at Plzeňská energetika a.s. (“PE”) as a result of commercial negotiations between the Group and the City of Pilsen in relation to a merger of PE and Plzeňská teplárenská, a.s. (“PLTEP”), (ii) exclude one-off gain from sale of non-core non-operational real estate assets of EUR 20 million realised in Q4 2018, (iii) add back (if negative) or deduct (if positive) the timing difference between (a) compensation for the expenses for mandatory purchase and off-take of energy from renewable sources pursuant to the Slovak RES Promotion Act and the Decree recognised in revenues in the relevant period and (b) net expenses accounted for the mandatory purchase of energy from renewable resources in accordance with the Slovak RES Promotion Act, in each case inclusive of accruals and (iv) FY 2018 and H1 2018 exclude result of Plzeňská energetika (EUR 6 million) as the entity was disposed on May 9, 2018. For full details of adjustments see slide 13
2. This presentation includes the calculation of "Indicative Net Consolidated Leverage Ratio” as of June 30, 2019, as defined in the EP Energy Indenture. 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. Please refer to slide 14 for details on calculation of net debt

# Main events and effects driving the H1 2019 results

- Results as compared to 2018 were influenced by several one-off factors:
  - **Disposal of Plzeňská energetika** on May 9, 2018, which contributed to H1 2018 EBITDA by EUR 6 million
  - Effect of a **timing difference** in System Operations Tariff („SOT“) temporarily improving SSE‘s EBITDA by EUR 49 million in the first half 2019 as compared to the same period of 2018. Also, we are happy to announce that the SOT clearing duty shall be taken over by a state owned company OKTE a.s. beginning January 1, 2020. The SOT deficit is no longer expected to be incurred by the Slovak electricity distribution companies from then on
- On April 11, 2019, the Company purchased and cancelled Notes in nominal value of EUR 2.75 million as part of "Collateral Sale Offer" related to net proceeds of EUR 41.5 million from sale of 100% of the shares in Plzeňská energetika to its parent company, EP Infrastructure, a.s. Following the collateral sale offer completion, EP Energy shall be using the proceeds for its general corporate purposes like, but not limited to, repayment of the indebtedness, capital expenditures, etc.
- On April 30, 2018, Fitch **affirmed** EP Energy’s rating **BBB-**, and rating **BBB** of our Notes (both with **stable outlook**)
- On May 21, 2019, EP Infrastructure, parent company of EP Energy, signed new EUR 265 million term facility agreement. Together with previously issued privately placed EUR 70 million notes and EUR 183 million issue of Schuldschein, EP Infrastructure **secured sufficient funding for repayment of 2019 Notes** due in November 2019

1. Property, Plant and Equipment

# Key financial performance indicators of EP Energy

## Overview

| Consolidated financial results (m EUR) | H1 2018 | H1 2019 |
|---|---|---|
| Sales | 917 | 1,036 |
| Adjusted EBITDA[1] | 187 | 192 |
| Total net debt[2] | | 554 |
| CAPEX[3] | 30 | 31 |

| LTM[4] figures (m EUR) | FY 2018 | June 30, 2019 |
|---|---|---|
| Adjusted LTM EBITDA[1] | 321 | 326 |
| Indicative net consolidated leverage ratio[5] | 2.0x | 1.4x |

(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 (i) exclude one-off items related to impairment of PPE and Goodwill at Plzeňská energetika a.s. recorded in the first quarter 2018 totalling EUR 10 million related to impairment charged at Plzeňská energetika a.s. (“PE”) as a result of commercial negotiations between the Group and the City of Pilsen in relation to a merger of PE and Plzeňská teplárenská, a.s. (“PLTEP”), (ii) exclude one-off gain from sale of non-core non-operational real estate assets of EUR 20 million realised in Q4 2018, (iii) add back (if negative) or deduct (if positive) the timing difference between (a) compensation for the expenses for mandatory purchase and off-take of energy from renewable sources pursuant to the Slovak RES Promotion Act and the Decree recognised in revenues in the relevant period and (b) net expenses accounted for the mandatory purchase of energy from renewable resources in accordance with the Slovak RES Promotion Act, in each case inclusive of accruals and (iv) FY 2018 and H1 2018 exclude result of Plzeňská energetika (EUR 6 million) as the entity was disposed on May 9, 2018. For full details of adjustments see slide 13

(2) Total net debt per financial statements 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 slide 14

(3) Excluding emission allowances and disregarding actual cash flows

(4) Last twelve months

(5) 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

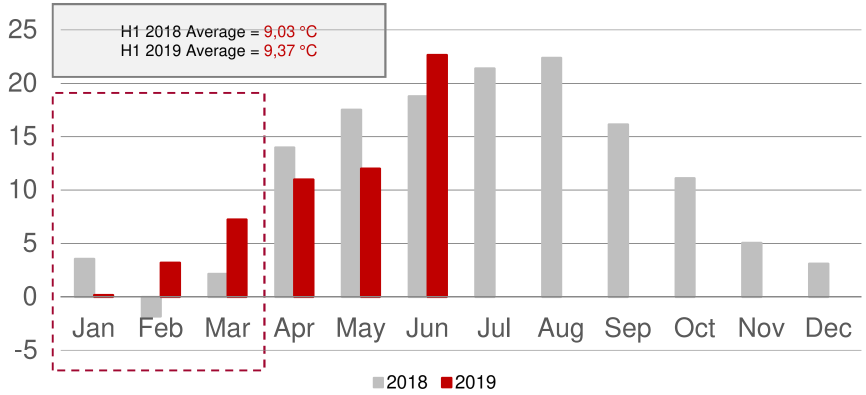
- We report H1 2019 Adjusted LTM EBITDA[1] of EUR 326 million which is slighty above the same measure for FY2018
- Our H1 2019 Adjusted EBITDA[1] reached EUR 192 million which is higher by 5 EUR million than the same measure for H1 2018 (please refer to slide 8 for a detailed EBITDA and Adjusted EBITDA bridge)
- CAPEX[3] simillar to the same period of 2018
- Indicative net consolidated leverage ratio[5] decreased period to period

# Key developments in the Heat Infra segment

## Overview

| | Unit | H1 2018 | H1 2019 |
|---|---|---|---|
| Heat supplied[3] | TJ | 11,956 | 11,517 |
| Power production | GWh | 1,927 | 1,557 |
| Sales[1] | m EUR | 296 | 302 |
| EBITDA[1] | m EUR | 81 | 91 |

**Average temperatures in 2018 – 6/2019 (in °C) in Prague**




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

## Commentary

- For Q1 2019, Heat Infra segment accounted for approx. 43% of consolidated EBITDA (before intersegment eliminations)
- In H1 2019 the supplied heat decreased by app. 0,4 PJ (-4%) almost fully attributable to PE being deconsolidated from May 9, 2018 (decrease by 0.4 PJ)
- Power production volume down by 19% predominantly due to less favourable conditions on market (higher emission allowances prices) and disposal of PE

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

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

## Overview

| | Unit | H1 2018 | H1 2019 |
|---|---|---|---|
| Sales[1] | m EUR | 698 | 804 |
| EBITDA[1] | m EUR | 73 | 122 |
| Power distributed | GWh | 3,219 | 3,192 |
| Power supplied[4] | GWh | 3,244 | 3,594 |

## Commentary

- In H1 2019, Power Distribution & Supply segment accounted for approx. 57% of consolidated EBITDA (before intersegment eliminations)
- The H1 2019 results were primarily positively impacted by SOT[2] timing difference („SOT gap") of approximately EUR 49 million (see below) recorded by SSD. Apart from the SOT impact which is currently expected to be positively impacting the results in the following years, Segment EBITDA remained same as in H1 2018

## 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, 2019, the SOT income statement impact amounted to positive EUR 22 million, which is by EUR 49 million better compared to the six-month period ended June 30, 2018

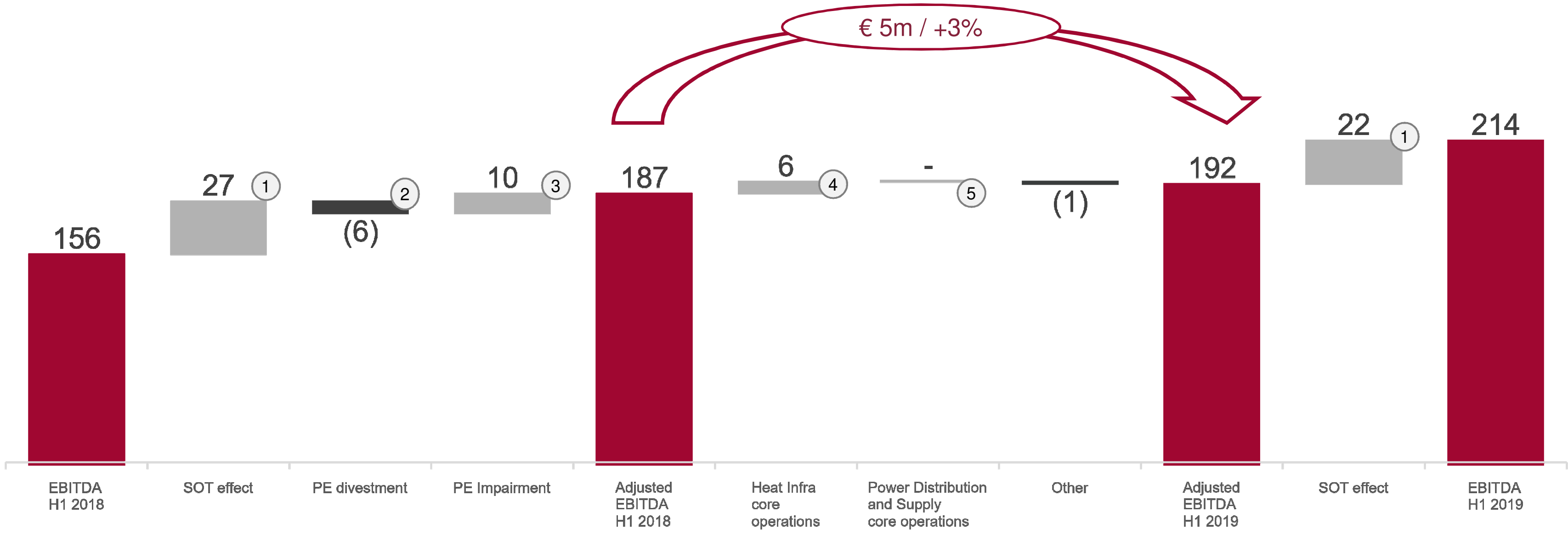
| (m EUR) | H1 2018 | 1 2019 | Difference |
|---|---|---|---|
| Segment core business EBITDA[3] | 100 | 100 | 0 |
| SSE SOT I/S impact | (27) | 22 | 49 |
| Segment Simple EBITDA | 73 | 122 | 49 |

- SSE continues to negotiate the situation with the Slovak regulator to accelerate cash collection relating to SOT. In November the final version of the legal act relating to SOT was published. As a result, SOT clearing duty is going to be transferred from distribution companies to a state owned company OKTE from 1 January 2020. Per the current legislation, settlement of receivable from current system is expected to occur during 2020-2021 at the latest

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

# EP Energy indicative EBITDA and Adjusted EBITDA bridge (H1 2019 vs. H1 2018)

## Indicative EBITDA bridge[1] (m EUR)




1 SOT timing difference of EUR 22 million surplus in H1 2019 while realising EUR 27 million deficit in H1 2018 (i.e. positive effect p/p of EUR 49 million)

2 Effect of disposal of PE to EP Infrastructure on May 9, 2018

3 EP Energy recorded one-off impairment to long term assets of EUR 10 million, related to impairment charged at PE as a result of commercial negotiations between the Group and the City of Pilsen in relation to a merger of PE and Plzeňská teplárenská ("PLTEP")

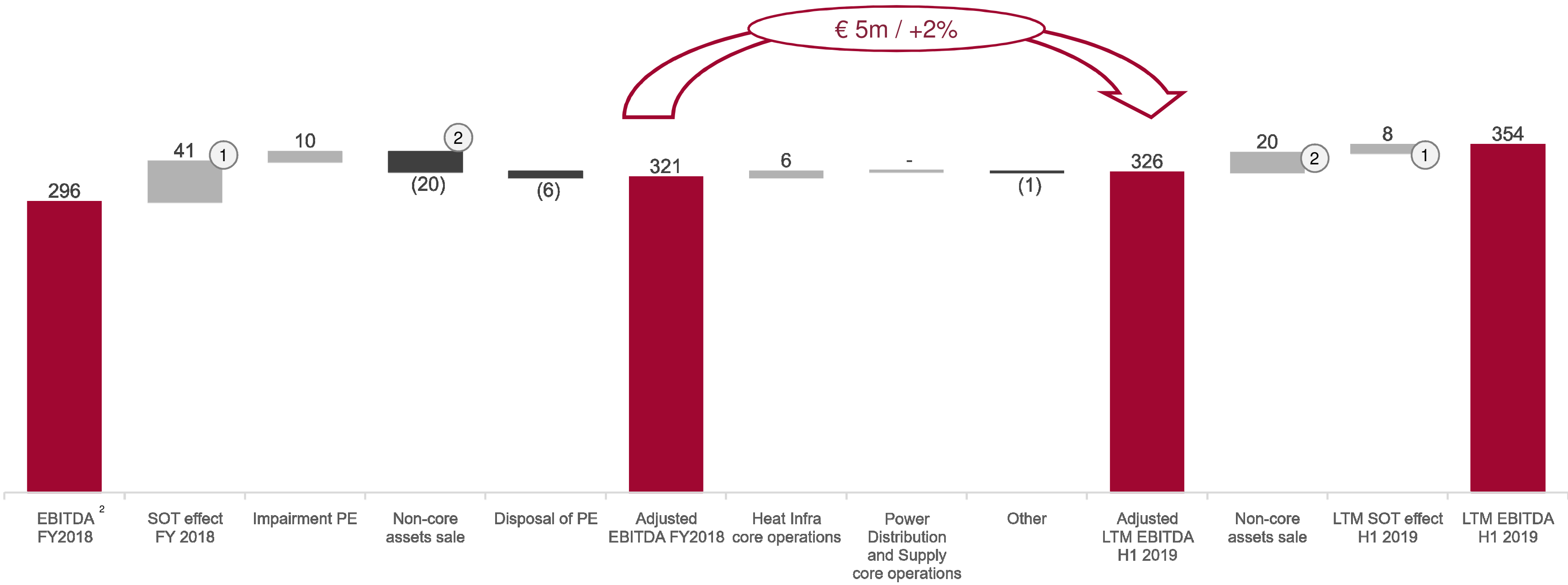
4 The results of the Heat Infra segment (excluding the effects of 2 and 3) increased by EUR 6 million as compared to H1 2018 primarily driven by savings on operating expenses

5 EBITDA of Power Distribution and Supply (excluding effect of 1) was comparable to same period of year 2018

1. Figures might not add up due to rounding

# EP Energy indicative LTM EBITDA and LTM Adjusted EBITDA bridge (LTM Q1 2019 vs. FY2018)

## Indicative EBITDA bridge[1] (m EUR)




1 SOT timing difference of EUR 22 million surplus in H1 2019 while realising EUR 41 million deficit in FY2018 and deficit of EUR 27 million in H1 2018 (i.e. LTM surplus p/p of EUR 8 million)

2 One-off gain from sale of non-core unused real estate assets realised in the last quarter of 2018 of EUR 20 million

- For other effects description see previous slide

1. Figures might not add up due to rounding
2. As presented on slide 9 in FY 2018 results presentation published on April 9, 2019

# Wrap-up

- EP Energy's **Adjusted LTM EBITDA reached EUR 326 million** for H1 2019, which is slightly higher (+2%) than the same FY2018 measure
- Simple EBITDA amounted to **EUR 214 million** in H1 2019 as compared to **EUR 156 million** in H1 2018, where the H1 2019 results were primarily affected by:
  - Positive result of **savings** in Heat Infra operations of **EUR 6 million**
  - Positive effect of **timing difference resulting from System Operations Tariff („SOT") of EUR 49 million**
  - **Disposal of PE** in 2018 resulting in decrease in EBITDA of **EUR 6 million**
  - Comparability of results was further influenced by one-off non-cash impairment of EUR 10 million recognized in Q1 2018 as a result of commercial negotiations between the Group and the City of Pilsen in relation to a merger of Plzeňská energetika and Plzeňská teplárenská
- On April 11, 2019, **EP Energy repurchased and cancelled EUR 3 million of bonds** as part of Collateral Sale Offer
- On April 30, 2019, **Fitch affirmed EP Energy´s credit rating of BBB-**, with 2019 Notes affirmed at **BBB** (both with outlook stable)
- On May 21, 2019, EP Infrastructure signed **new term facility agreement,** which together with privately placed bonds and Schuldschein financing **secures sufficient funding** for repayment of EP Energy Notes at EP Infrastructure level

# Q&A

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# Appendix – key operating performance indicators

## Overview

| Operating performance[1] (EPE excluding SSE) | Unit | 1-6/2018 | 1-6/2019 | Change |
|---|---|---|---|---|
| Installed heat capacity[2] | $MW_{th}$ | 3,126 | 3,126 | 0 |
| Installed cogeneration capacity | $MW_e$ | 804 | 804 | 0 |
| Installed condensation capacity | $MW_e$ | 339 | 339 | 0 |
| Heat supplied | TJ[3] | 11,956 | 11,517 | (439) |
| Power produced | GWh | 1,927 | 1,557 | (370) |
| Grid balancing services | GWh | 1,117 | 788 | (329) |
| Power supplied | GWh | 1,210 | 1,464 | 254 |
| Natural gas supplied | GWh | 1,134 | 1,165 | 31 |

| Operating performance of SSE[1] | Unit | 1-6/2018 | 1-6/2019 | Change |
|---|---|---|---|---|
| Power distributed | GWh | 3,219 | 3,192 | (27) |
| Power supplied | GWh | 2,034 | 2,130 | 96 |
| Natural gas supplied | GWh | 230 | 296 | 66 |

## Commentary

- Heat supplied decreased by 0.4 PJ. Almost fully attributable to disposal of PE in May 2018 (decrease by 0.4 PJ)
- Power production volume down by 19% partially due to less favourable emission allowance prices and less production because of PE´s disposal in May 2018
- Grid balancing services decrease of 29% reflects primarily disposal of PE in May 2018 (decrease by 292 GWh)

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 1-5/2018
2. Installed heat capacity on heat exchangers
3. 1 TJ = 0,2778 GWh

# 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 (i) exclude one-off items related to impairment of PPE and Goodwill at Plzeňská energetika a.s. ("PE") recorded in the first quarter 2018 totalling EUR 10 million as a result of commercial negotiations between the Group and the City of Pilsen in relation to a merger of PE and Plzeňská teplárenská, a.s. ("PLTEP"), (ii) exclude one-off gain from sale of non-core non-operational real estate assets of EUR 20 million in Q4 2018, (iii) add back (if negative) or deduct (if positive) the timing difference between (a) compensation for the expenses for mandatory purchase and off-take of energy from renewable sources pursuant to the Slovak RES Promotion Act and the Decree recognised in revenues in the relevant period and (b) net expenses accounted for the mandatory purchase of energy from renewable resources in accordance with the Slovak RES Promotion Act, in each case inclusive of accruals and (iv) FY 2018 and H1 2018 exclude result of Plzeňská energetika (EUR 6 million) as the entity was disposed on May 9, 2018

- The EBITDA and Adjusted EBITDA included in this presentation do not represent the term EBITDA or Adjusted 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, 2018 (m EUR)** | **LTM June 30, 2019 (m EUR)** |
|---|---|---|
| EBITDA 1-6/2018 (per IFRS FS, Segment reporting) | | 156 |
| EBITDA FY 2018 (per IFRS FS, Segment reporting) | | 296 |
| EBITDA 1-6/2019 (per IFRS FS, Segment reporting) | | 214 |
| **LTM EBITDA** | **296** | **354** |
| Impairment of PE assets (1-6/2018) | 10 | - |
| Disposal of non-core real estate assets (1-12/2018) | (20) | (20) |
| EBITDA of disposed PE (LTM: 6 (FY2018); 6 (1-6/2018); 0 (1-6/2019 ) | (6) | - |
| SOT impact (LTM: 41 (FY2018; loss) 27 (1-6/2018; loss) 22 (1-6/2019; gain)) | 41 | (8) |
| **Adjusted LTM EBITDA** | **321** | **326** |

# 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 June 30, 2019** | | **m EUR** |
|---|---|---|
| Loans and borrowings (non-current) | *add* | 266 |
| Financial instruments and financial liabilities (non-current) | *add* | 16 |
| Loans and borrowings (current) | *add* | 513 |
| Financial instruments and financial liabilities (current) | *add* | 26 |
| Cash and cash equivalents | *less* | 267 |
| **Net Debt as of June 30, 2019** | | **554** |

- 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