



ENN 新奥

新奥能源控股有限公司

(股份代号: 2688)

2018 Interim Results

Company Presentation

August 2018

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- **1. Operation Review**
- 2. Financial Review**
- 3. Development Strategies & Outlook**
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First Half Results on Track

Retail Gas Sales Volume Up **22.7%**



Newly Installed Designed Daily Capacity for C/I Customers **8.23mil m³**



Developed **1.08mil** Residential Customers



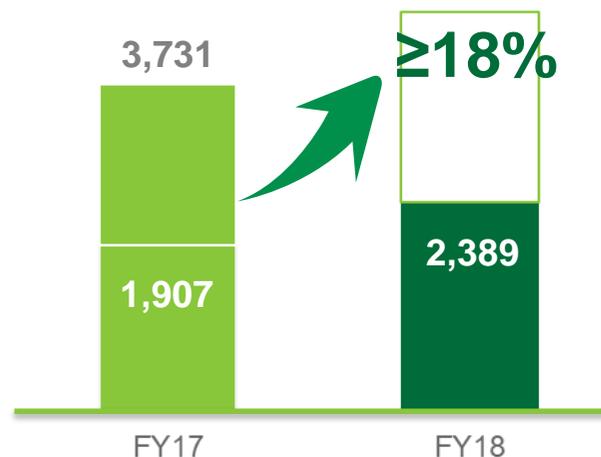
■ Achieved in 1H2018

Gas Sales Dollar Margin in 1H was **0.62/m³**

Residential City-gate Price ↗	-
PetroChina Winter Gas Price Hike ↗	-
Gas Cost Pass-through	+
Import Offshore LNG	+
FY18 DM remain Stable yoy	

Core Profit Up **25.3%**

RMB million

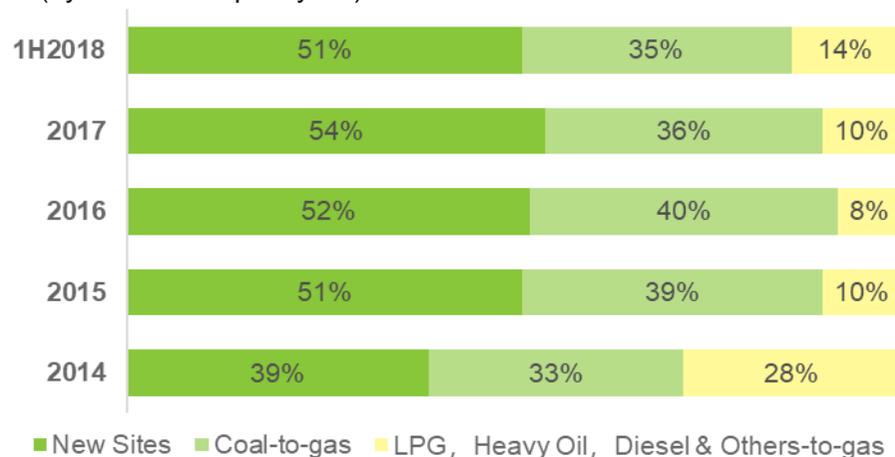


Growing Customer Base

	1H 2018	1H 2017	Change
<u>Number of Piped Gas Customers</u>			
New C/I Customers Development (site)	10,764	9,650	1,114
Accumulated C/I Customers (site)	102,643	78,329	24,314
Newly Installed Designed Daily Capacity for C/I Customers (m³)	8,228,222	6,957,575	18.3%
Accumulated Installed Designed Daily Capacity for C/I Customers (m ³)	96,128,735	78,137,551	23.0%
New Residential Customers Development (household)	1,078,407	951,180	13.4%
Accumulated Residential Customers (household)	17,299,550	15,098,053	14.6%

New C/I Customers Breakdown

(by installed capacity m³)



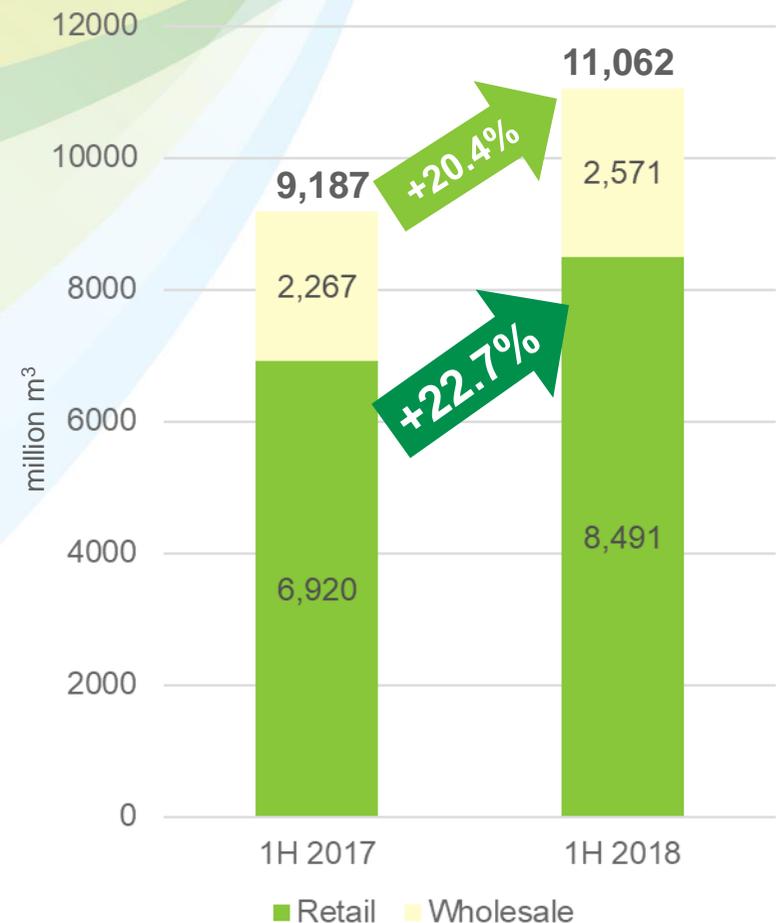
New Residential Customers Breakdown

(by household)



Strong Gas Sales Volume Growth

Total Natural Gas Sales Volume

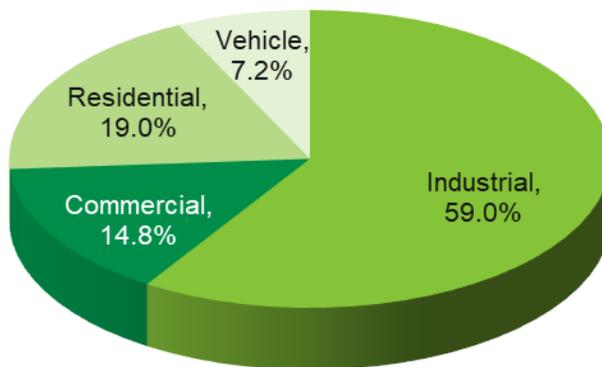


Retail Gas Sales Volume Breakdown

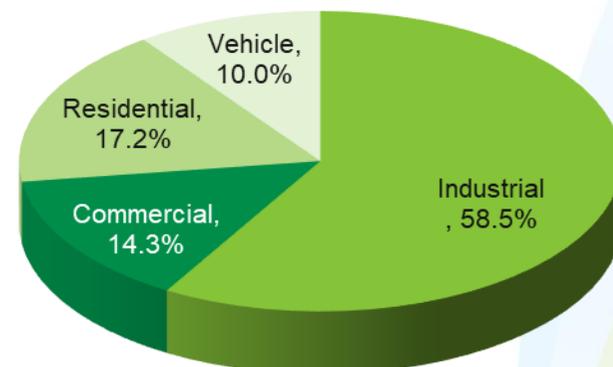
(million m³)	1H 2018	1H 2017	Change
Commercial & Industrial	6,264	5,038	24.3%
Residential	1,614	1,188	35.8%
Vehicle Refuelling Stations	613	693	-11.7%

C/I Gas Sales accounted for

73.8%



1H 2018



1H 2017

Dollar Margin Analysis

ASP & Gas Cost (RMB/m ³)	1H 2018	2017	1H 2017
Residential	2.65	2.66	2.64
Commercial & Industrial	3.07	2.92	2.95
CNG Station	3.90	3.68	3.68
LNG Station	3.94	3.35	3.14
ASP	3.05	2.94	2.95
Average Cost	2.37	2.24	2.20
Dollar Margin (ex VAT)	0.62	0.63	0.66

Diversify Gas Supply through LNG Import



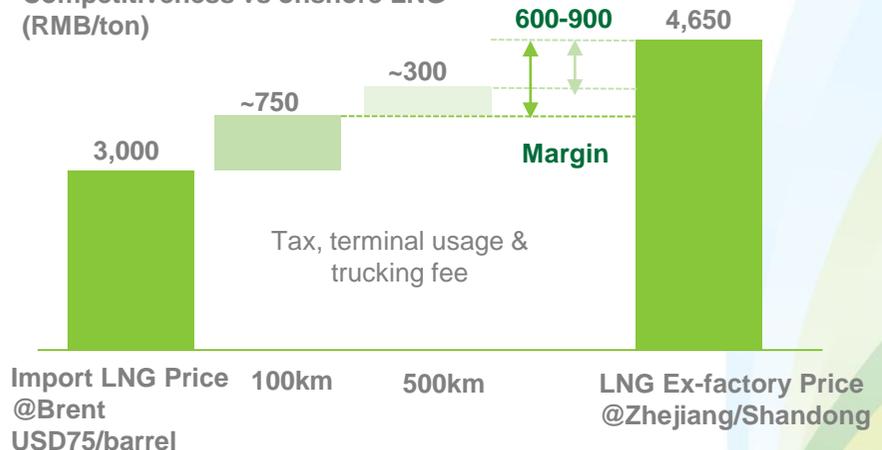
➤ Our 3 long-term LNG contracts with annual capacity of **1.44million tons** will be imported (equivalent to 2bcm)

➤ **500,000 tons** of LNG is expected to be imported in 2H 2018 (equivalent to 700mcm) through Zhoushan LNG Terminal

➤ Already obtained usage timeslots from other LNG receiving terminals

➤ Securing competitive gas sources for winter demand

Competitiveness vs onshore LNG (RMB/ton)



Based on an exchange rate of 6.85 RMB/USD
 • LNG ex-factory price based on SHPGX data on 14 Aug 18

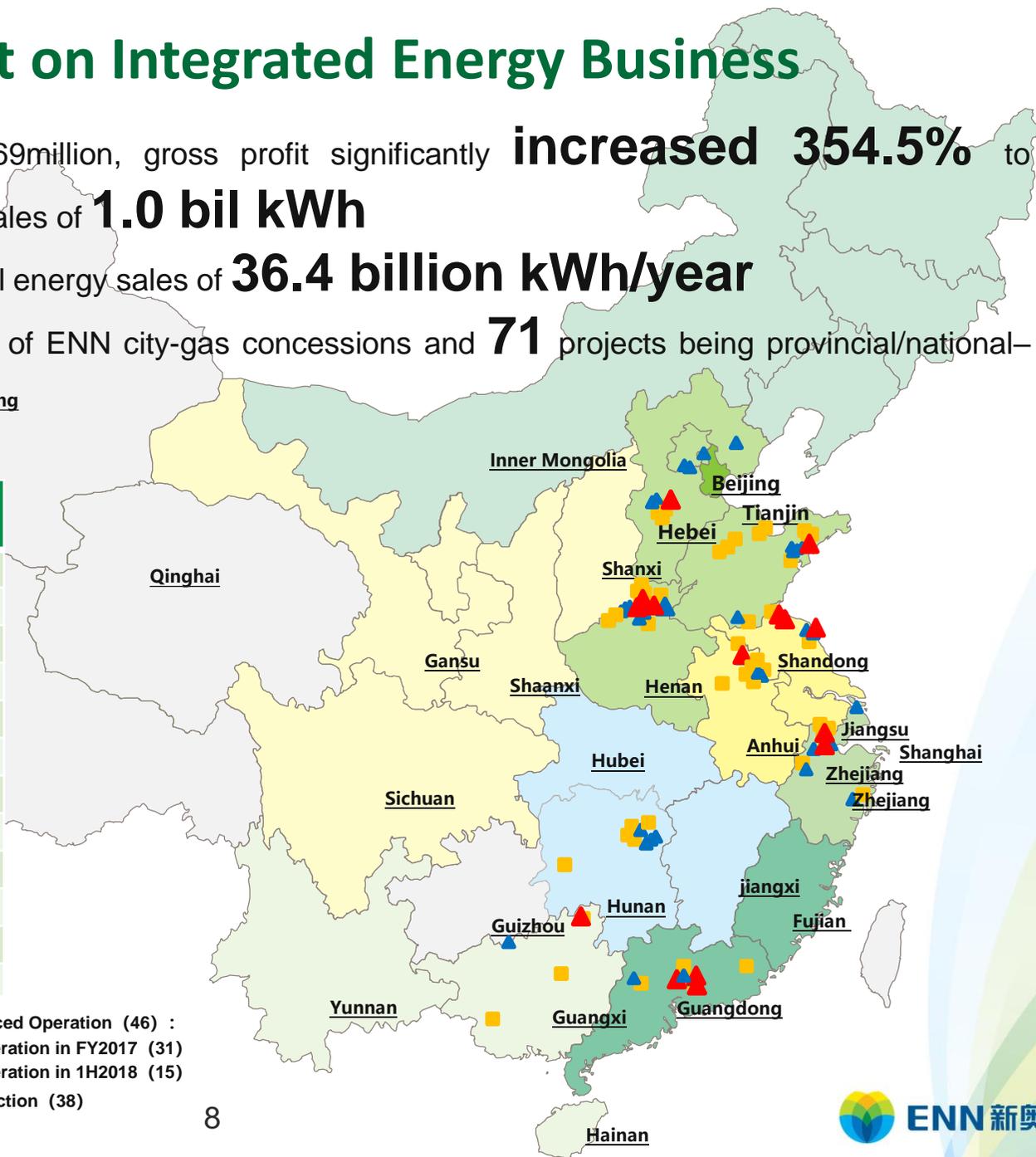
Accelerated Development on Integrated Energy Business

- Revenue **up 276.5%** to RMB369million, gross profit significantly **increased 354.5%** to RMB28million, realized integrated energy sales of **1.0 bil kWh**
- Signed **131** new IE projects with potential energy sales of **36.4 billion kWh/year**
- Accumulated **53** projects located outside of ENN city-gas concessions and **71** projects being provincial/national-level industrial parks

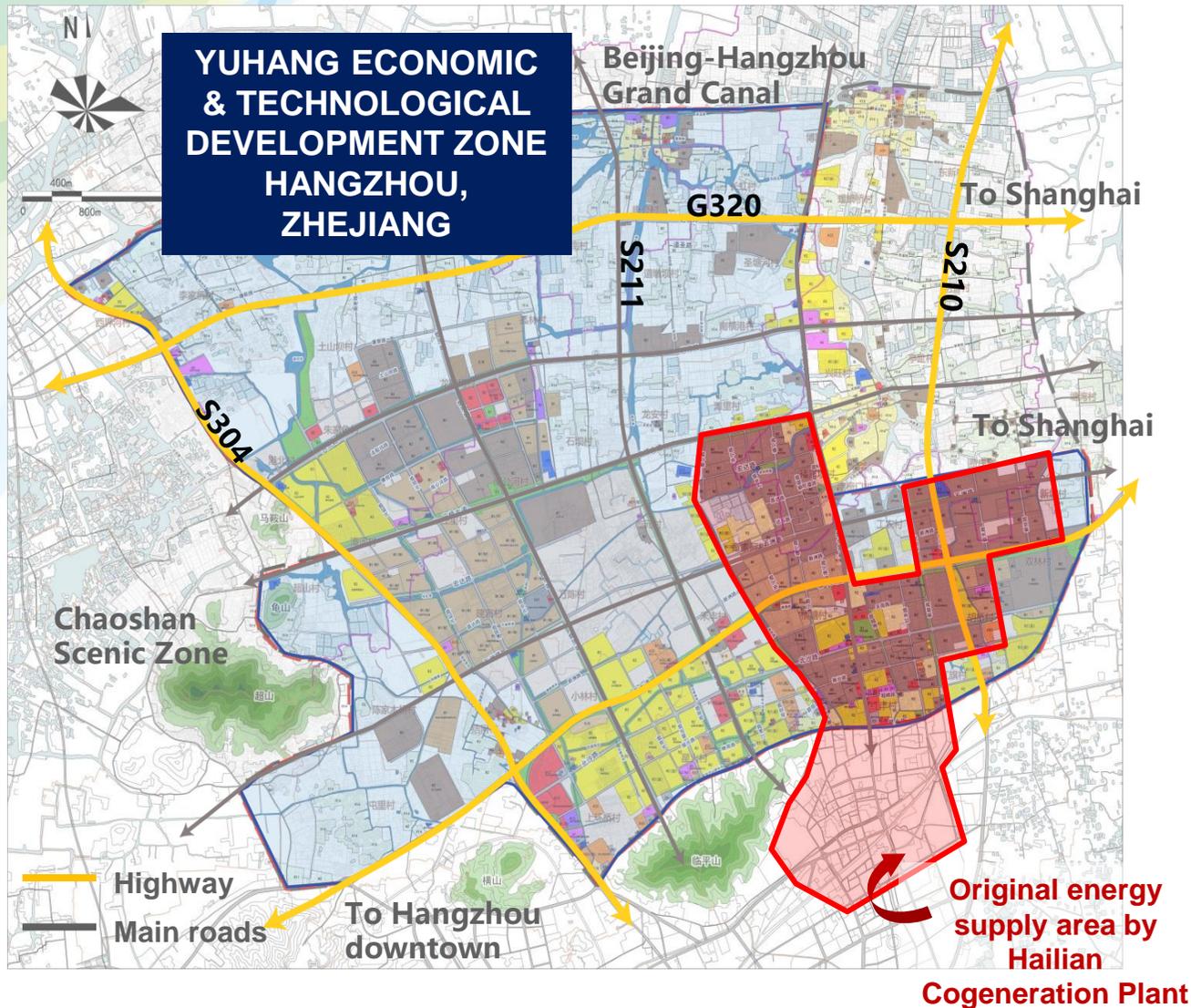
Province	Projects in operation	Projects under construction
Anhui	2	7
Guangdong	5	4
Guangxi	2	2
Hebei	6	3
Henan	8	3
Hunan	4	5
Jiangsu	6	1
Shandong	5	9
Shanghai	1	-
Tianjin	1	-
Zhejiang	6	4
Total	46	38

Projects Commenced Operation (46) :

- ▲ Put into operation in FY2017 (31)
- ▲ Put into operation in 1H2018 (15)
- Under Construction (38)



Integrated Energy Project Highlight - YUHANG Project



➤ National-level

industrial park spanning over **77 km²**

➤ Quality C/I customers profile comprising of over 200 Fortune 500 multinational companies including Sanofi, Novartis, Eli Lilly, Hitach, etc. and leading domestic companies

➤ Annual steam consumption potential **1.2 million**

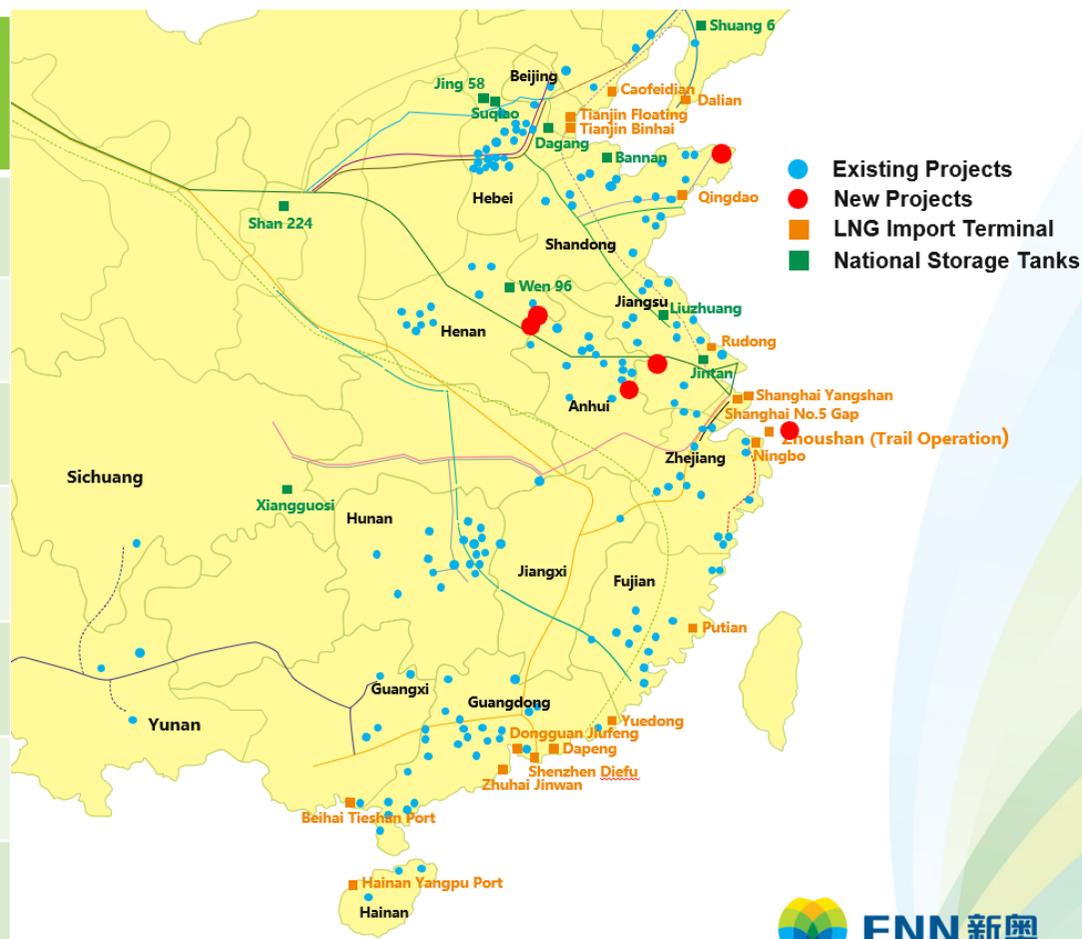
tons & electricity demand **200 million kWh**

➤ Break through existing citygas concession barrier

Continuous Expansion of Citygas Concessions

- Acquired **6** new projects and **19** new concessions nearby existing projects in 1H2018
- The Group managed **178** city-gas projects in China with total connectable population of **88.6 million**
- Average gas penetration rate is **58.6%**.

Provinces	New Projects	Connectable Population '000
Anhui	Feidong Township 肥東縣	250
	Tianchang City 天長市	400
Shandong	Zhaoyuan Township 招遠縣	30
Henan	Xuchang Yanling Industrial Cluster District 許昌鄆陵縣產業集聚區	35
	Ye Township Industrial Cluster District 葉縣產業集聚區	100
Zhejiang	Zhoushan City 舟山市區	1,170
	Additional Connectable Population	1,985



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Solid Results Achieved

	1H 2018	1H 2017	Change
Key Financial Highlights			
Revenue (RMB million)	26,530	21,424	23.8%
Gross Profit (RMB million)	4,662	3,873	20.4%
EBITDA (RMB million)	4,695	3,888	20.8%
EBIT (RMB million)	4,076	3,330	22.4%
Profit attributable to Shareholders of the Company (RMB million)	1,782	1,649	8.1%
Core Profit* (RMB million)	2,389	1,907	25.3%
Basic EPS (RMB)	1.64	1.52	7.9%

*Core profit = Profit attributable to shareholders of the Company – one-off items including other gains & losses and share based payment expenses

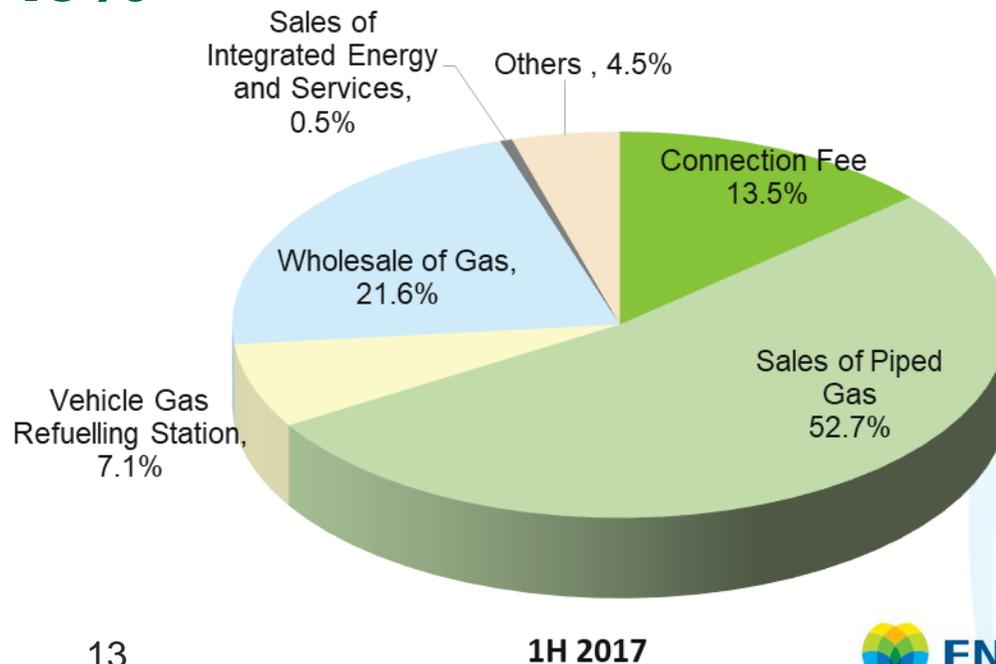
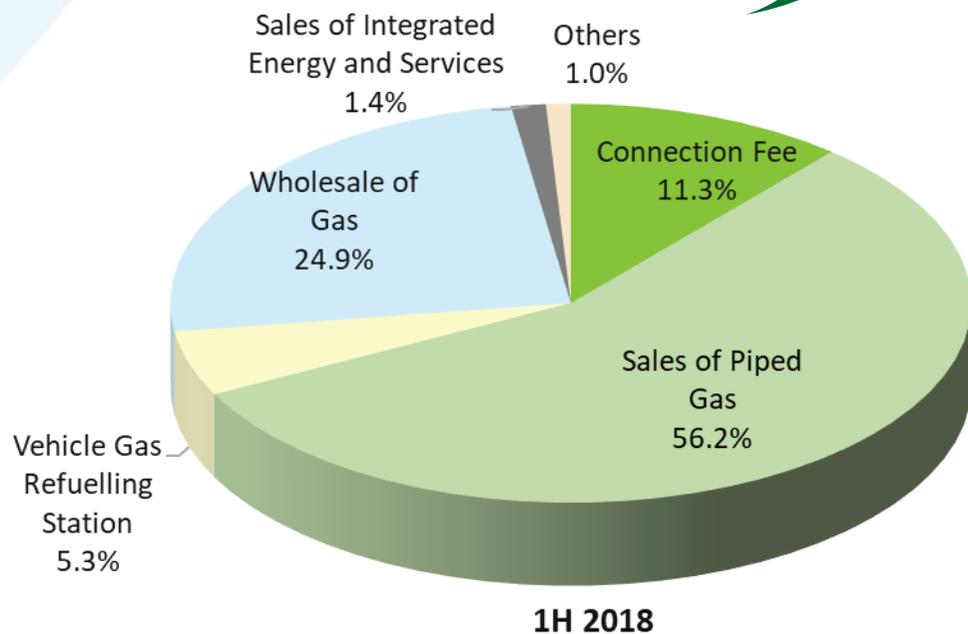
Strong Recurring Revenue Growth

(RMB million)	1H 2018	1H 2017	Change
Connection Fee	2,988	2,897	3.1%
Sales of Piped Gas	14,901	11,300	31.9%
Wholesale of Gas	6,595	4,631	42.4%
Vehicle Gas Refuelling Stations	1,400	1,521	-8.0%
Sales of Integrated Energy and Services	369	98	276.5%

Modified Revenue Mix

– Recurring Revenue accounted for

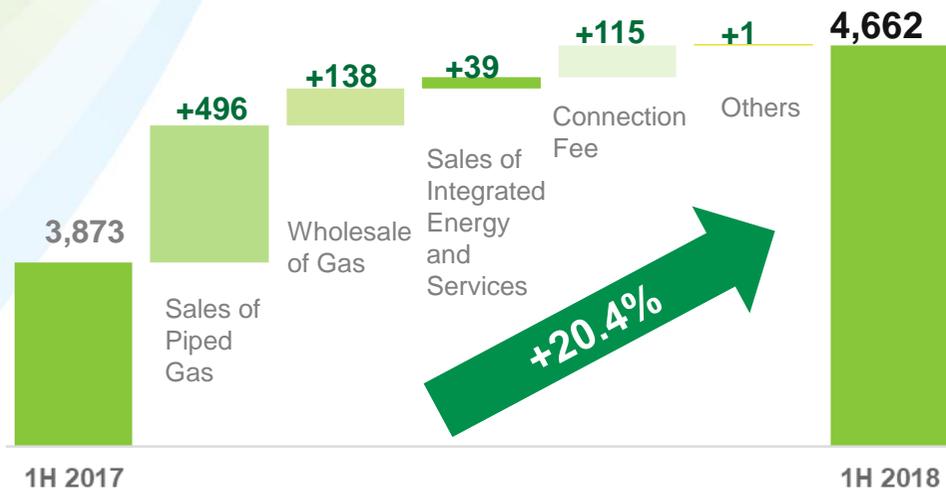
87.8%



High Quality Profit Structure

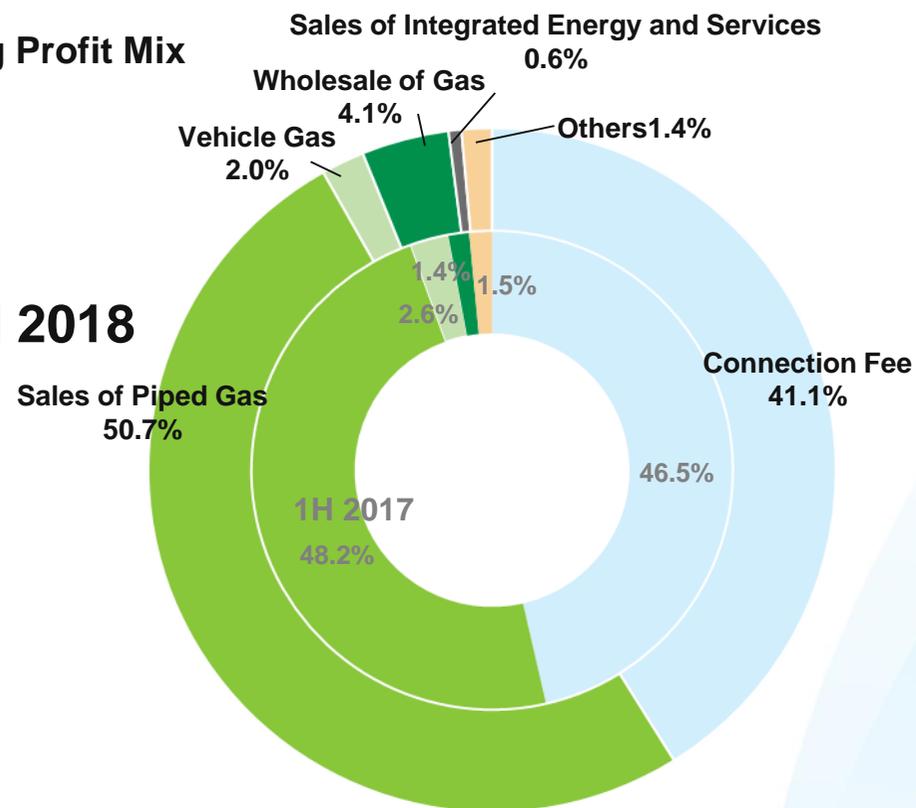
Sustainable Profit Growth Drivers

Gross profit breakdown (RMB mil)



Modifying Profit Mix

1H 2018



	1H 2018	1H 2017	Change
Gross Profit Margin	17.6%	18.1%	-0.5ppt
Net Profit Margin	8.7%	9.7%	-1.0ppt
ROE*	26.7%	24.1%	+2.6ppt

* Stripped out one-off items including other gains & losses and share based payment expenses

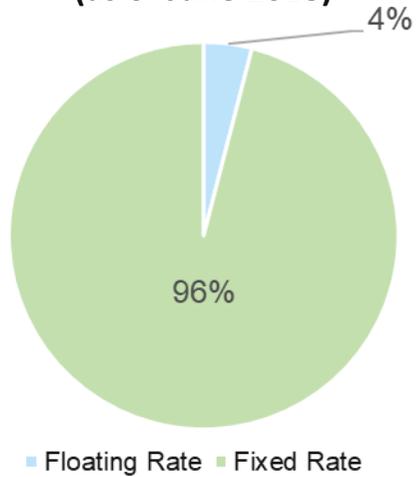
Strong Balance Sheet & Liquidity

(RMB million)	As of 30 June 2018	As of 31 December 2017	Change
Cash on Hand	6,266	7,972	-21.4%
Total Debt	17,186	18,067	-4.9%
- Short-term	7,528	8,368	-10.0%
- Long-term	9,658	9,699	-0.4%
Net Gearing Ratio	50.8%	49.9%	0.9ppt
Net Debt/EBITDA	1.2x	1.3x	-0.1x

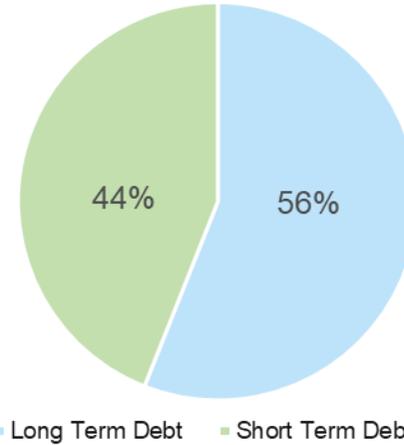
Rating Agency	1H 2018	2017	2016
	BBB+ (Stable) 	BBB (Positive) 	BBB (Stable)
	Baa2 (Stable)	Baa2 (Stable) 	Baa3 (Positive)
	BBB (Stable)	BBB (Stable)	BBB (Stable)

Healthy Debt Structure

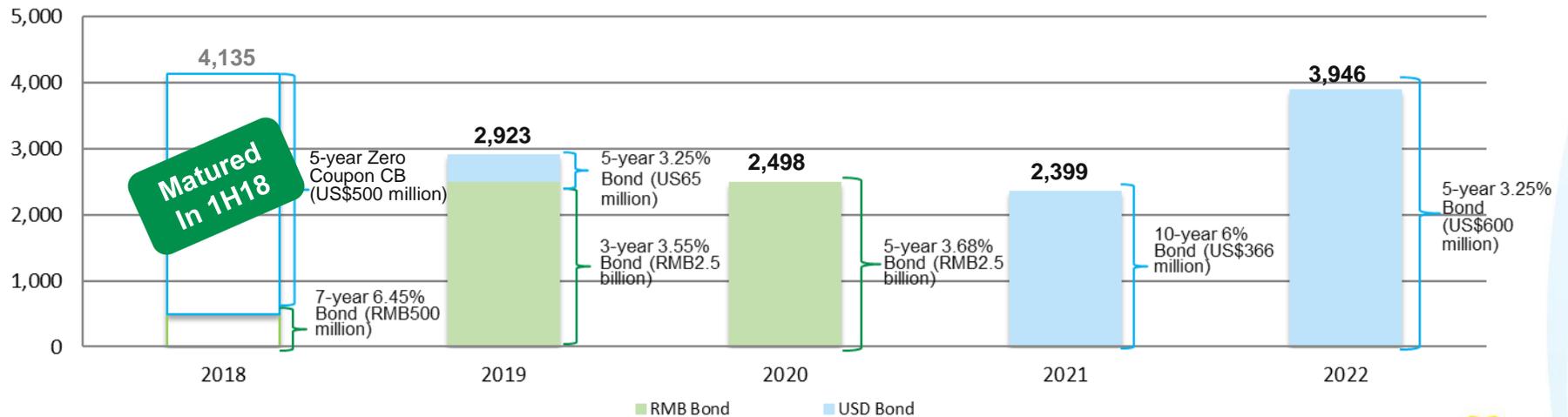
**Fixed Rate Dominated Debt Structure
(as of June 2018)**



**Balanced Debt Profile
(as of June 2018)**

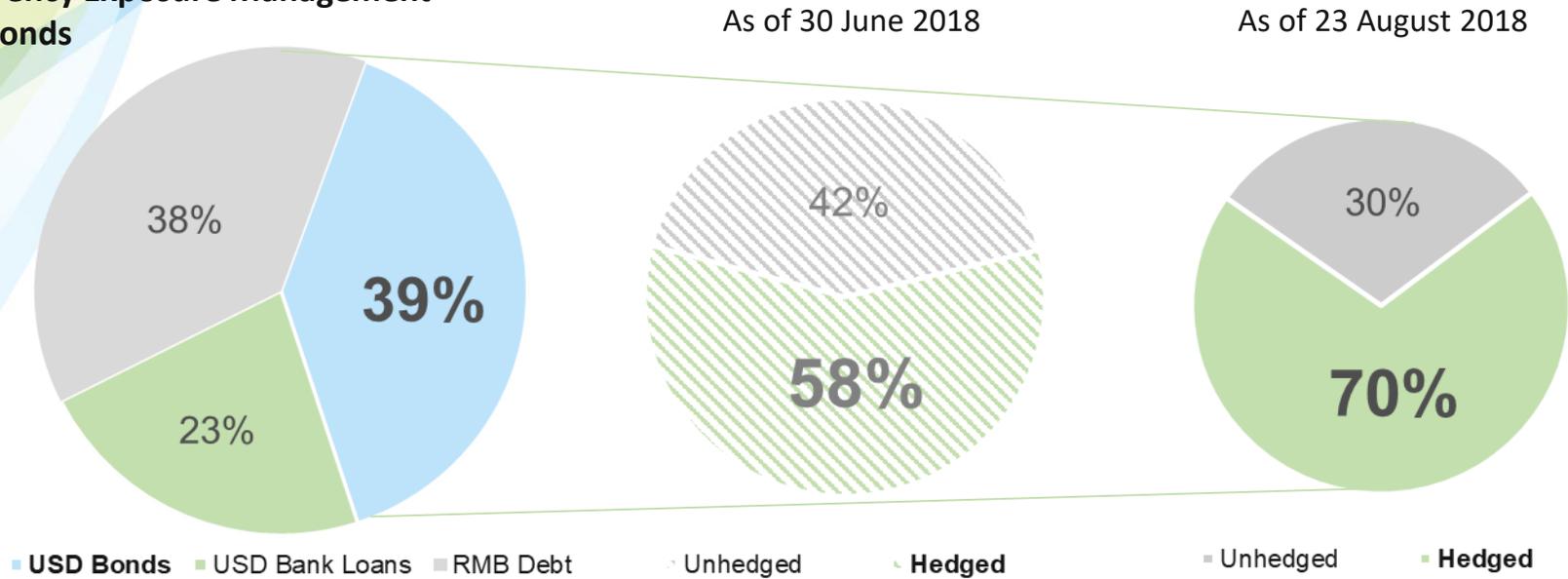


Diversified Bond Maturity (RMB million)



Limited Currency Risk

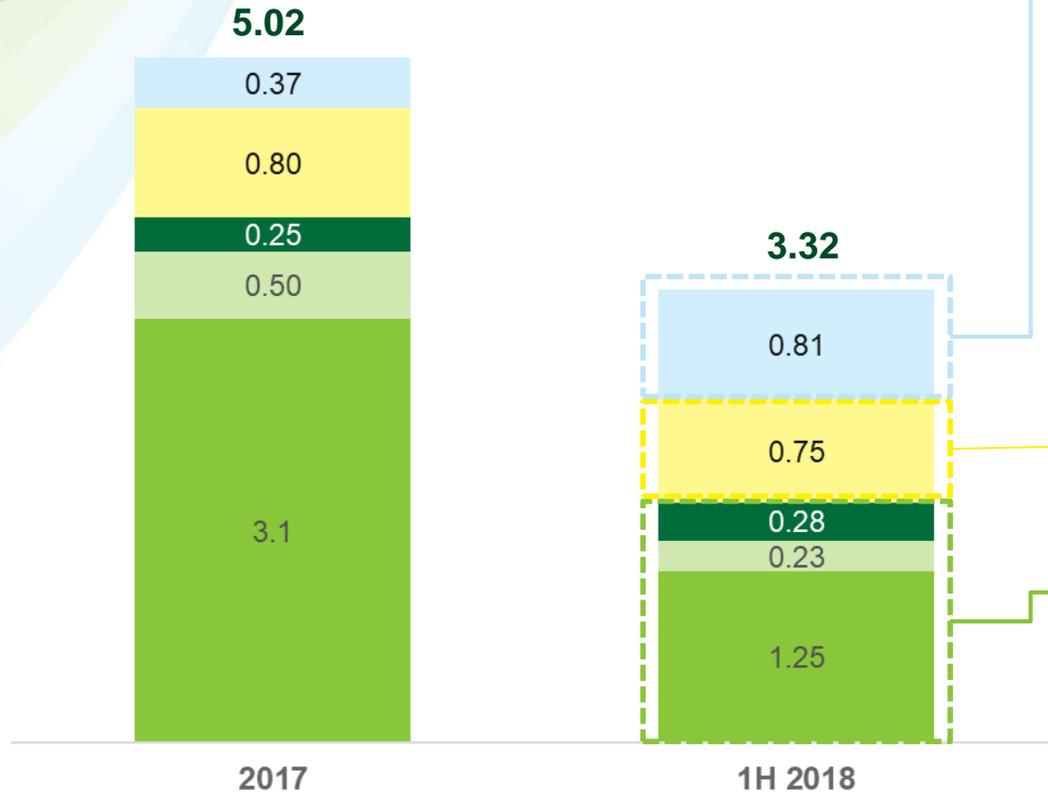
Foreign Currency Exposure Management – for USD Bonds



2H 2018 Sensitivity Analysis	RMB depreciate	Cash Impact	Non-cash Impact
	↓ 1%	↓ RMB1.3-1.4 million	↓ RMB60-70 million
FX Risk Management	<ul style="list-style-type: none"> ➢ USD bank loans can be rolled over, thus cash flow will not be affected by FX movement ➢ Continue to monitor the exchange rate movement and market conditions, further hedge remaining long-term USD bonds when appropriate 		

Growth CAPEX for Strategic Development

RMB bil



- City-gas Projects
- Rural coal-to-gas
- Storage Facilities
- Integrated Energy Projects
- New Projects

- Expand citygas concessions through M&A, targeting gas projects surrounding existing projects and small-medium gas distributors
- Expand operating areas by acquiring development zones and industrial parks at the outskirts of existing projects

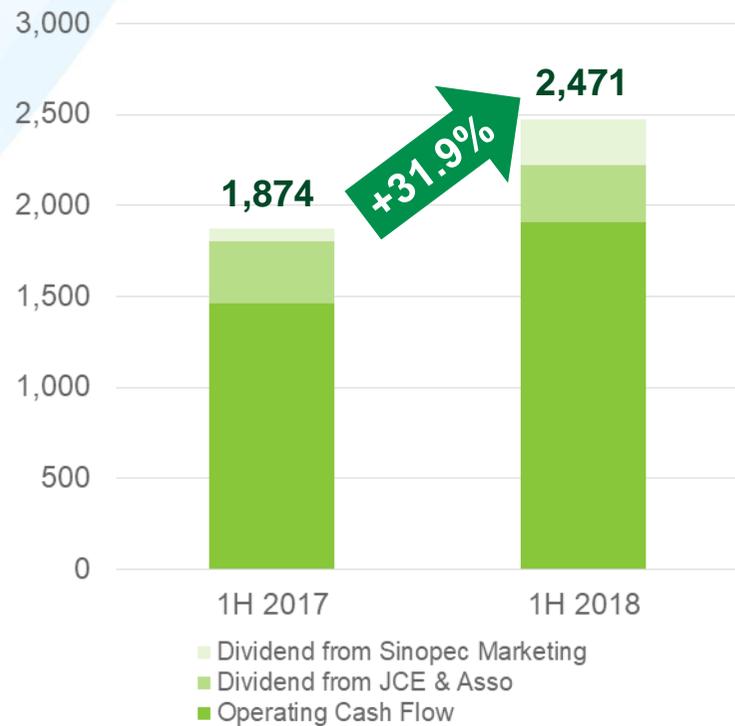
- Leveraging on the opportunities brought by energy structure reform, continue to expand natural gas business while comprehensively develop integrated energy business, so as to satisfy customers' demand for clean, efficient and economical energy consumption
- Seize the development window of integrated energy business by signing quality industrial park projects

- Expand C/I customer base through coal-boilers conversion and small-medium commercial customers development
- Increase penetration rate by developing more residential customers, promote coal-to-gas conversion in rural areas, grasp the winter heating opportunities in the Yangtze River Basin
- Strategically construct storage facilities to ensure stable gas supply in winter

Aim at Increasing Return to Shareholders

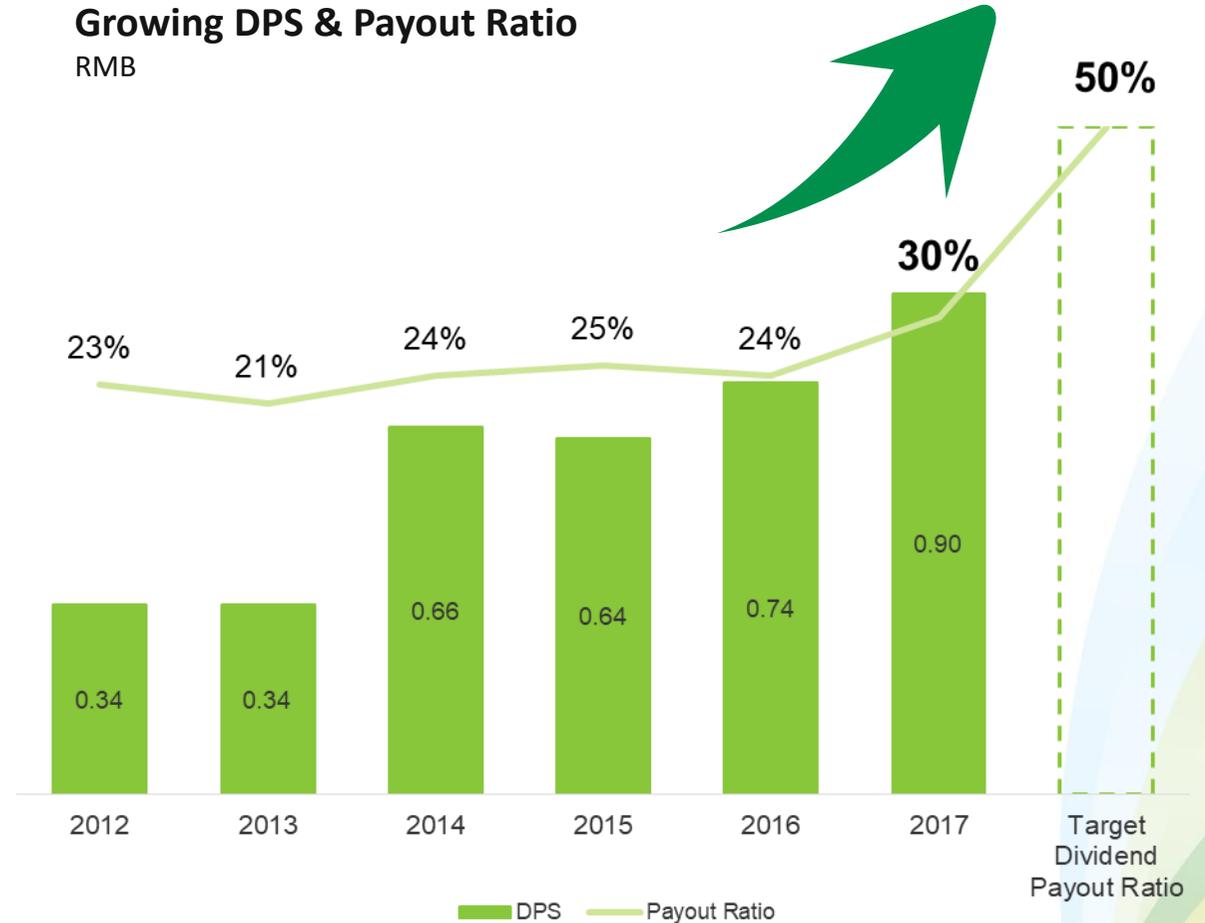
Healthy Cash Flow

RMB million



Growing DPS & Payout Ratio

RMB



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Double Drivers to Maintain Growth Momentum

Opportunities

- Stable economic growth and strong energy demand
- Upgrading economic structure and industrial park planning
- Government's growing effort to promote clean energy and the upgrade of energy mix through coal replacement
- Increasing gas demand brought by urbanization
- Deepening energy system reform

Challenges

- Headwind for the development of CNG refueling business due to competition from EVs
- Increase in gas purchase cost due to tightening supply in winter

Natural Gas Business

- Develop C/I and residential customers
- Expand operational areas through strategic alliance and M&A
- Expand wholesale business, diversified gas sources

Integrated Energy Business

- Nationwide development
- Focused on quality industrial parks projects
- Acquisition of ENN Ubiquitous Energy Network (UEN) to enhance core competency

**Promote
internal
management
reform**

Opportunities

Rapidly growing natural gas demand

- The proportion of natural gas in primary energy consumption will increase to 10% in 2020

Stringent air pollution control measures

- “Three-year Action Plan to Win the Blue Sky Defense War” expanded the coverage of key areas from “2+26” cities to a wider region such as the Yangtze River Delta region and the Fen-Wei Plain

Economic structure transformation

- Relocation and clustering of industrial plants, creates the demands for developing, expanding and upgrading of district energy systems

Upgrade of energy demand and supply

- Government’ s deepened effort to promote distributed energy, multi-energy complementary integration as well as distributed micro-grid, creates a good opportunity for developing integrated energy business

Deepened energy system reform

- The separation and open up of upstream and midstream pipelines brings diversified gas sources
- Power system reform liberalizes electricity supply, distribution and consumption

Development Strategy

Realize a continuous and rapid development of natural gas business while promoting the rapid growth of integrated energy business, so as to maximise the business synergies and laying a solid foundation for future growth

Natural Gas Business Development

City-gas Business

- **Actively develop C/I customers** by eliminating coal-fired boilers, and developing small-medium sized commercial customers driven by favorable policies
- **Develop residential customers** and extend value chains by grasping the opportunities arisen from air pollution control policies, the promotion of rural coal-to-gas conversion and winter gas heating in Yangtze River Delta region
- Grasp the opportunities arisen from oil and gas reform and **explore M&A opportunities** which will bring synergy to the Group's existing projects and strive to expand the operational areas of city gas business

Energy Trading

- Continue to **expand wholesale gas business** leveraging on its distinguish gas sources acquiring and dispatching capabilities
- Capitalize on Zhoushan LNG Terminal, cooperate with provincial pipeline companies to cover surrounding areas
- **Diversify gas sources** procurement through Shanghai and Chongqing Petroleum and Natural Gas Exchange

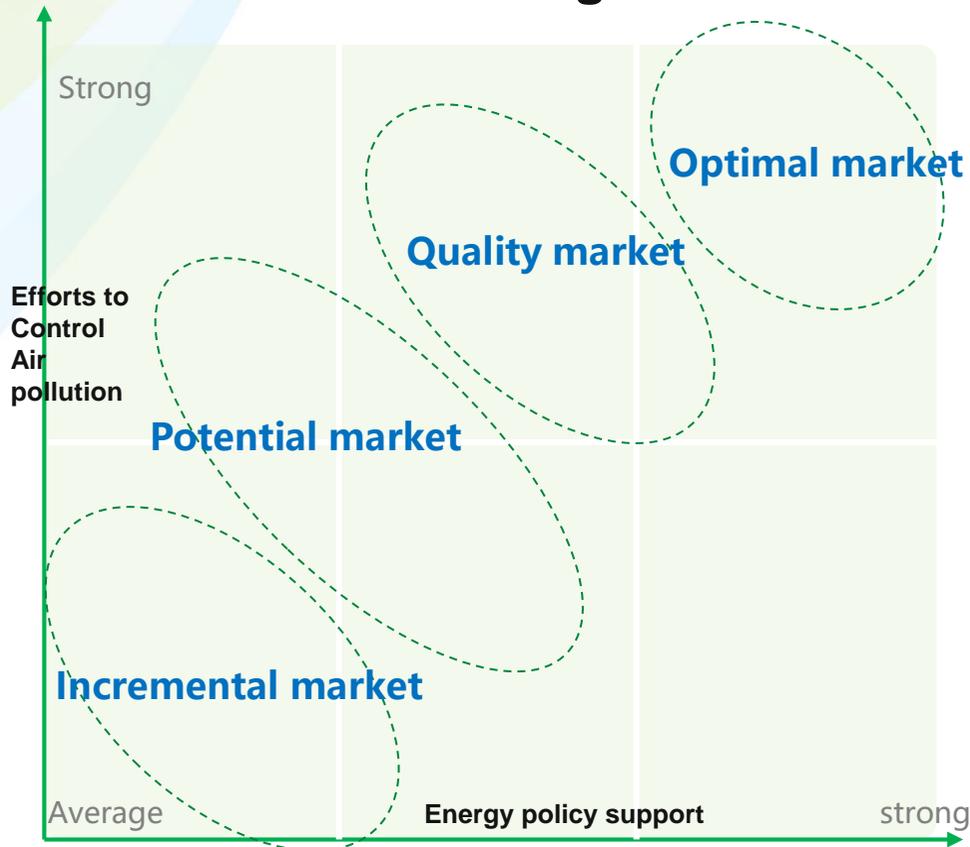
Storage and Distribution Facilities

- Actively expand city-gas networks, participate in natural gas branch lines and gas storage facilities constructions
- Secure window period and storage capacities leveraging on the opening up of LNG terminals

Integrated Energy Business

Develop integrated energy business leveraging on the opportunities arisen from the energy system reform and focus on selective markets

Market Segment



Strategy



Industrial Parks: Focus on quality existing industrial parks, tap into new parks



Urban Areas : Continuously develop existing and new urban complex and new towns



Industrial Zones: Focus on industrial zones with higher and complementary energy demand amongst users, such as chemicals, food, pharmaceutical production plants



Public Infrastructure: Focus on data center, hospital, etc

Adjustable
to Local
Conditions

Technology
Driven

Diversified
Capital
Source

Strategic
Alliance

Technological Advantages Create Differentiation and Competitiveness (1/2)



- In the context of energy reform, companies with technological advantages will be able to take initiatives and win more opportunities
- Major technological features and competitiveness: Integrated energy solutions which are demand side-driven, tailor-made for customers which is most cost-efficient

On the demand side, analyze and explore customers' energy demand by fully considering technology availability as well as energy supply and price

On the supply side, select the most suitable energy supply technology according to local conditions and most competitive resources available

Investment by phases, depending on the development need of the customers



Load forecasting



Quantitative Screening



Integration of
Energy Facilities and
Network

Lower upfront investment, enhance operating efficiency and effectiveness, reduce ongoing opex – create an all-win situation

Technological Advantages Create Differentiation and Competitiveness (2/2)

Realizes business model from single station to a network, represents the development direction of energy sharing economy, releases the energy sources/ times/locations/ facilities multi-dimensional value sharing

> 10%

Reduce Energy Bill

> 30%

Save Investment in Facilities

> 50%

Increase Facilities Utilization rate

> 80%

Overall Energy Utilization Rate

A Chemical Industrial Park in Jiangsu

- With up to 10 chemical companies
- Idling period up to 1.5 months
- 35T (4+1) + 55T (2) + 75T boilers
- Concentrated energy load

Reduced upfront investment by 60% with integrated energy technology and solution

Zhejiang Yuhang Economic and Technological Development Zone (outside ENN concession)

- Existing industrial park with stable energy demand
- Diversified industries and energy demand
- Shut down of coal-fired cogen plant will increase energy cost without integrated energy solutions

Customized integrated energy solutions integrated with gas, electricity, cooling, heating and steam, to satisfy the diverse energy needs of customers, improve their energy efficiency and reduce energy cost

Create Synergy through Deepening Integration

$$1+1>2$$

ENN Energy

Customer base

Market development
capability

Branding

Operation experience

- Select quality projects
- Create business opportunities through technology marketing
- Accomplish large-scale and complicated projects with high quality
- Continue to optimize the operation and return

UEN

Core technology

Planning and designing
capability

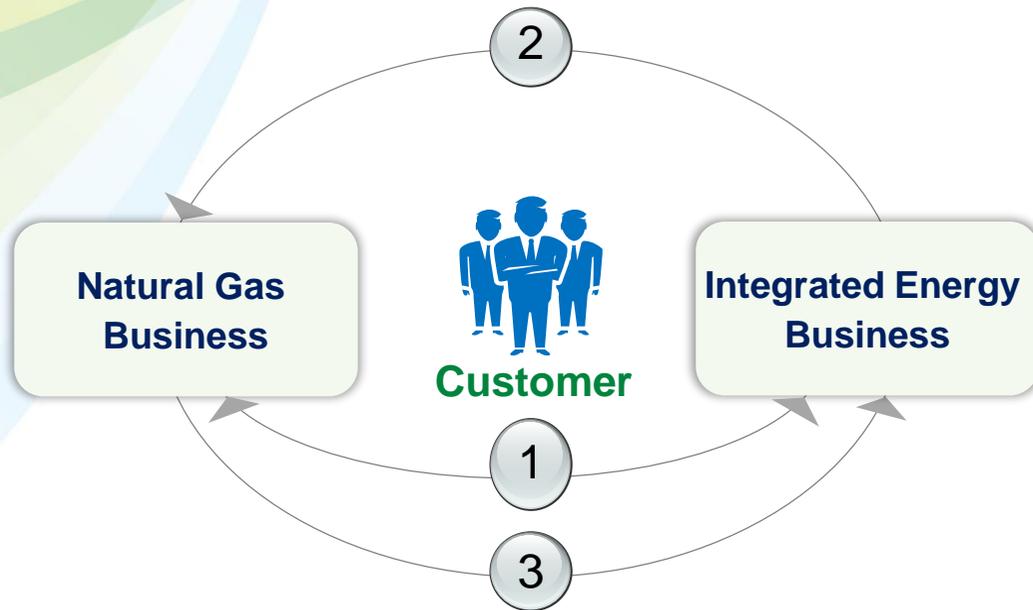
Capability in delivering
complex projects

Operation & maintenance technology

Market Integration, Self-driven, Corporate Culture Integration

Leveraging on its core technologies and innovation, the Group is committed to transform itself into an integrated energy service provider with high technological barriers and competitiveness

Outlook



Synergize & Magnify Benefits

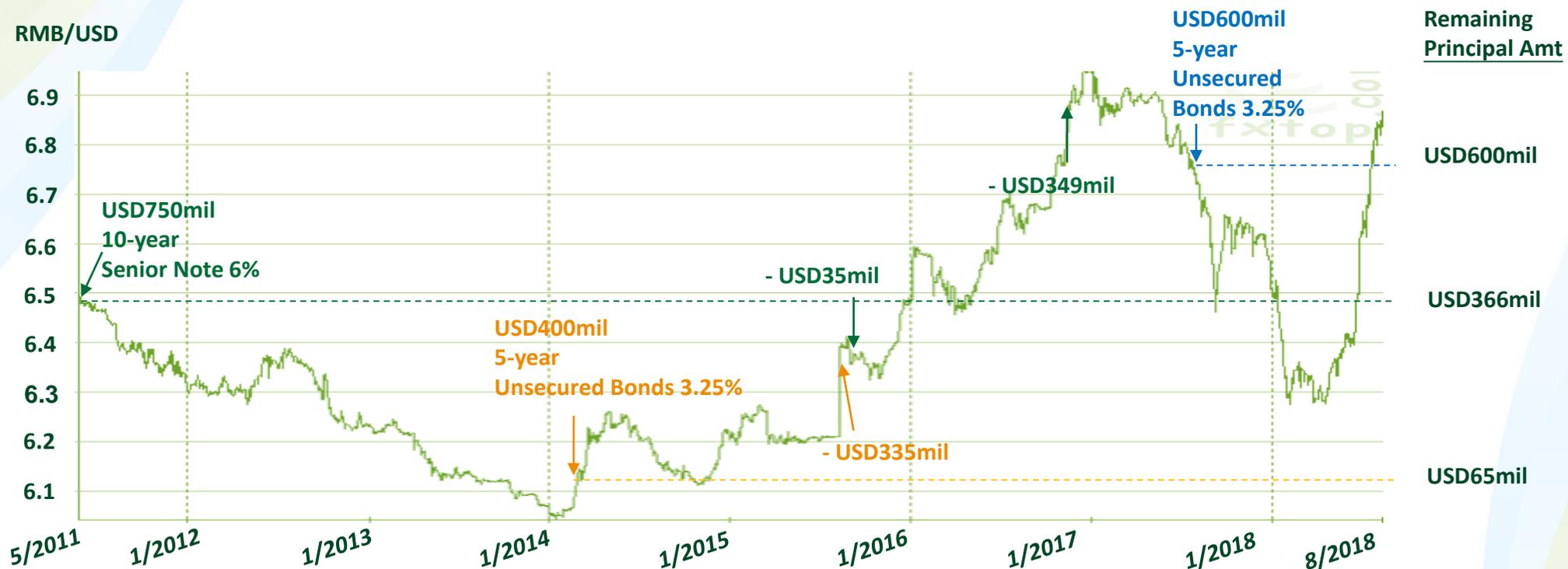
- ① Capitalize on available customer base to develop natural gas and integrated energy businesses
- ② Increase gas sales volume & customer loyalty, and break through the barriers of gas concession and regulation on return
- ③ Create diversified sources of revenue by developing integrated energy business

The Group aims at becoming a global leading and the largest integrated energy service provider in China, leveraging on the synergies brought by its natural gas business and integrated energy business

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Exchange Rate Movement



ENN - One of the First Privately Owned Clean Energy Distributors in China

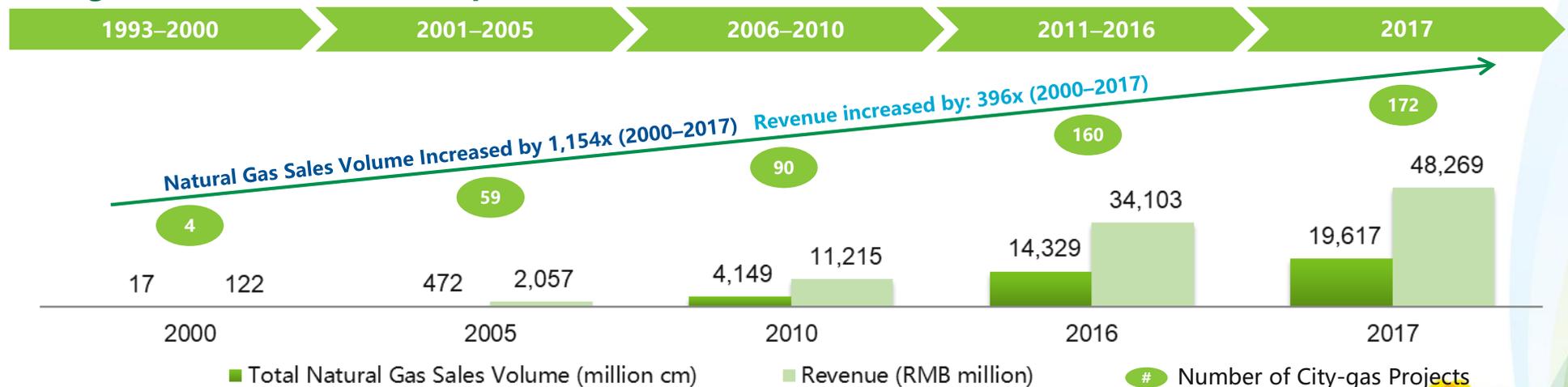
Company Overview

- Established in 1993, ENN is one of the leading privately owned clean energy distributors in the PRC
- ENN's principal business includes sale and distribution of piped gas, investment in, and the operation and management of gas pipeline infrastructure, vehicle/ship gas refuelling stations, Pan-energy stations, sales and wholesale of piped gas, as well as sales of LNG and multiple energy forms. It also develops integrated energy business and wholesale of gas business as, while providing other energy-related services
- ENN was listed on the GEM in 2001 and transferred to the Main Board of HKEX (stock code: 2688) in 2002

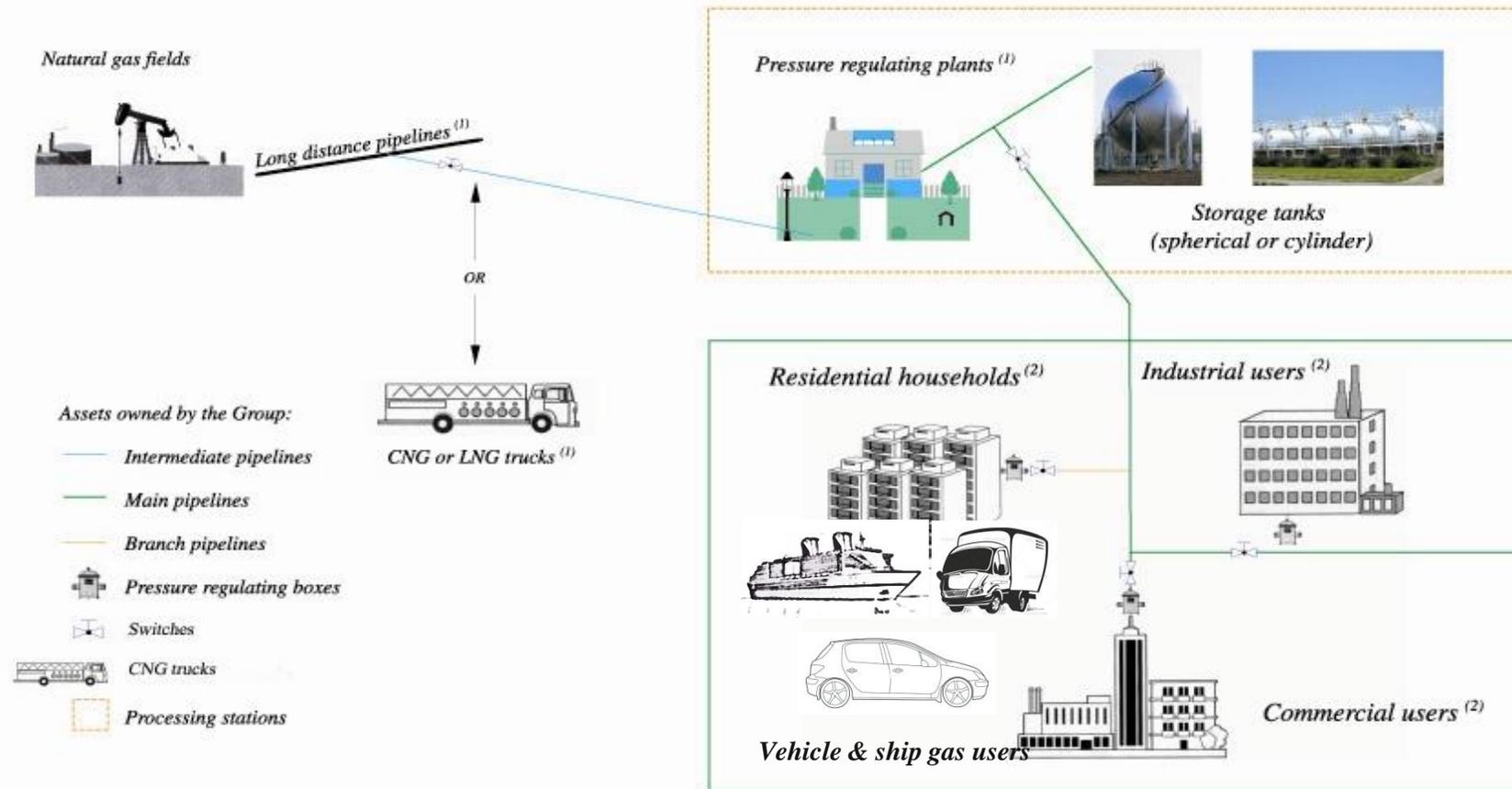
Key Business Segments

Sales of Piped Gas	Gas Connection	Energy Trading	Integrated Energy Business	Vehicle Gas Refuelling Stations
				
<ul style="list-style-type: none"> Sell piped gas to residential households and commercial/industrial (C/I) customers 	<ul style="list-style-type: none"> Collect gas connection fees via connecting gas pipelines to residential households and C/I customers 	<ul style="list-style-type: none"> Conduct natural gas wholesale business to fully utilize its advanced dispatch system, logistics fleet and upstream resources 	<ul style="list-style-type: none"> Customise integrated energy solutions for users to enhance energy efficiency and lower energy costs 	<ul style="list-style-type: none"> Construct and operate vehicle gas refuelling stations (LNG / CNG) and sell natural gas to vehicle users

Strong and Sustainable Development



Gas Delivery Process



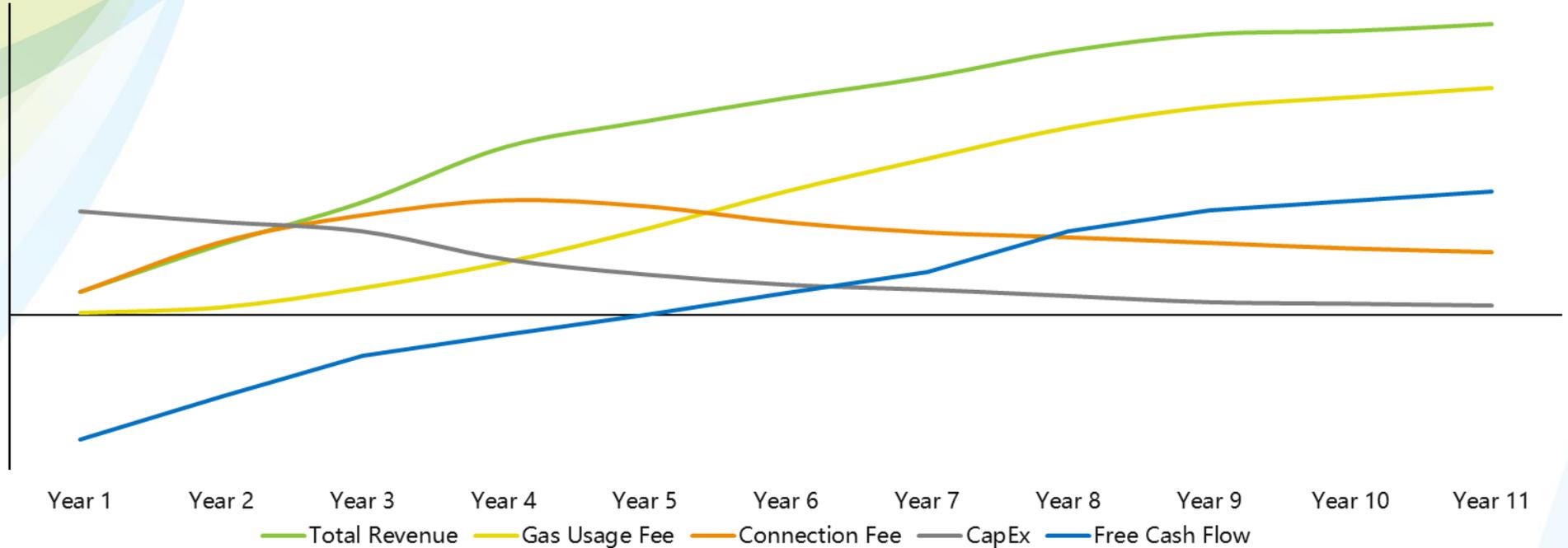
Notes:

(1) Gas delivery using either intermediate pipelines or CNG or LNG trucks.

(2) Customers' pipelines and metres which are not owned by the Group are within the customers' premises and are not highlighted in this diagram.

Simplified Model for a Typical City-gas Project

Revenue/Cost



- Connection fee dominates in early years when the project companies are signing up new customers
- Gas usage increases as projects mature, becoming the major source of recurring income
- Prior to the completion of the whole pipeline network in cities, revenue will be generated as soon as gas supply becomes available in certain districts. Each connection contract normally takes 6–12 months to complete
- In general, gas projects would generate positive free cash flow after 5 years of operation

Latest Benchmark City-gate Price

Province	From 1 September 2017	From 25 May 2018	Province	From 1 September 2017	From 25 May 2018
Unit: RMB/m ³ (Incl. VAT)			Henan	1.91	1.89
Beijing	1.90	1.88	Hubei	1.86	1.84
Tianjin	1.90	1.88	Hunan	1.86	1.84
Hebei	1.88	1.86	Guangdong	2.08	2.06
Shanxi	1.81	1.79	Guangxi	1.91	1.89
Inner Mongolia	1.24	1.23	Hainan	1.54	1.53
Liaoning	1.88	1.86	Chongqing	1.54	1.53
Jilin	1.66	1.65	Sichuan	1.55	1.54
Heilongjiang	1.66	1.65	Guizhou	1.61	1.60
Shanghai	2.08	2.06	Yunnan	1.61	1.60
Jiangsu	2.06	2.04	Shaanxi	1.24	1.23
Zhejiang	2.07	2.05(+0.12*)	Gansu	1.33	1.32
Anhui	1.99	1.97	Ningxia	1.41	1.40
Jiangxi	1.86	1.84	Qinghai	1.17	1.16
Shandong	1.88	1.86	Xinjiang	1.05	1.04

Source: NDRC

* Provincial Pipeline Tariff

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