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EVN

Time to work intelligently and to stop losing money abroad

April 2023

Outline

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IV. Capital structure – wrong target and WTE problems

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I Executive summary

Executive summary

- Since our public campaign, the EVN share price (+10%) has substantially outperformed the market (ATX -1%), yet management has done little to address the value creation potential of EVN
- **Communication** – investors still left in the dark
  - **Non-recurring items**: EVN still leaves it to investors to clean up EVN's mess of non-recurring items
  - **Outdated full-year 2023 guidance after Q1**: Q1 results point to 2023 net income of EUR 400-500 million – management is sticking to EUR 190-250 million – problems ahead or management not in control of the business?
- **WTE** – loss-making and high-risk project engineering business that should be sold or closed
  - WTE has historically lost significant amounts of money
  - The recent push into the Middle East has added enormous financial risk with liabilities (now > EUR 900 million(1)) and guarantees (now ca. EUR 700 million) exploding
  - Mixing project engineering and EVN's stable and highly profitable water business in one segment creates confusion and risk
  - We continue to demand that WTE be sold or closed down as soon as possible
- **Capital structure** – under-levered balance sheet and need to ring-fence WTE
  - Management's absolute target of EUR 1 billion net debt does not make sense
  - The WTE business represents significant balance sheet and rating risks
  - The remaining core business is dramatically under-levered – EVN could add some EUR 1-1.5 billion to support its core operations
- **Capital allocation** – investors deserve pass-through of the Verbund dividend
  - Management is treating EVN's Verbund stake as an independent entity
  - The strong balance sheet of EVN makes a direct pass-through of the implied EUR 0.89 / EVN share dividend a logical step

Notes: (1) Refers to Environment segment liabilities.

Source: Company filings, Factset as per 29-Mar-2023, Petrus Advisers analysis

II Poor communication with markets

Following a strong Q1, management's guidance is outdated

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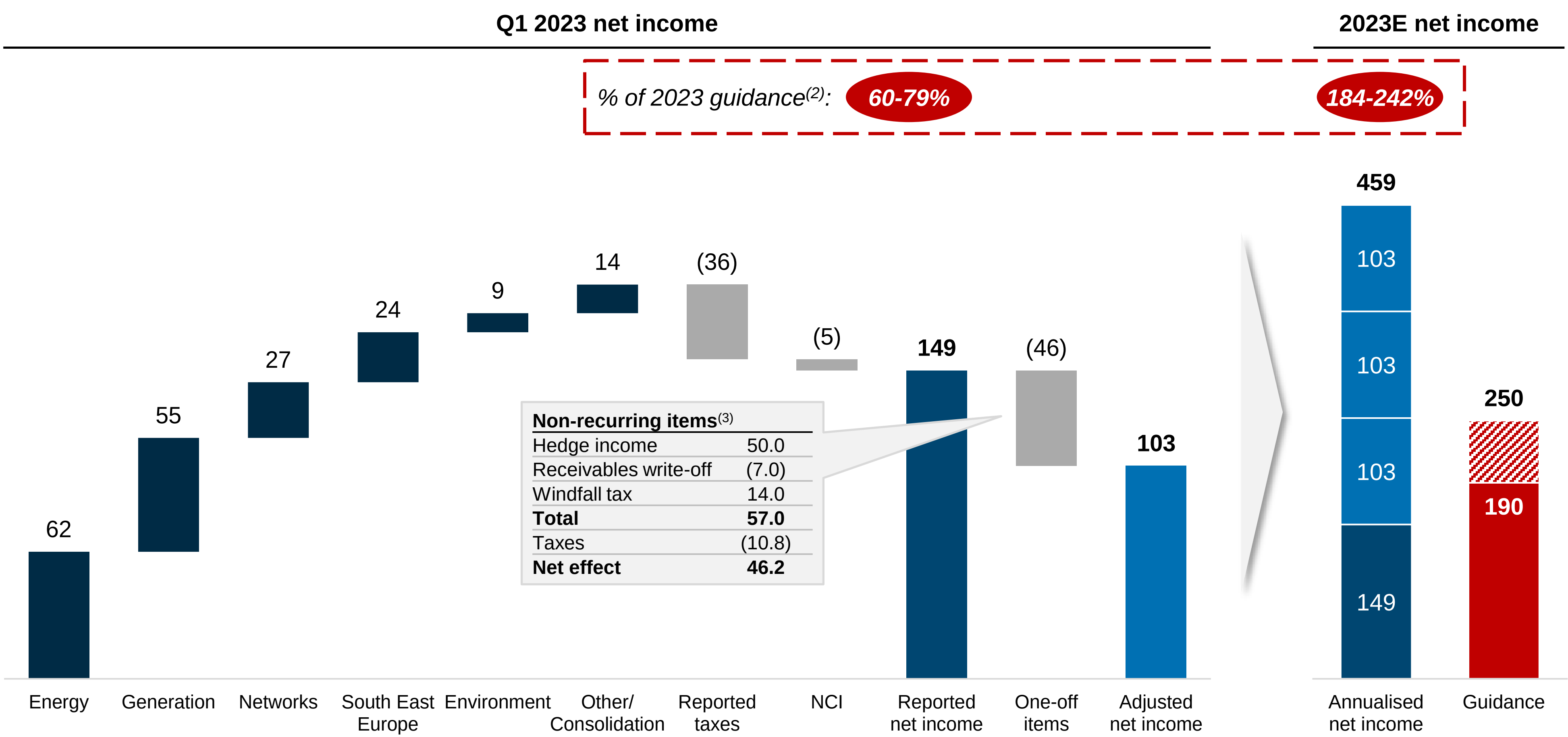
EVN on course to dramatically outperform its low-balling guidance (first quarter already at ~60-80% of full year net income guidance)

EVN 2023 net income bridge (EURm)(1)



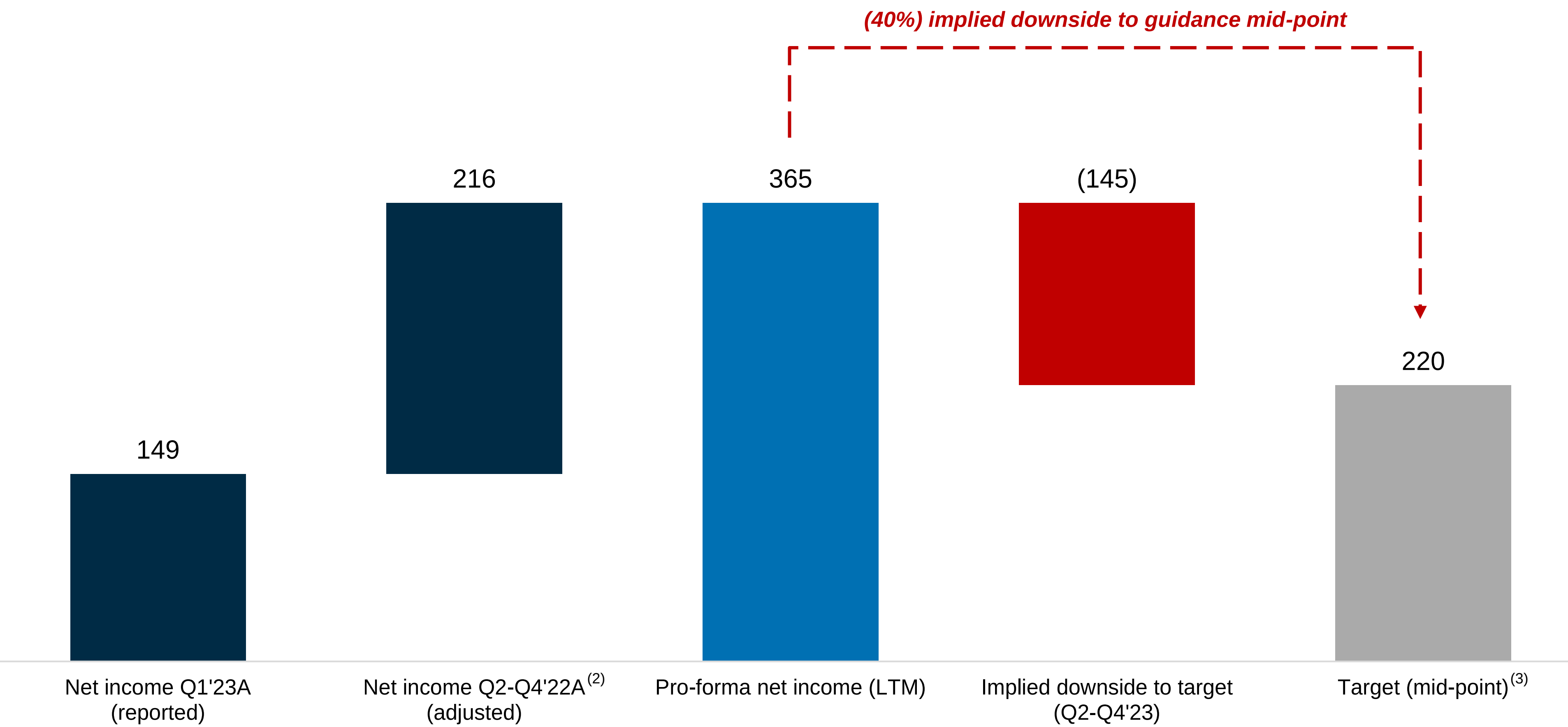
Non-recurring items(3)	
Hedge income	50.0
Receivables write-off	(7.0)
Windfall tax	14.0
Total	**57.0**
Taxes	(10.8)
Net effect	**46.2**

Notes: (1) Refers to net income to EVN shareholders; (2) Based on EUR 190-250m net income guidance range (excl. Verbund stake); (3) Non-recurring effects: EUR 50m income from hedges (as per Q1'23 conference call), EUR 7m write-offs in North Macedonia (as per IR information) and applying the windfall tax to the full quarter (EUR 7m were booked for December only). Reported Q1'23 tax rate applied.

Source: Company filings, earnings call transcript, Petrus Advisers analysis

Based on LTM net income, the guidance points to 40% downside in Q2-Q4 2023 – is the management hiding bad news from investors?

EVN LTM net income bridge (EURm)[(1)]



Notes: (1) Refers to net income to EVN shareholders; (2) Adjusted for EUR 53m goodwill write-off in international project business, EUR 4.4m write-off of sludge-fired heat and power plants in Moscow, EUR 33m impairment of natural gas network operated by Netz Niederösterreich, EUR 17m write-off related to Bulgarian district heating company TEZ Plovdiv and others. Adjusted based on FY'22 tax rate; (3) Based on EUR 190-250m guidance range.

Source: Company filings, Petrus Advisers analysis

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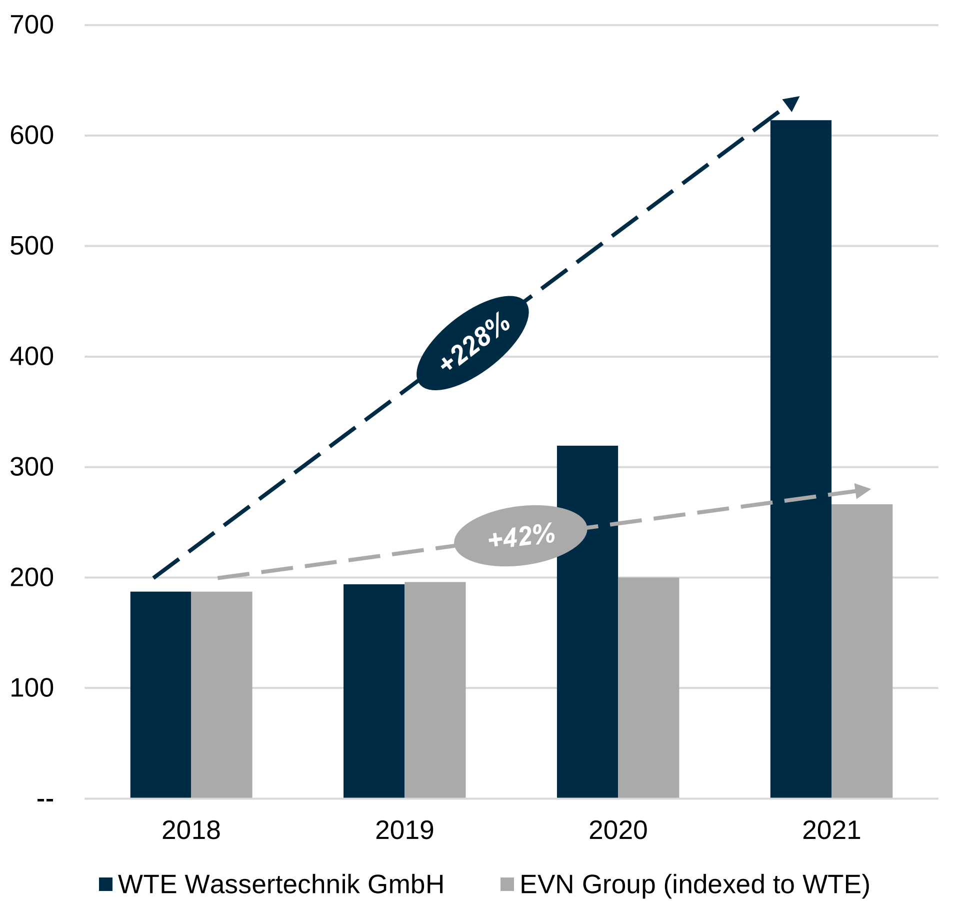
III

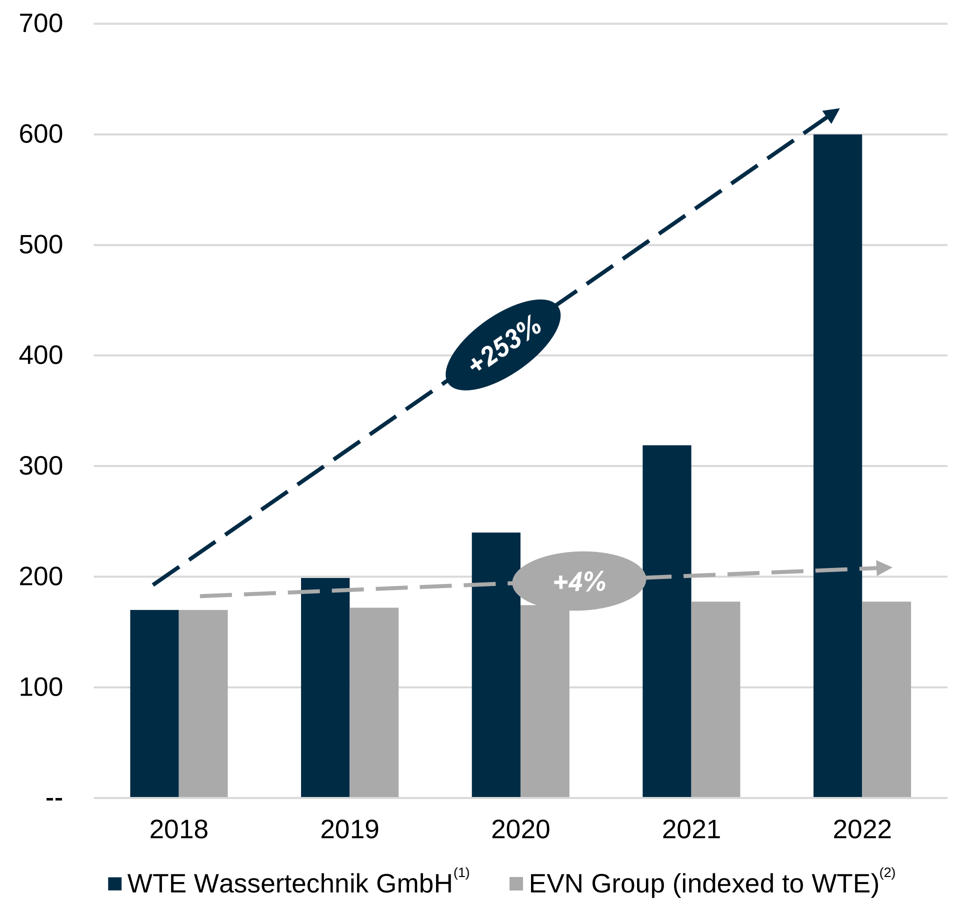
WTE – aggressive risk-taking with little chances to earn money

EVN has recently spent a lot of focus on growing WTE Wassertechnik through expansion in the Middle East…

WTE Wassertechnik balance sheet size (EURm)



Number of employees



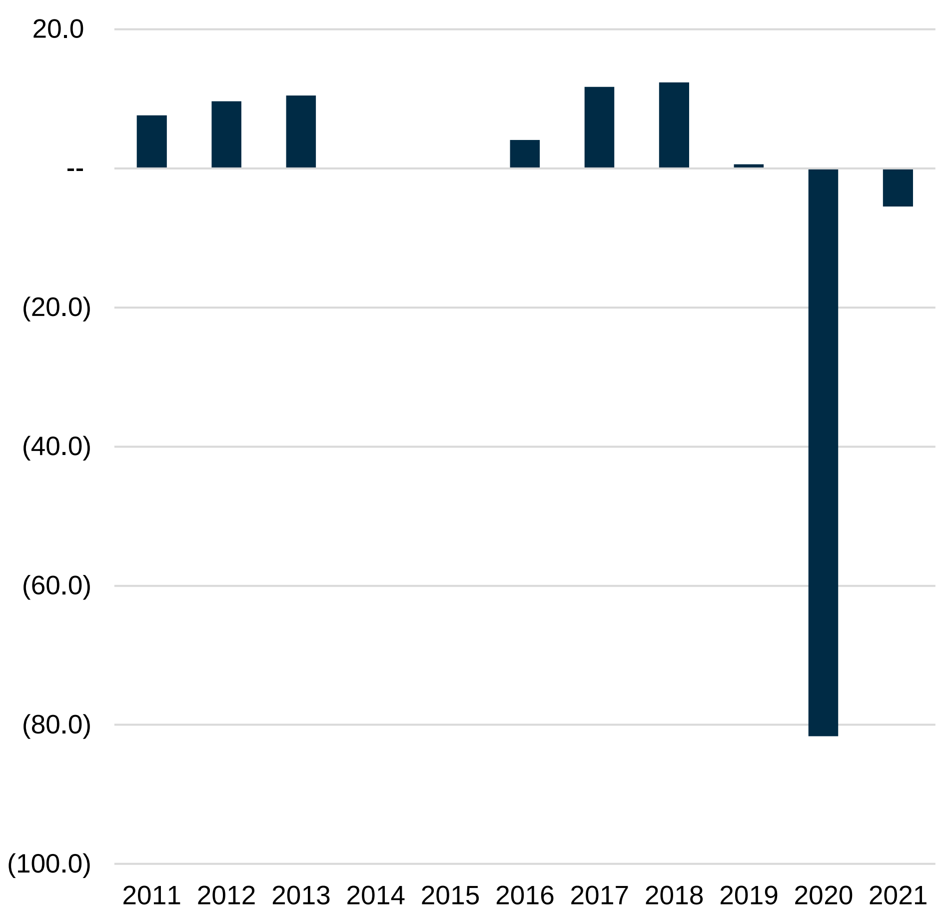
Notes: (1) Refers to average number of employees for the year. 2022 refers to latest figure per WTE website; (2) Refers to number of employees on a full-time equivalent basis.

Source: Company filings, Bundesanzeiger, Petrus Advisers analysis

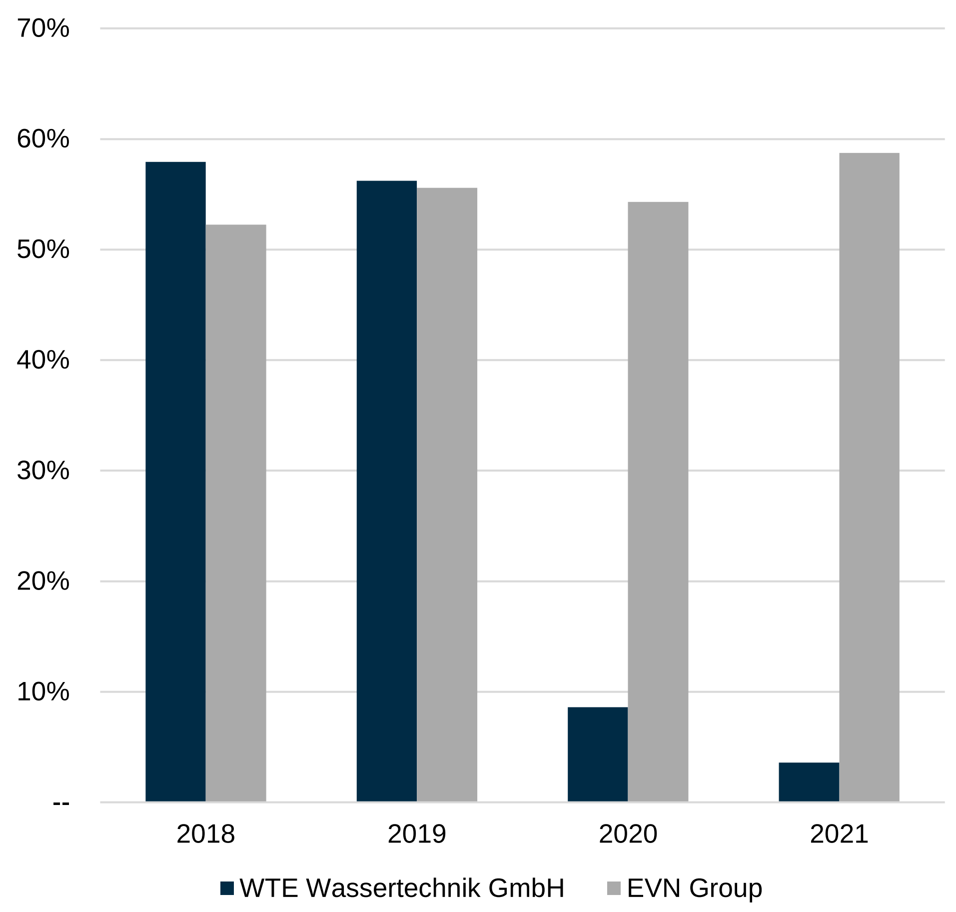
…despite the subsidiary destroying capital for the last decade and putting stress on EVN's balance sheet

Per WTE Wassertechnik's 2021 annual filing, borrowings from EVN Group more than doubled year-on-year to EUR 115m; equity has been wiped out by losses from Middle East projects

WTE Wassertechnik net income (EURm)



Equity ratio (equity/total assets)



Source: Company filings, Bundesanzeiger, Petrus Advisers analysis

The focus in the Environment segment should clearly be on EVN Wasser that has demonstrated sustainable and consistent growth

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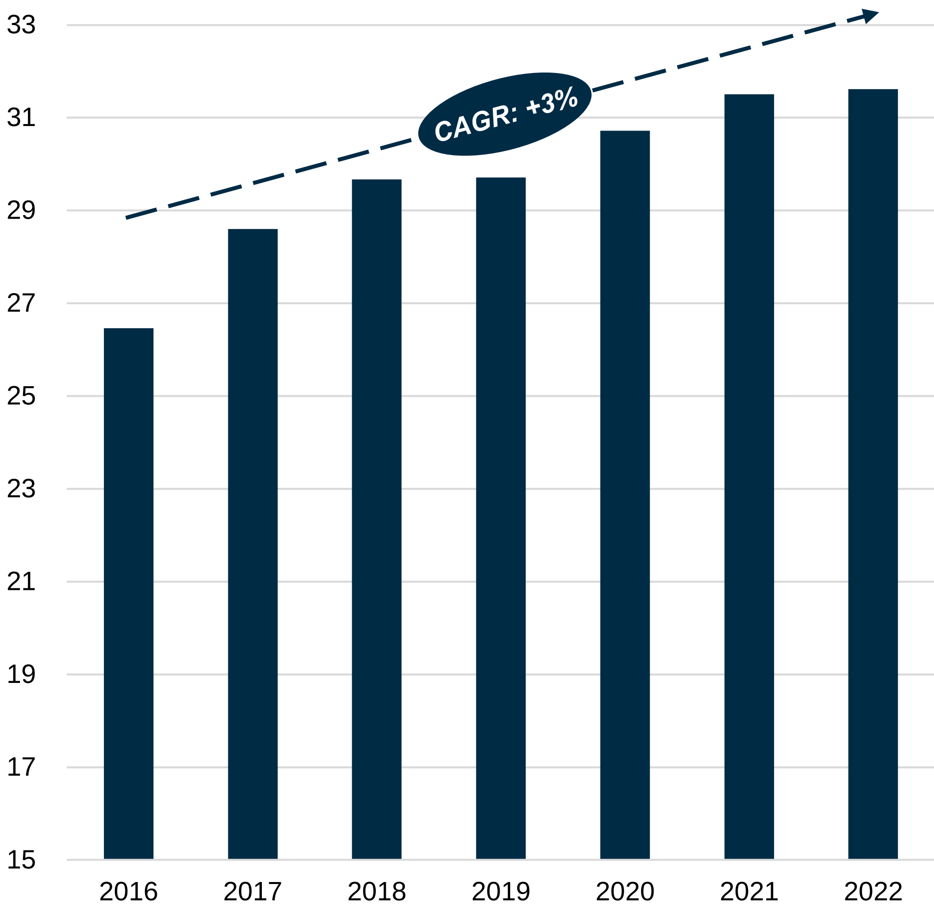
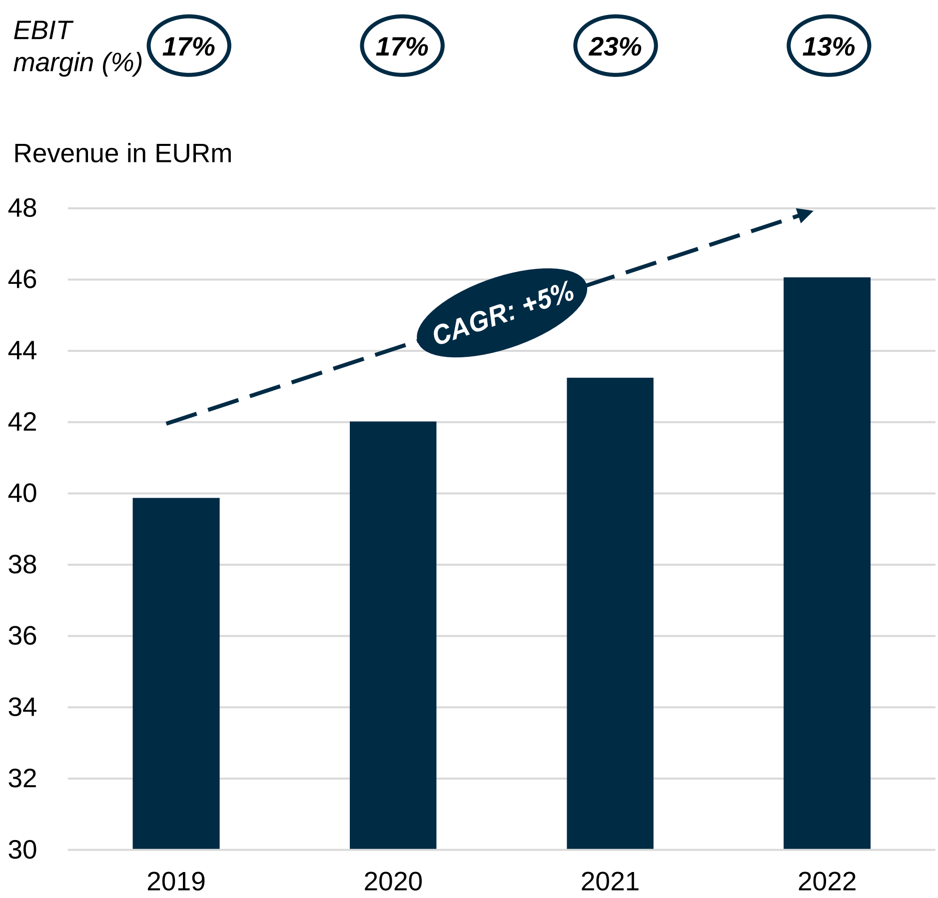
EVN hides its high-quality water supply business "EVN Wasser GmbH" from the public and shines the spotlight on its high-risk project engineering business instead – this needs to change

EVN Wasser: water turnover (in mio m³)



EVN Wasser: revenue (in EURm) and EBIT margin



Source: Company filings of EVN Wasser GmbH

IV Capital structure – wrong target and WTE problems

EVN is significantly under-levered and lacks reporting of adjusted earnings – in contrast to industry norms

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EVN has ca. EUR 1-1.5bn net debt headroom based on industry standard leverage of 3x EBITDA – Verbund dividend should be passed through to EVN shareholders

Leverage targets(1) and reporting vs. peers(2)

Notes: (1) For all companies the multiple refers to a cap level of the leverage figure; (2) Refers only to peers that disclosed a Net debt / EBITDA target in their latest publications; (3) Implied target based on absolute net debt target (EUR 1bn) and LTM EBITDA; (4) Last reported net debt figure (Q1'23A) and LTM EBITDA; (5) Refers to current target. 2025 target is <3.5x EBITDA; (6) Economic net debt target of <4.5x; (7) Refers to economic net debt as no financial net debt target.

Source: Companies filings, Petrus Advisers analysis

Liabilities in Environment segment have exploded since start of Kuwait project

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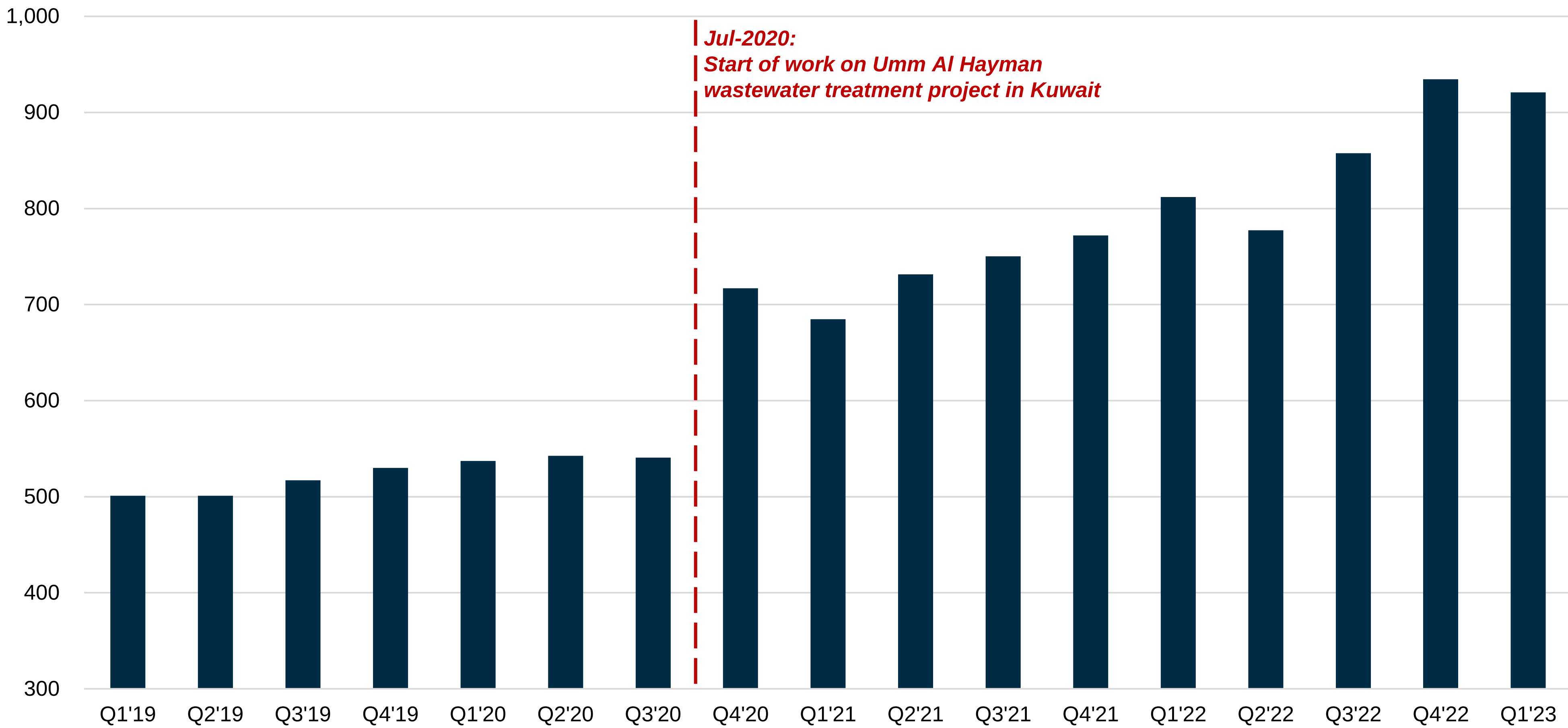
EVN's project-related liabilities should be ring-fenced from EVN's "core" activities

Liabilities Environment segment (EURm)



Source: Company filings, Petrus Advisers analysis

EVN guarantees for high-risk WTE projects have increased by 9x since start of Kuwait project

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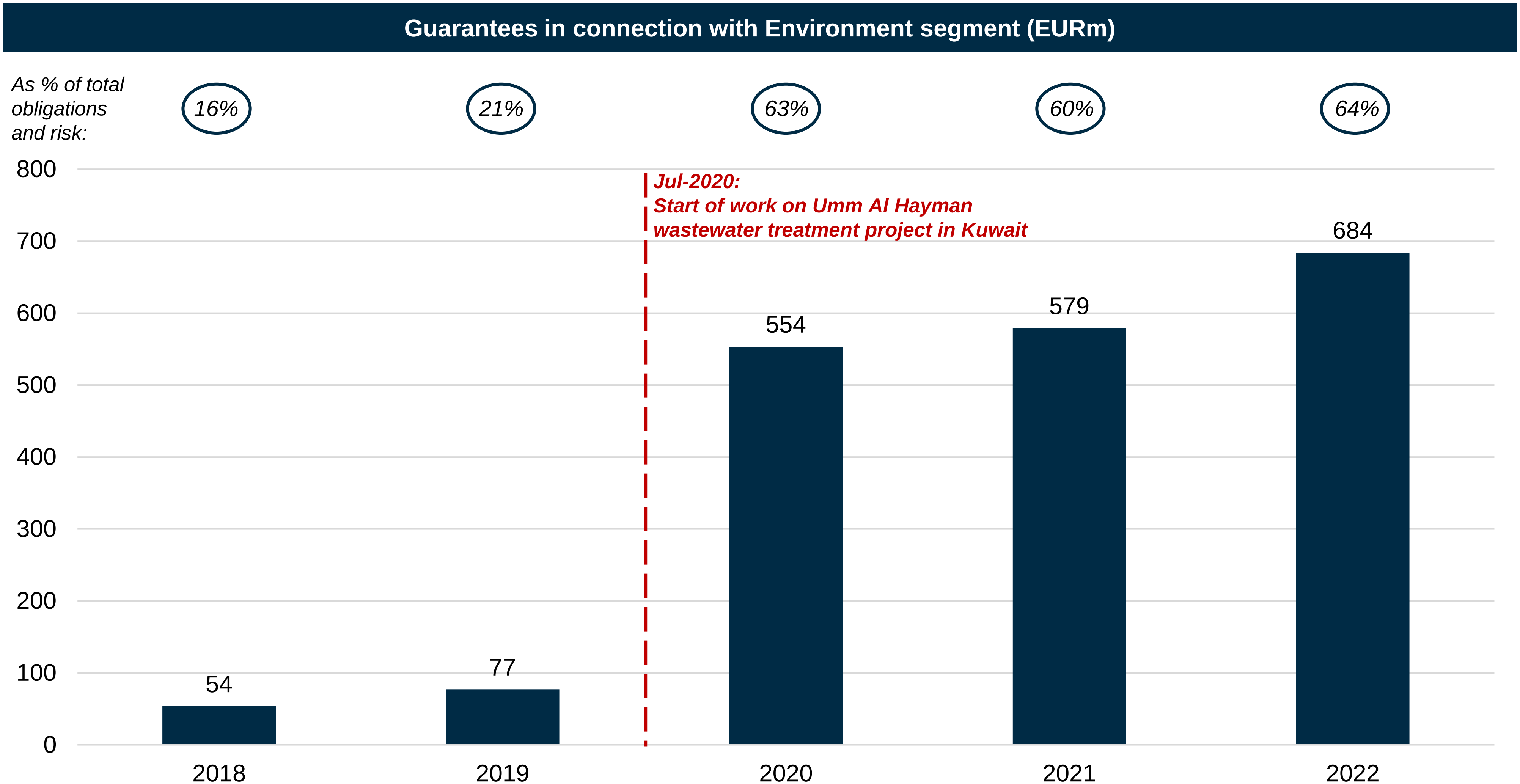

Source: Company filings, Petrus Advisers analysis

Credit rating agencies are flagging project engineering business as “high business risk”

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Moody’s (14-Dec-2021)	**Scope Ratings** (2-Nov-2021)
“EVN's BCA is constrained by the significant portion of the group earnings coming from **activities which Moody's views as having a high business risk**, in particular, operations in South East Europe (typically accounting for c. 20% of group EBITDA) and **the international projects division**”	“However, EVN’s **business risk profile remains constrained** by i) its exposure to volatile energy trading and supply as well as **project development activities in environmental services**; ii) higher market risks for activities in south-eastern Europe; and iii) the company’s overall profitability profile” “Similarly, EVN’s projects in south-eastern Europe and **outside of Europe**, primarily for environmental services, **pose some incremental risks”** “The lower-margin and **more volatile segments**, such as energy trading and **environmental services**, still **constrain EVN’s business risk profile”**

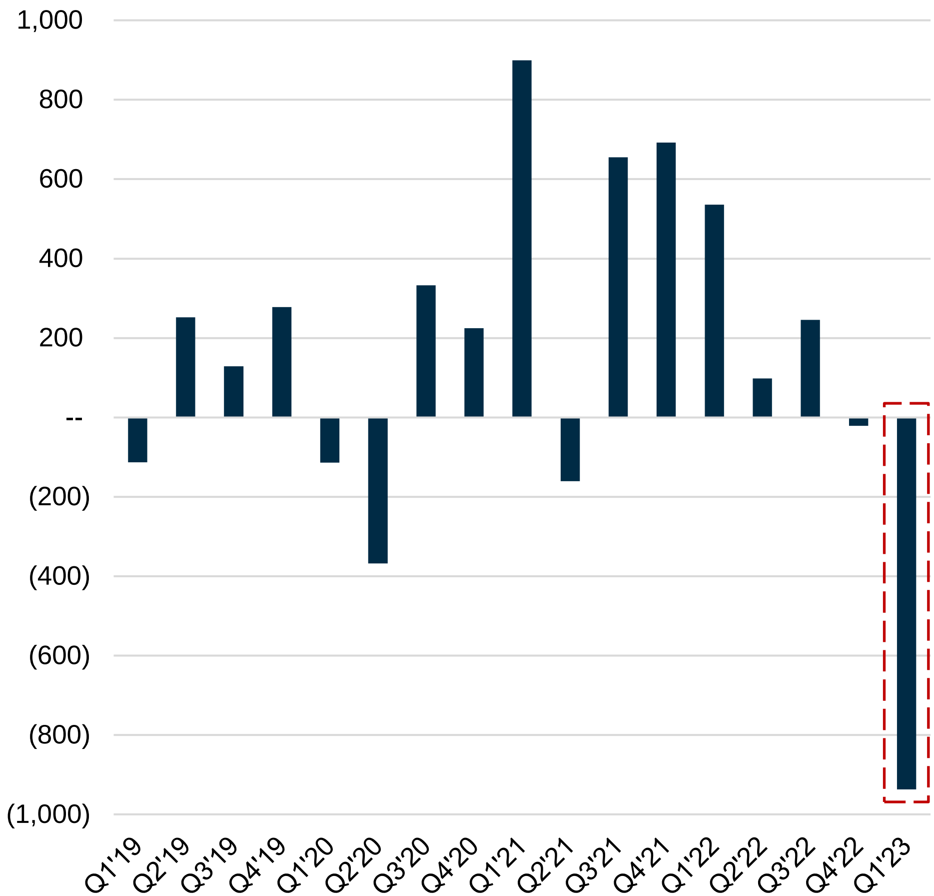
Source: Rating reports

V Appendix

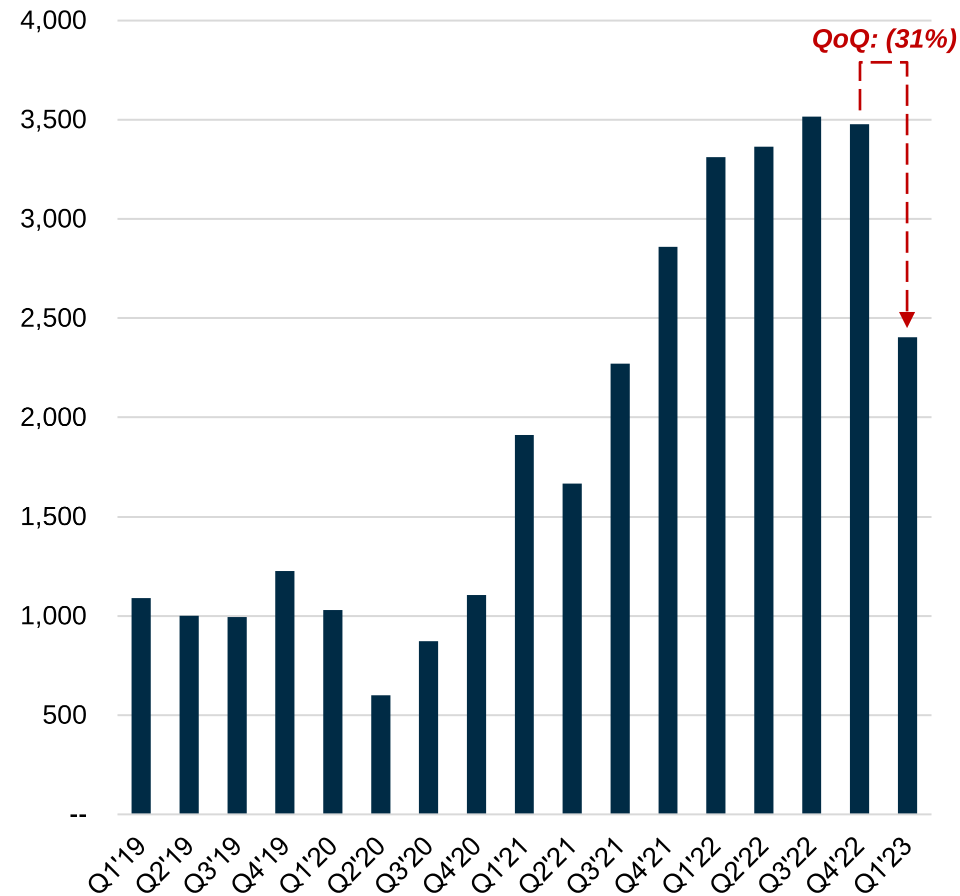
EVN provides no information on amount/price of hedges entered – this leaves investors left guessing about future OCI effects

In Q1'23, EVN reported other comprehensive income of EUR ~930m – the lowest figure in the last five years

Other comprehensive income (EURm)



Valuation reserves[1] (EURm)



Notes: (1) The valuation reserve contains changes in the market value of cash flow hedges and financial assets classified at fair value through other comprehensive income (FVOCI), the IAS 19 remeasurements and the proportional share of changes in the equity of investments in equity accounted investees.

Source: Company filings, Petrus Advisers analysis

Best-in-class disclosure on hedging volumes: Verbund

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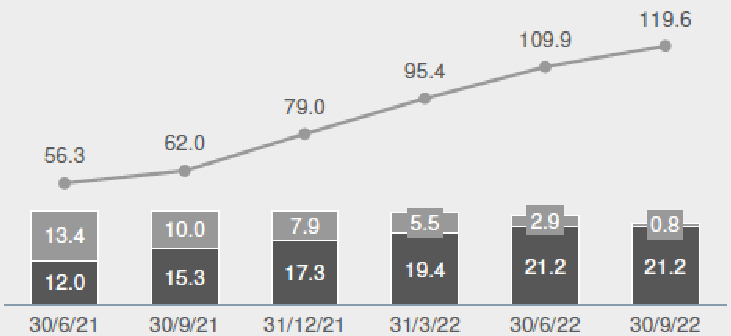
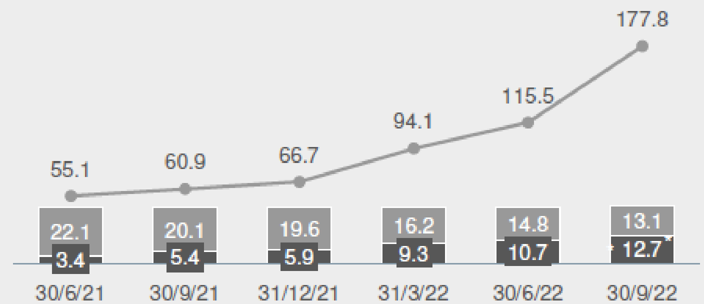
Hedging volumes

Hedging volumes 2022[1]/ TWh



MtM (24/10/22): €127.3

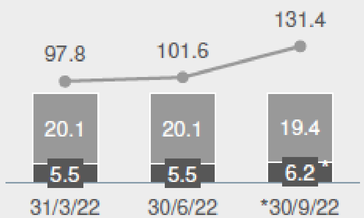
Hedging volumes 2023[1]/ TWh



MtM (24/10/22): €280.5

* Additional hedging measures by options amounting to 1.8 TWh

Hedging volumes 2024[1] / TWh



* Additional hedging measures by options amounting to 1.8 TWh

MtM (24/10/22): €219.9

Historic contract prices

- FY2021: €54.8/MWh
- FY2020: €44.6/MWh
- FY2019: €39.0/MWh

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[1] Hydro production excluding volumes for holders of interests (at cost) and volumes resulting from pumping.

Achieved contract price | Open volumes | Hedged volumes

Source: Company filings

Best-in-class disclosure on hedging volumes: CEZ

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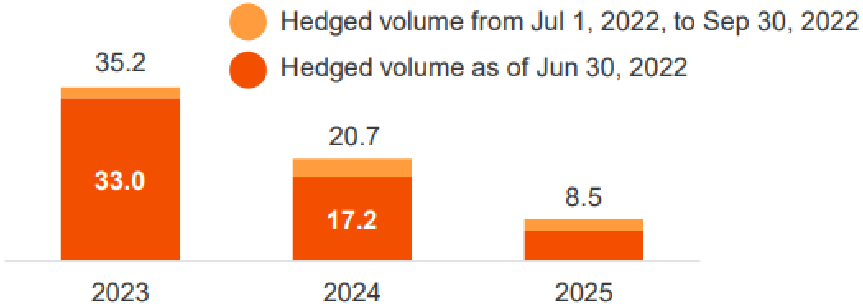
Hedging of market risks of generation in Czechia for 2023–2025

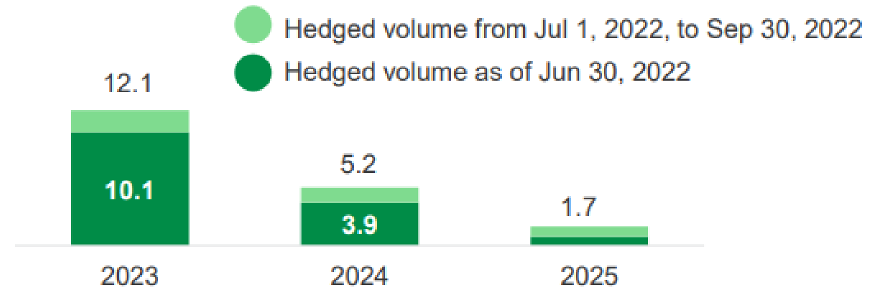
Electricity sold in TWh (as of Sep 30)



EUR 108 | EUR 120 | EUR 126

Electricity selling price (EUR/MWh)

Contracted emission allowances* in m tons (as of Sep 30)



EUR 58 | EUR 68 | EUR 99

EUA purchase price (EUR/t)

	2023	**2024**	**2025**	**100% of expected delivery**
Share of electricity supply hedged from generation in Czechia (as of Sep 30)	73%	44%	18%	47 to 48 TWh external deliveries per year

In August, as part of liquidity risk management, it was decided to discontinue hedging market risks of generation through contracts on energy exchanges and to take measures to reduce CEZ's trading exposure on energy exchanges.

www.cez.cz/en * 100% of the expected annual volume of emission allowances for generation in Czechia for 2023–2025 is 16–18 m tons.

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Source: Company filings

Best-in-class disclosure on one-off items: Verbund

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Non-recurring effects

€m	Detail	Q1–3/2022	Q1–3/2021
EBITDA		**0**	0
Impairments	HPP Gratkorn, CGU GCA, good will GCA	-32	-1
Reversal of impairments	CCGT Mellach	56	0
Operating result	**Total**	**24**	-1
Other equity interests		0	12
Other financial result	Measurement of an obligation to return an interest (DKJ), TAG PPR	17	13
Impairments	HPP Ashta, TAG	-4	0
Financial result		**13**	25
Taxes	Revaluation of deferred taxes and effects due to the non-recurring effects above	44	-3
Minorities		2	0
Group result	**Total**	**83**	21

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Source: *Company filings*

Best-in-class disclosure on EBITDA drivers: CEZ

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GENERATION Segment EBITDA*

EBITDA (CZK bn)	Q1–Q3/2021	Q1–Q3 2022	Difference	%	Q3/2021	Q3/2022	Difference	%
Of which emission-free generation sources:	20.4	40.9	+20.5	+101%	7.0	12.6	+5.6	+80%
Nuclear	16.4	31.6	+15.2	+93%	5.6	9.4	+3.8	+67%
Renewable	4.0	9.4	+5.3	+133%	1.5	3.3	+1.7	+115%
Emission Generating Facilities	1.8	16.6	+14.7	>200%	-0.7	7.4	+8.0	>200%
Trading	2.0	12.9	+10.9	>200%	1.7	5.5	+3.8	>200%
Specific temporary effects	-0.9	-3.6	-2.8	>200%	1.7	-4.7	-6.5	-
Total GENERATION Segment	**23.4**	**66.8**	**+43.4**	**+186%**	**9.8**	**20.8**	**+11.0**	**+112%**

Year-on-year effects Q1–Q3:

Nuclear facilities (CZK +15.2 bn):
- Trade impacts (+15.0): price impact (+15.1), lower intragroup revenues (-0.1)
- Operating effects (+0.2): operational availability of Temelín (+0.8) and Dukovany (+0.2), fixed expenses (-0.8)

Renewables (CZK +5.3 bn):
- Trade effects (+5.8): price effect (+2.2), ancillary services and regulatory energy (+3.6)
- Operating effects (-0.4): hydroelectric plants in Czechia (-0.8), photovoltaic plants in Czechia (+0.3), wind power plants in Germany (+0.1)

Emission sources (CZK +14.7 bn):
- Trade effects in Czechia (+14.7): price effect (+14.0), ancillary services (+0.7)
- Operating effects in Czechia (+0.6): operating availability (-0.2), heat sales (+0.3), trading at the generating facilities (+0.7), fixed expenses (-0.2), insurance claim for the fire in Dětmarovice in 2021 (-0.2)
- Poland (-0.5) mainly lower generation margin due to the increase in the cost of coal and allowances

Trading (CZK +10.9 bn):
- Higher trading prop margin (+15.8), potential loss of gas contracts with Gazprom Export (-1.9)
- Other and consolidation impacts (-3.0) mainly prop margin realized on generation contracts for 2023+ delivery

Specific temporary effects (CZK -2.8 bn):
- Revaluation of hedging commodity generation contracts for delivery in Q4 2022 and other temporary effects (-3.6)
- Temporary specific effects in 2021 (+0.9)

Year-on-year effects in Q3:

Nuclear generating facilities (CZK +3.8 bn):
- Trade impacts (CZK +4.3 bn): price impact (+4.1), higher intragroup income (+0.1)
- Operating effects (-0.5): operating availability (+0.4), fixed expenses (-0.8)

Renewables (CZK +1.7 bn):
- Trade impacts (+2.0): higher realized electricity prices (+1.0), higher revenues from ancillary services and regulatory energy (+1.0)
- Operating effects (-0.3): lower operating availability (-0.3)

Emission sources (CZK +8.0 bn):
- Trade effects in Czechia (+8.0): price effect (+7.7), ancillary services (+0.3)
- Operating effects in Czechia (+0.4): heat sales (+0.1), on-site trade (+0.2)
- Poland (-0.1): lower generation margin due to the increase in the cost of coal and emission allowances

Trading (CZK +3.8 bn):
- Higher commercial prop margin including LNG terminal utilization (+5.1)
- Increase in Gazprom Export's potential loss of gas contracts (-0.7)
- Other commercial trading and consolidation impacts (-0.6) mainly part of margin realized on generation contracts for 2023+ delivery

Specific temporary effects (CZK -6.5 bn):
- Revaluation of hedging commodity generation contracts for delivery in Q4 2022 and other temporary effects (-4.7)
- Temporary specific effects in 2021 (-1.7)

* without the divested assets in Romania and Bulgaria

www.cez.cz/en

The division of EBITDA of the GENERATION segment into five sub-segments is only indicative on the basis of central allocation assumptions (in particular the allocation of ČEZ's gross margin and fixed costs of the central divisions of ČEZ) and simplified consolidation with other companies in the segment.

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Source: Company filings

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