



E-Distribuție Muntenia Proposal Budget 2019

March, 2019

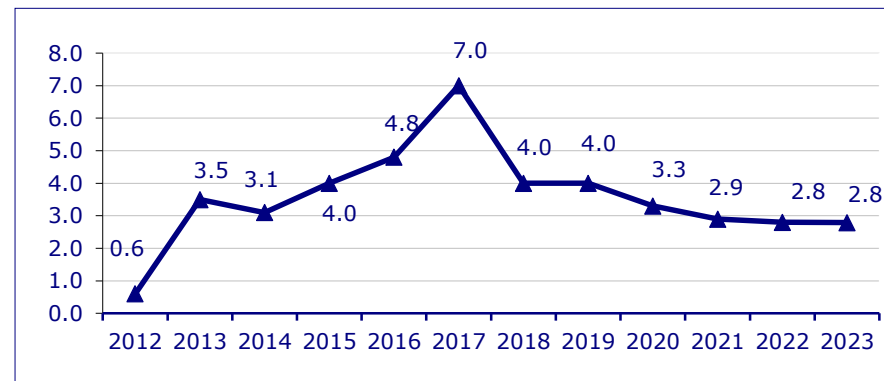
 e-distribuție

Romania – Macroeconomics

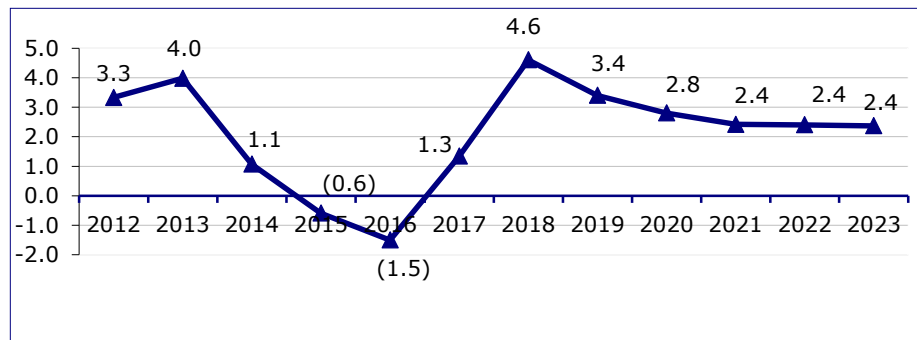
General

GDP per capita (PPS) (****)	63
Population (Mn) (*)	19.5
Rating (Moody's)(**)	Baa3
Income tax	16%
UE member	2007

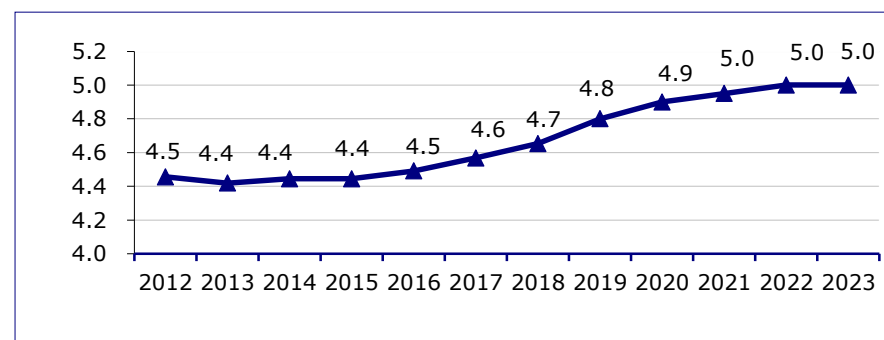
GDP evolution(%) (***)



Inflation evolution (%) (***)



Avg. exchange rate RON vs € (***)



* Source: Eurostat latest estimation

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

*** Source: Enel Group estimations (2019-2023), Eurostat latest estimation 2018

**** Source: Eurostat, amounts of 2017 in purchasing power standards

BP 2019 – Regulatory assumptions Distribution

- Annual update of distribution tariffs in line with the current methodology:
 - 2014 - An increase with 10.7% for HV and with 10.6% for MV and a decrease with 6.4% for LV vs the approved tariffs as of 1st January 2013;
 - 2015 - Decrease of distribution tariff by 0.2% for HV and increase by 0.3% for MV and by 0.7% for LV vs the approved tariffs as of 1st January 2014;
 - 2016 - Decrease of distribution tariff by 16.4% for HV, by 16.0% for MV and by 15.8% for LV vs the approved tariffs as of 1st January 2015;
 - 2017 - Decrease of distribution tariff by 8.5% for HV, by 7.8% for MV and by 8.5% for LV vs the approved tariffs as of 1st January 2016
 - 2018 - Increase of distribution tariff by 0,8% for HV, by 1.2% for MV and by 0.7% for LV vs the approved tariffs as of 1st January 2017.
 - 2019 – Decrease of distribution tariff by 0.6% for HV and increase by 0.1% for MV and 1.7% for LV vs the approved tariffs as of 1st January 2018.
- ANRE order 114/2014 modified by Order 169/2018 establishes the parameters for 4th regulatory cycle (2019-2023):
 - ✓ Network losses target 2019-2023: 11.17% >>9.01%
 - ✓ Network losses ex-ante reference price: actual average price between all DSOs and TSO considering 12 months analysis (July 2017-June 2018) ; ex-post reference price: min (DSO actual price , average actual price of all DSOs and TSO); BM +/- 5% of total losses volumes
 - ✓ RAB reduced for assets disposed/not used
 - ✓ Yearly investments rule: RAB IN=RAB OUT
 - ✓ OPEX: Personnel, Safety and Maintenance costs pass-through up to the approved value
 - ✓ Other OPEX: max 5% efficiency allowed, sharing mechanism 60-40%
 - ✓ ICO Costs under ANRE Checking for RC3, introduced more constrains for RC4
 - ✓ OPEX not recognized (eg monopoly tax, legal costs)
 - ✓ 95% profit of other activities to be shared
- ANRE Order 168/2018 for setting Regulated Rate of Return:
 - ✓ RRR = 5.66% real pre-tax for existing RAB at 31.12.2018
 - ✓ RRR = 6.66% real pre-tax for new investments 2019-2023

Regulatory Scenario Muntenia

	2nd RC					3rd RC					4th RC	
WACC	10%					8.52%	8.5%	7.7%			5.66%	
Distribution tariffs evolution	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Average increase annual	-1.67%	-0.36%	-0.76%	-6.42%	-17.79%	-12.97%	-0.65%	0.52%	-15.90%	-8.30%	0.81%	1.50%
CPI	4.40%	3.00%	5.30%	3.74%	5.06%	1.40%	3.00%	2.20%	-0.37%	-0.83%	0.26%	3.82%

Distribution strategy - main pillars:

	Under Implementation
QUALITY PLAN	<ul style="list-style-type: none"> Remote control program continuation and refurbishment of the HV/MV primary substation.
	<ul style="list-style-type: none"> Remote control program continuation and refurbishment of the MV/LV secondary substation; Installation of MV reclosers; Focus of the MV network for quality improvement.
	<ul style="list-style-type: none"> Focus of the LV network for quality improvement;
HV Network Improvement	<ul style="list-style-type: none"> HV overhead lines refurbishment; Replacement of HV underground cables.
SMART METER PROGRAM - Losses Reduction	<ul style="list-style-type: none"> Meter verification strategy: increasing of the number of employees, new hiring of temporary workers; Further implementation of Smart Meter Project; Focus on meter centralization outside the household premises, targeting to detect and prevent frauds and to read the customers not read for a long time. Measuring systems to be done in Primary Stations to allow management of energy balance on MV Installation of balance measurement systems in MV/LV substations;
Commercial Service Quality	<ul style="list-style-type: none"> Improving of commercial and technical systems; Implement of a new system for better asset management

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 disconnecter 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.

E-Distributie Muntenia - Highlights Budget 2019



Performance indicators

	2018 Actual	2019 Budget
Energy distributed (TWh)	7.5	7.5
Net profit (Mil RON)	(112)	35
CAPEX (Mil RON)	229	225
No. of employees	908	1.039

Profit and Loss

e-Distributie Muntenia		ACTUAL 2018	BUGET 2019
Profit and Loss			
REVENUES - TOTAL	Mil RON	909.2	866.4
Operating revenues	Mil RON	829.7	801.6
Other income	Mil RON	79.5	64.8
OPERATING COSTS	Mil RON	813.2	589.2
Cost of purchased power	Mil RON	272.0	343.8
Cost of materials and services	Mil RON	168.7	129.2
Materials	Mil RON	35.2	18.0
Services	Mil RON	133.6	111.2
Other operating costs	Mil RON	280.3	2.5
		-	
Personnel expenses	Mil RON	92.2	113.7
MARGIN FROM OPERATIONS GROSS (EBITDA)	Mil RON	95.9	277.2
DEPRECIATION AND AMORTIZATION	Mil RON	233.7	246.7
OPERATING MARGIN (EBIT)	Mil RON	(137.8)	30.5
Financial income and expenses	Mil RON	41.6	14.4
EBT (Earning before taxes)	Mil RON	(96.1)	44.9
Income taxes	Mil RON	15.5	9.7
NET INCOME	Mil RON	(111.7)	35.2

OPEX

Materials and service costs

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e-Distributie Muntenia		ACTUAL 2018	BUGET 2019
Materials and Services Costs			
Raw materials and consumables stores used	Mil RON	35.2	18.0
Services	Mil RON	133.6	111.2
Intercompany Services	Mil RON	36.7	24.9
Maintenance and repairs	Mil RON	49.7	51.0
Property costs	Mil RON	10.0	9.1
Other services	Mil RON	10.1	5.8
Other costs related to personnel (e.g. travel)	Mil RON	12.1	10.2
Telephone, post office and data transmission ex	Mil RON	6.2	4.5
IT services	Mil RON	2.8	1.8
Advertising, promotional services, canvassing ar	Mil RON	2.0	0.9
Insurance premiums	Mil RON	1.3	1.5
Distribution and storage	Mil RON	0.7	0.3
Technical services	Mil RON	0.8	0.4
R&D and engineering charges	Mil RON	0.3	0.0
Services - Others	Mil RON	0.9	0.6

PERSONNEL

e-Distributie Muntenia		ACTUAL 2018	BUGET 2019
Number and cost of labour			
Average number - total	nr.	911	1,031
Number at the end of the period	nr.	908	1,039
Manager/ Executive	nr.	3	4
Middle management	nr.	65	59
Salaried	nr.	341	461
Hourly+temporary	nr.	499	515
Total Employment cost	Mil RON	92.2	113.7

CAPEX

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e-Distributie Muntenia		ACTUAL 2018	BUDGET 2019
High voltage	Mil Ron	61.6	55.7
Medium voltage	Mil Ron	64.3	68.4
Low voltage	Mil Ron	86.1	85.1
Total Network	Mil Ron	212.0	209.2
Others	Mil Ron	16.5	15.7
TOTAL	Mil Ron	228.5	224.9

Balance Sheet

e-Distributie Muntenia		ACTUAL 2018	BUGET 2019
ASSETS	Mil RON	3,287.4	3,838.2
Net tangible assets	Mil RON	3,252.9	3,808.9
Net intangible assets	Mil RON	34.5	29.4
Other non current assets	Mil RON	0.0	0.0
Net working capital	Mil RON	-371.4	-350.1
Inventories	Mil RON	3.6	7.8
Trade receivables	Mil RON	224.1	140.4
S/t financial receivables	Mil RON	0.0	0.0
Other current assets	Mil RON	115.6	56.3
Net tax receivables/(tax payables)	Mil RON	-8.9	-63.5
Trade payables	Mil RON	354.9	288.4
S/t financial payables	Mil RON	0.0	0.0
Other current liabilities	Mil RON	351.0	202.7
Invested Capital	Mil RON	2,916.1	3,488.1
Provisions and deferred revenue	Mil RON	1,186.7	1,554.4
TFR (staff leaving indemnity) provisions and other	Mil RON	40.2	48.3
Deferred tax liabilities net advanced tax assets	Mil RON	4.7	4.6
L/t future risks and charges	Mil RON	24.3	24.5
Deferred revenue	Mil RON	1,117.6	1,477.1
Net invested capital	Mil RON	1,729.3	1,933.7
Cash and cash equivalents	Mil RON	2,512.9	2,453.5
Cash and cash equivalents	Mil RON	2,512.9	2,453.5
Equity	Mil RON	4,242.2	4,387.2
Group equity	Mil RON	4,242.2	4,387.2