

# **E-Distribuție Dobrogea Proposal Budget 2018\***

**March, 2018**

*\* Budget Scenario at December 2017*

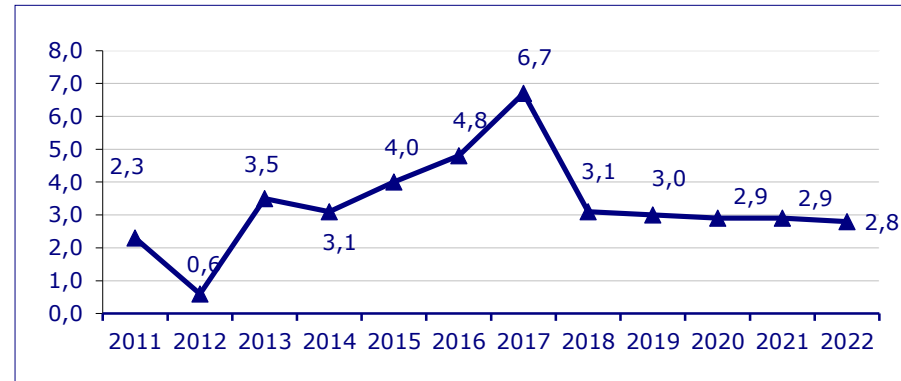
**e-distribuție**

# Romania – Macroeconomics

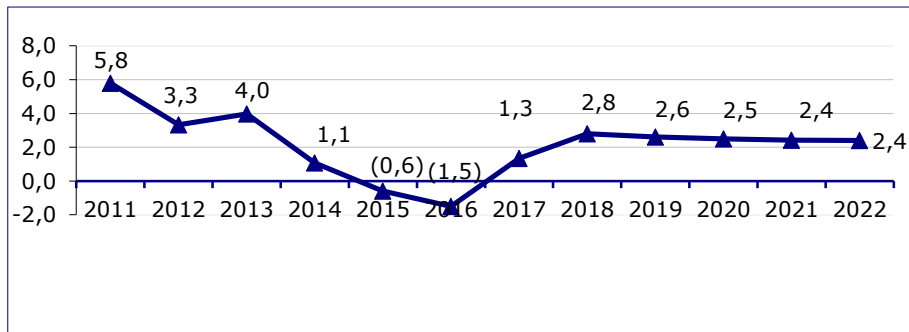
## General

GDP per capita (PPS) (****)	58
Population (Mn) (*)	19.63
Rating (Moody's)(**)	Baa3
Income tax	16%
UE member	2007

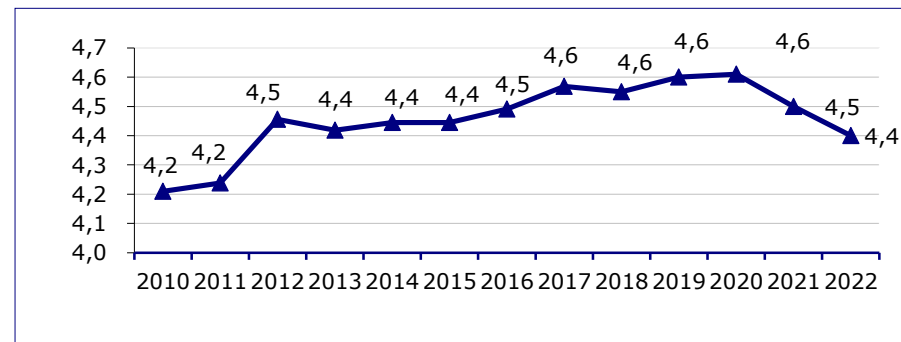
## GDP evolution(%) (\*\*\*)



## Inflation evolution (%) (\*\*\*)



## Avg. exchange rate RON vs € (\*\*\*)



\* Source: Eurostat latest estimation

\*\* Source: Moody's rating 3/5/2018 Annual Report

\*\*\* Source: Enel Group estimations (2018-2022), Eurostat latest estimation 2017

\*\*\*\* Source: Eurostat, amounts of 2016 in purchasing power standards (Data from 1st December 2016)

# BP 2017 – Regulatory assumptions Distribution

- Annual update of distribution tariffs in line with the current methodology:
  - 2014 – The same tariffs for HV and MV and a decrease with 0.4% for LV vs the approved tariffs as of 1st January 2013;
  - 2015 – Decrease of distribution tariffs by 0.1% for HV and LV and by 0.4% for MV vs the approved tariffs as of 1st January 2014;
  - 2016 – Decrease of distribution tariffs by 12.4% for HV, by 12.5% for MV and by 12.7% for LV vs the approved tariffs as of 1st January 2015;
  - 2017 – Decrease of distribution tariffs by 6.2% for HV, by 6.5% for MV and by 6.3% for LV vs the approved tariffs as of 1st January 2016;
  - 2018 – Increase of distribution tariffs by 3.5% for HV, by 2.2% for MV and by 1.9% for LV vs the approved tariffs as of January 2017.
- ANRE order 72/2013 modified by Order 112/2014 establishes the parameters for the 3rd regulatory cycle (2014-2018):
  - ✓ Network losses target 2017: 9.09%;
  - ✓ Network losses reference price calculated as 80% of the average price established on bilateral contracts market and 20% of the average price on DAM. If average network losses price of distributor exceeds the price calculated as presented above the price can increase by maximum 2% corresponding to the cost related to balancing market;
  - ✓ Average Regulated Useful Life for ANRE Investments for RAB recognition minimum 18 years;
  - ✓ X efficiency = 1,5%;
  - ✓ Other revenues: 50% of annual gross profit will be kept by DSO;
  - ✓ Increase of 2015-2018 investments plan with investments after faults;
  - ✓ Losses efficiency: the efficiency achieved vs the approved target is kept by the distribution operator until end of regulatory cycle only if the DSO has efficiency on all tension levels in all 5 years of RC.
- ANRE Order 146/2014 for setting Regulated Rate of Return:
  - ✓ WACC = 7.7% real pre-tax for all investments including Smart Meter;
  - ✓ WACC = 4.7% real pre-tax for investments after faults.

# Regulatory Scenario Dobrogea

	2 <sup>nd</sup> Regulatory Cycle					2013	3 <sup>rd</sup> Regulatory Cycle (*)				
<b>WACC:</b>	10%					8.52%	7.7%				

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
1. Distribution tariffs evolutions:											
Average increase annual	-1.71%	10.42%	2.24%	4.89%	6.36%	8.04%	-0.25%	-0.18%	-12.63%	-6.35%	+2.05%
CPI	4.40%	3.00%	5.30%	3.74%	5.06%	1.40%	3.00%	2.20%	-0.37%	-0.83%	+0.26%

(\*) The 3<sup>rd</sup> regulatory cycle 2014-2018

# Distribution strategy - main pillars:

	Under Implementation
QUALITY PLAN	<ul style="list-style-type: none"> <li>Remote control program continuation and refurbishment of the HV/MV primary substation.</li> </ul>
	<ul style="list-style-type: none"> <li>Remote control program continuation and refurbishment of the MV/LV secondary substation;</li> <li>Installation of MV reclosers and remote-control overhead disconnectors;</li> <li>Focus of the MV network for quality improvement.</li> </ul>
	<ul style="list-style-type: none"> <li>Focus of the LV network for quality improvement;</li> <li>LV remote-control pilot project for the circuit breaker in the MV/LV secondary substation.</li> </ul>
HV Network Improvement	<ul style="list-style-type: none"> <li>HV overhead lines refurbishment;</li> <li>New and replacement of HV underground cables.</li> </ul>
SMART METER PROGRAM - Losses Reduction	<ul style="list-style-type: none"> <li>Meter verification strategy: increasing of the number of employees, new hiring of temporary workers;</li> <li>Further implementation of Smart Meter Project after the successful pilots done during 2015-2017 and 2017, still awaiting for regulatory decision for massive deployment (Sep 2018);</li> <li>Focus on meter centralization targeting to detect and prevent frauds and to read the customers not read for a long time.</li> <li>Measuring systems to be done in Primary Stations to allow management of energy balance on MV busbars</li> </ul>
Commercial Service Quality	<ul style="list-style-type: none"> <li>Improving of commercial and technical systems;</li> <li>Implement of a new system for better asset management</li> </ul>

# Focus on Distribution strategy (1/2)

## Under Implementation

### QUALITY PLAN - Remote-control

- Already introduced, with the support of Enel know-how and with visible results (average interruption period per customer/per year, reached the lowest value ever);
- One of the primary benefits of the remote-control system is that it allows Enel to restore power supply rapidly from distance, in case of failures affecting large areas;
- Will help us improve our operational activities through remote maneuvers for all HV/MV primary substations, MV/LV secondary substations, MV overhead disconnector IMS, diminishing the need for the field interventions and increasing simultaneously the safety of our personnel;
- Lower operative cost for utility companies, which mean savings for their customers;
- Focus MV, LV network refurbishment in order to improve quality of service and reduction of corrective maintenance cost following incidents;
- Reduction of MV and LV failure rate and improvement of the behavior of the network.

### NETWORK IMPROVEMENT

- Focus on MV network refurbishment in order to improve quality of service and reduction of corrective maintenance cost following incidents;
- Modernizing MV lines for increase reliability of the network.

### SMART METER PROGRAM

Using the technologies of Global Infrastructure & Network - Enel Group, this program:

- Offers a better control of energy consumption to clients;
- Having a better overview of their consumption needs, clients will make informed decisions on how they can optimize their consumption and reduce bills;
- Helps environment by reducing the need to build electrical installations and decreasing the use of lower efficiency old ones since clients reduce their electricity demand;
- Smart meters one step to smart grid in Romania. This will help the network to detect what is happening with the transit of energy, to balance it, to increase safety and make it more resistant to network disruptions and other problems;
- Lower operative cost for utility companies, which means savings for their customers.

# Focus on Distribution strategy (2/2)

## Under Implementation

### Instruments

- Commercial – Front Office and Back Office Development.
- ERP – New and Evolutive Improvement
- GRID – Evolutive Improvement
- METERING & FILED – New and Evolutive Improvement

### Description

- Continuous upgrade of newly implemented commercial applications which will bring efficiency in our distribution activity
- New system to be developed based on gap analysis for the changes in the asset management in order to fulfill the requirements of the authorities;
- Continuous upgrade of SAP technical modules (PM, MM) with new functions which will bring efficiency in our distribution activity
- Upgrade of SMART applications including AUI-Sired-Sired Web, Atlante, Sigraf – SIGRAF Web, AIRE, Geinte, ARIA and start functional analysis for introducing of mobile apps.
- Implementation of EXABEAT for energy management balance and meters measurements, including load curves
- Convergence with the ICT Global Systems by starting the functional analysis for HeartBeat in 2018;

### Benefits, leveraging on Enel Italia know-how

- Operational efficiency;
- Alignment to the local regulation requirements and to the global reporting inside the group;
- Improvement of the commercial quality of service for the customers.

# Highlights Budget 2018

## Performance indicators

	2017 Actual	2018 Budget
Energy distributed (TWh)	3.6	3.7
Net profit (Mil RON)	49	44
CAPEX (Mil RON)	117	191
No. of employees	605	580



# Profit and Loss

e-Distribuție Dobrogea		ACTUAL 2017	BUGET 2018
<b>Profit and Loss</b>			
<b>REVENUES - TOTAL</b>	<b>Mil RON</b>	<b>475.3</b>	<b>465.3</b>
of which Electrical business revenues	<b>Mil RON</b>	<b>386.4</b>	<b>401.2</b>
<b>OPERATING COSTS</b>	<b>Mil RON</b>	<b>303.3</b>	<b>293.2</b>
Cost of purchased power	<b>Mil RON</b>	<b>149.9</b>	<b>143.6</b>
Cost of materials and services	<b>Mil RON</b>	<b>79.9</b>	<b>89.5</b>
Other operating costs	<b>Mil RON</b>	<b>16.5</b>	<b>3.7</b>
Personnel expenses	<b>Mil RON</b>	<b>57.0</b>	<b>56.3</b>
		<b>-</b>	
<b>MARGIN FROM OPERATIONS GROSS (EBITDA)</b>	<b>Mil RON</b>	<b>172.0</b>	<b>172.1</b>
		<b>-</b>	
<b>DEPRECIATION AND AMORTIZATION</b>	<b>Mil RON</b>	<b>115.4</b>	<b>119.6</b>
<b>OPERATING MARGIN (EBIT)</b>	<b>Mil RON</b>	<b>56.6</b>	<b>52.5</b>
Financial income and expenses	<b>Mil RON</b>	<b>2.1</b>	<b>2.0</b>
<b>EBT (Earning before taxes)</b>	<b>Mil RON</b>	<b>58.7</b>	<b>54.5</b>
Income taxes	<b>Mil RON</b>	<b>9.3</b>	<b>10.0</b>
<b>NET INCOME</b>	<b>Mil RON</b>	<b>49.5</b>	<b>44.5</b>

# OPEX

## Materials and service costs

e-Distribuție Dobrogea		ACTUAL 2017	BUGET 2018
Materials and Services Costs			
<b>Raw materials and consumables stores used</b>	<b>Mil RON</b>	<b>12.9</b>	<b>9.1</b>
<b>Services</b>	<b>Mil RON</b>	<b>67.0</b>	<b>80.4</b>
Intercompany Services	Mil RON	26.2	30.0
Maintenance and repairs	Mil RON	13.1	19.4
Property costs	Mil RON	10.4	9.7
Telephone, post office and data transmission expenses	Mil RON	4.9	5.5
Other services	Mil RON	4.0	3.9
Other costs related to personnel (e.g. travel)	Mil RON	3.2	3.9
IT services	Mil RON	1.7	2.8
Advertising, promotional services, canvassing and printing	Mil RON	1.1	2.2
Insurance premiums	Mil RON	1.1	1.0
Distribution and storage	Mil RON	0.3	0.7
Technical services	Mil RON	0.6	0.4
Services - Others	Mil RON	0.3	0.8
R&D and engineering charges	Mil RON	0.0	0.1

# PERSONNEL

e-Distributie Dobrogea		ACTUAL 2017	BUGET 2018
<b>Number and cost of labour</b>			
Average number - total	nr.	622	596
Number at the end of the period	nr.	605	580
Manager/ Executive	nr.	2	2
Middle management	nr.	37	38
Salaried	nr.	226	221
Hourly+temporary	nr.	340	319
<b>Total Employment cost</b>	<b>Mio RON</b>	<b>57.0</b>	<b>56.3</b>

# CAPEX

e-distribuție

e-Distribuție Dobrogea		ACTUAL 2017	BUDGET 2018
High Voltage	Mio Ron	12.9	45.2
Medium Voltage	Mio Ron	39.7	56.6
Low Voltage	Mio Ron	50.9	73.3
<b>Total network</b>	<b>Mio Ron</b>	<b>103.4</b>	<b>175.1</b>
<b>Other</b>	<b>Mio Ron</b>	<b>13.3</b>	<b>15.9</b>
<b>TOTAL</b>	<b>Mio Ron</b>	<b>116.7</b>	<b>191.0</b>

# Balance Sheet

e-Distribuție Dobrogea		ACTUAL 2017	BUGET 2018
<b>ASSETS</b>	<b>Mil RON</b>	<b>1,681.1</b>	<b>1,700.5</b>
Net tangible assets	Mil RON	1,641.2	1,660.5
Net intangible assets	Mil RON	23.3	23.5
Other non current assets	Mil RON	16.5	16.5
<b>Net working capital</b>	<b>Mil RON</b>	<b>-81.0</b>	<b>-80.1</b>
Inventories	Mil RON	1.5	0.1
Trade receivables	Mil RON	98.1	53.1
S/t financial receivables	Mil RON	0.0	0.0
Other current assets	Mil RON	6.6	41.8
Net tax receivables/(tax payables)	Mil RON	-3.2	-10.4
Trade payables	Mil RON	130.8	112.6
S/t financial payables	Mil RON	0.0	0.0
Other current liabilities	Mil RON	53.3	52.1
<b>Invested Capital</b>	<b>Mil RON</b>	<b>1,600.1</b>	<b>1,620.4</b>
<b>Provisions and deferred revenue</b>	<b>Mil RON</b>	<b>453.1</b>	<b>477.9</b>
TFR (staff leaving indemnity) provisions and other	Mil RON	24.9	33.0
Deferred tax liabilities net advanced tax assets	Mil RON	0.0	1.6
L/t future risks and charges	Mil RON	14.4	9.6
Deferred revenue	Mil RON	413.8	433.6
<b>Net invested capital</b>	<b>Mil RON</b>	<b>1,147.0</b>	<b>1,142.5</b>
<b>Cash and cash equivalents</b>	<b>Mil RON</b>	<b>621.4</b>	<b>616.8</b>
Cash and cash equivalents	Mil RON	621.4	616.8
<b>Equity</b>	<b>Mil RON</b>	<b>1,768.4</b>	<b>1,759.3</b>
Group equity	Mil RON	1,768.4	1,759.3