



# EP Energy 2017 Results Call

March 29, 2018



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 year ended 31 December 2017 for EP Energy, a.s.” as published on [www.epenergy.cz](http://www.epenergy.cz)

# Summary of key results of EP Energy in 2017

## Pro forma consolidated results

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- ❑ The **pro forma (also „PF“) consolidated sales** reached **EUR 1,833 million** and **pro forma adjusted EBITDA<sup>1</sup>** amounted to **EUR 373 million** for year ended December 31, 2017
- ❑ Indicative **net consolidated leverage ratio<sup>2</sup>** as of December 31, 2017 stood at **2.0x**

## 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 1,833 million** and **EBITDA** amounted to **EUR 380 million** for year ended December 31, 2017
- ❑ The **consolidated net debt** as of December 31, 2017 was **EUR 777 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 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 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 judgments made by EP Energy

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

## Main events and effects driving the 2017 results

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- ❑ Favourable weather conditions influenced positively the volume of heat supplied and power produced in cogeneration
- ❑ Disposal of low-margin, scattered, island-type, non-core LPZ operations on June 1, 2016 which operations contributed EUR 7 million to EBITDA in first half of 2016 (while zero in the first half of 2017). Proceeds from the sale of LPZ operations amounted to EUR 82 million
- ❑ Disposal of non-core real estate asset Nový Veleslavín for sale proceeds of EUR 9 million and disposal impact on EBITDA of EUR 7 million in March 2017
- ❑ Positive effect of a timing difference in System Operations Tariff („SOT“) improving SSE's EBITDA by EUR 102 million in year 2017 as compared to year 2016
- ❑ One-off SSE's loss of EUR 15 million attributable to losses in supply portfolio 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
- ❑ In December 2017, the Group successfully finalized purchase of minority shareholding in Pražská teplotárenská, a.s. from Prague municipality, which increased the Group's shareholding in this strategic asset from 73.82% to 98%. Net purchase price was EUR 108 million

# Key financial performance indicators of EP Energy

## Overview

Consolidated financial results (m EUR)	2016	2017
Sales	1,842	1,833
EBITDA <sup>1</sup>	293	380
Total assets	2,598	2,577
Total net debt <sup>2</sup>	687	777
CAPEX <sup>3</sup>	126	97
Pro Forma adjusted figures <sup>4</sup> (m EUR)	2016	2017
Pro forma SOT adjusted EBITDA	347	332
Pro forma adjusted EBITDA	286	373

(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 2017, we report Pro forma adjusted EBITDA of EUR 373 million with an increase of 30% against a similar measure for 2016. Main segments contributed to the increase as follow:

- Heat Infra segment adjusted EBITDA increased by EUR 8 million
- Power Distribution & Supply segment EBITDA increased by EUR 74 million

(please refer to slide 8 for a detailed EBITDA bridge)

□ Our 2017 IFRS EBITDA reached EUR 380 million (please refer to slide 8 for a detailed EBITDA bridge)

□ CAPEX lower due to a different set of CAPEX projects, ongoing CAPEX optimization and different timing of projects

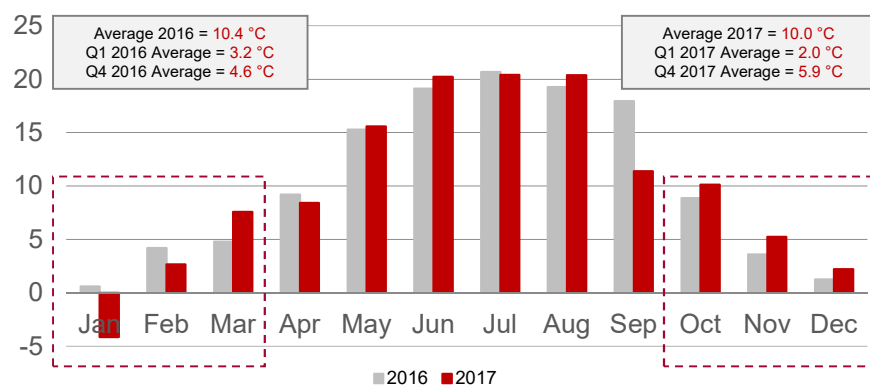


# Key developments in the Heat Infra segment

## Overview

	Unit	2016	2017
Heat supplied <sup>3</sup>	TJ	22,660	22,117
Power production	GWh	3,542	4,104
Space heating needs	Day – degrees <sup>2</sup>	3,159	3,206
Sales <sup>1</sup>	mEUR	561	555
EBITDA <sup>1</sup>	mEUR	145	153

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



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

## Commentary

- ❑ For 2017, Heat Infra segment accounted for approx. 40% of consolidated EBITDA (before intersegment eliminations)
- ❑ In 2017 the supplied heat decreased slightly by 0.5 PJ (-2%) due to disposal of LPZ in June 2016<sup>3</sup>. Excluding this effect the supplied heat would increase by 0.5 PJ (+2%)
- ❑ Power production volume up by 16% predominantly due to favourable conditions on market (higher power prices). In addition, higher heat production was coupled with higher power cogeneration production (+135 GWh) in 2017
- ❑ EBITDA increased by EUR 8 million in 2017 as compared to 2016 as result of:
  - Higher power produced and higher heat offtake because of more favourable weather conditions
  - Re-balancing power prices
  - Positive effect from sale of unused real estate included in Heat segment with EBITDA gain of EUR 7 million in 2017
  - While balanced by the disposal of LPZ (EBITDA contribution of EUR 7 million in 2016) in June 2016 and
  - Worse margin on sale of heat and power by Hungarian operations as compared to 2016

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 2016, none was supplied in 2017

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

## Overview

	Unit	2016	2017
Sales <sup>1</sup>	mEUR	1,422	1,425
EBITDA <sup>1</sup>	mEUR	149	223
Power distributed	GWh	5,944	6,232
Power supplied <sup>4</sup>	GWh	6,280	5,959

## Commentary

- In 2017, Power Distribution & Supply segment accounted for approx. 59% of consolidated EBITDA (before intersegment eliminations)
- The 2017 results were primarily positively impacted by SOT<sup>2</sup> timing difference („SOT gap“) of approximately EUR 102 million (see below). On the contrary, SSE's core business EBITDA decreased by approximately EUR 22 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

## 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 year ended December 31, 2017, the SOT income statement impact amounted to positive EUR 41 million, which is EUR 102 million better compared to the year ended December 31, 2016

(m EUR)	2016	2017	Difference
SSE core business EBITDA <sup>3</sup>	195	173	(22)
SSE SOT I/S impact	(61)	41	102
SSE Simple EBITDA	134	214	80

- 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

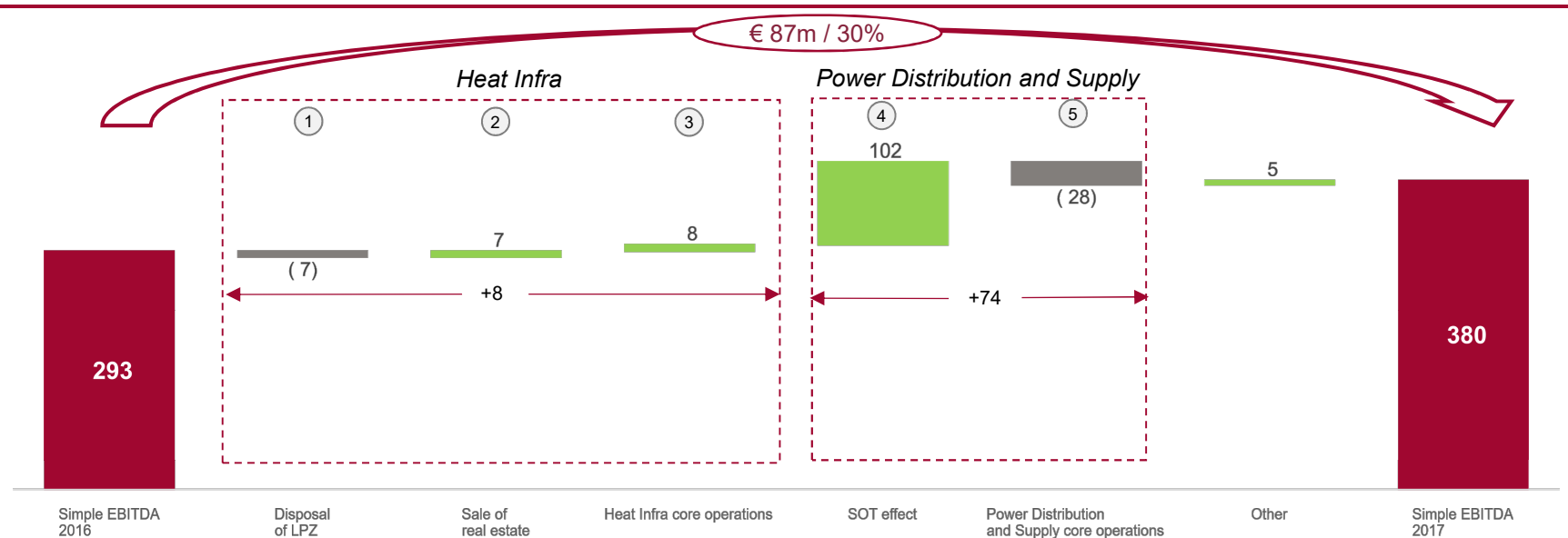
2. System Operations Tariff („SOT“)

3. i.e. SOT adjusted EBITDA

4. Including SSE operations

# EP Energy indicative simple EBITDA bridge 2017 vs. 2016

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



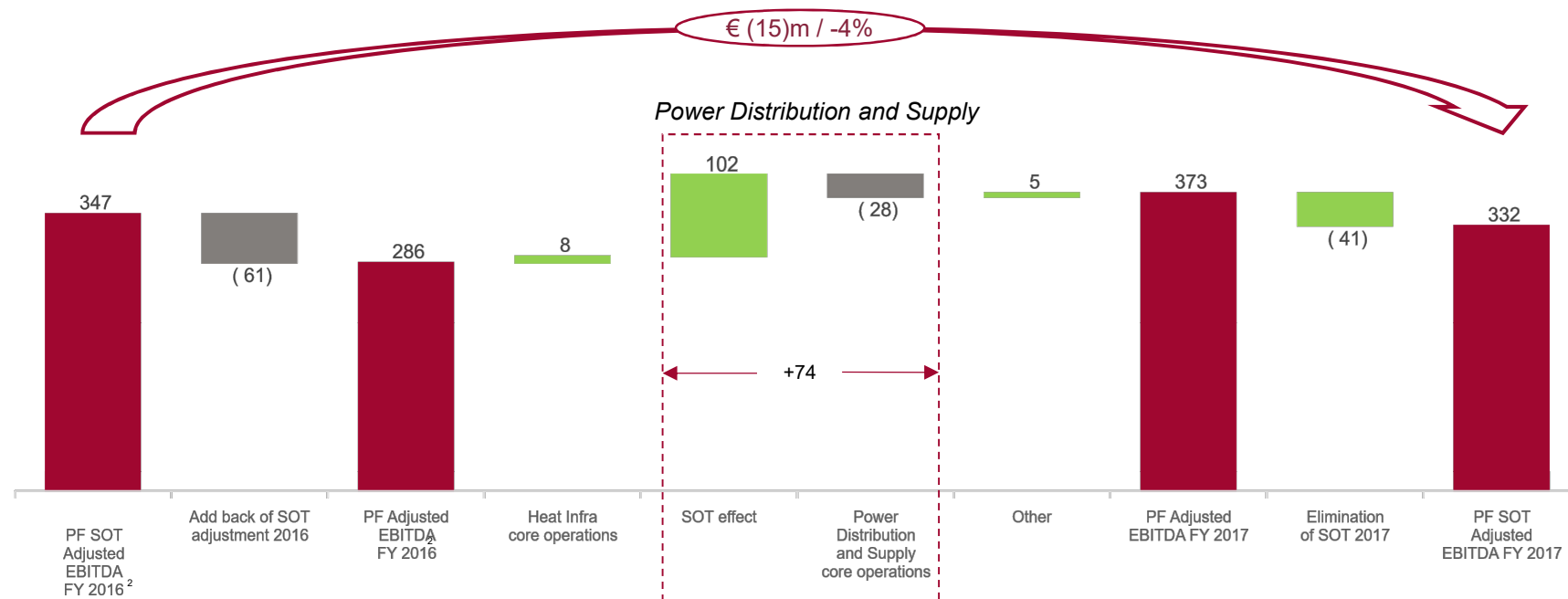
- ① EPE divested LPZ on June 1, 2016, which resulted in decrease of EPE's EBITDA by EUR 7 million
- ② EPE sold unused real estate with EBITDA gain of EUR 7 million
- ③ The results of the Heat Infra segment (excluding for effect of ① and ②) increased by EUR 8 million as compared to 2016 driven by higher volumes of produced power and heat by the Czech operations, which was partially compensated by lower margin on sale of heat and power by the Hungarian operations and by higher emission allowances consumption and continuing decrease in allocated emission allowances
- ④ 2017 Power Distribution and Supply results were primarily positively impacted by SOT timing difference of approximately EUR 102 million (see slide 7)
- ⑤ EBITDA of Power Distribution and Supply (excluding effect of ④) was worse by EUR 28 million resulting primarily from SSE's losses on portfolio supply management caused mainly by extremely high peak power prices in January and February 2017 (EUR 15 million) and from effect of electricity mandatorily purchased by SSD from renewables producers in the central Slovakia (EUR 3 million)

1. Figures might not add up due to rounding



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

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



□ See previous slide for details

1. Figures might not add up due to rounding

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

## Subsequent events

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- ❑ In December 2017, the City of Pilsen approved the key terms and conditions of a potential future merger of Plzeňská energetika a.s. and Plzeňská teplárenská, a.s. (“PLTEP”), a 100 per cent subsidiary of the City of Pilsen, resulting in PLTEP as joint-venture successor company in which the Group would have a 35 per cent interest and management control. The transaction is being negotiated as of the date of these financial statements and the City of Pilsen is scheduled to finally approve the merger in May 2018. If approved, the merger may become effective later in 2018. The structuring of the transaction is yet to be decided
- ❑ 2018 Notes<sup>1</sup> of EUR 599 million are expected to be repaid by a combination of own funds and intercompany loan provided by the parent company
- ❑ In February and March 2018 the parent company, EP Infrastructure, a.s., has been assigned investment grade ratings from S&P Global Ratings (preliminary BBB), Moody’s (Baa3) and Fitch Ratings (BBB-), all with stable outlook

1. €600,000,000 4.375% Senior Secured Notes due 2018 (ISIN: XS0808636244)

## Wrap-up

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- ❑ EP Energy's Pro forma EBITDA adjusted for SOT effect reached EUR 332 million for 2017, which is slightly lower (-4%) than the similar 2016 measure of EUR 347 million.
- ❑ Simple EBITDA amounted to EUR 380 million in 2017 as compared to EUR 293 million in 2016
- ❑ The 2017 results are primarily affected by:
  - Positive effect of timing difference resulting from System Operations Tariff („SOT“) of EUR 102 million
  - One-off loss in SSE due to non-liquid market in Q1 2017 (similar to other market participants)
  - Stable volume of heat supplied, power distributed and higher power produced that was partially 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 7 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

## Q&A

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## Appendix – key operating performance indicators

### Overview

Operating performance <sup>1</sup> (EPE excluding SSE)	Unit	2016	2017	Change
Installed heat capacity <sup>2</sup>	MW <sub>th</sub>	3,276	3,323	47
Installed cogeneration capacity	MW <sub>e</sub>	894	894	–
Installed condensation capacity	MW <sub>e</sub>	360	360	–
Heat supplied	TJ <sup>3</sup>	22,660	22,117	(543)
Power produced	GWh	3,542	4,104	562
Grid balancing services	GWh	2,197	2,494	297
Power supplied	GWh	2,314	2,074	(240)
Natural gas supplied	GWh	1,883	2,205	322

Operating performance of SSE <sup>1</sup>	Unit	2016	2017	Change
Power distributed	GWh	5,944	6,232	288
Power supplied	GWh	3,966	3,885	(81)
Natural gas supplied	GWh	326	376	50

### Commentary

- ❑ Heat supplied decreased by 543 TJ. Higher supply due to colder Q1<sup>4</sup>, was offset by disposal of LPZ (2016 contribution of 970 TJ)
- ❑ Installed heat capacities increased by 47 MWth because of replacement of one source by PT in 2017
- ❑ Power production volume up by 16% 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 (+135 GWh) in 2017
- ❑ Grid balancing services increase of 14% reflects primarily higher deliveries of the service in Hungary (increased by 180 GWh). In addition, a higher success rate in winning tenders for these services in the Czech Republic increased the Grid balancing services by 117 GWh in 2017
- ❑ Natural gas supplied increased by 17%, which was mainly driven by colder winter in 2017
- ❑ Power distributed by SSE increased by 5%, resulting from strong winter

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. 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)	Dec 31, 2017 (m EUR)
<b>Simple EBITDA</b>	<b>293</b>	<b>380</b>
LPZ Pro Forma Adjustment (2016)	(7)	-
Disposal of non-core real estate assets (2017)	-	(7)
<b>Pro forma Adjusted EBITDA</b>	<b>286</b>	<b>373</b>
SOT I/S impact	+61	(41)
<b>Pro forma SOT Adjusted EBITDA</b>	<b>347</b>	<b>332</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 (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 EPE Group

Net Debt calculation as of December 31, 2017		m EUR
Loans and borrowings (non-current)	<i>add</i>	515
Financial instruments and financial liabilities (non-current)	<i>add</i>	11
Loans and borrowings (current)	<i>add</i>	614
Financial instruments and financial liabilities (current)	<i>add</i>	8
Cash and cash equivalents	<i>less</i>	371
<b>Net Debt as of December 31, 2017</b>		<b>777</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