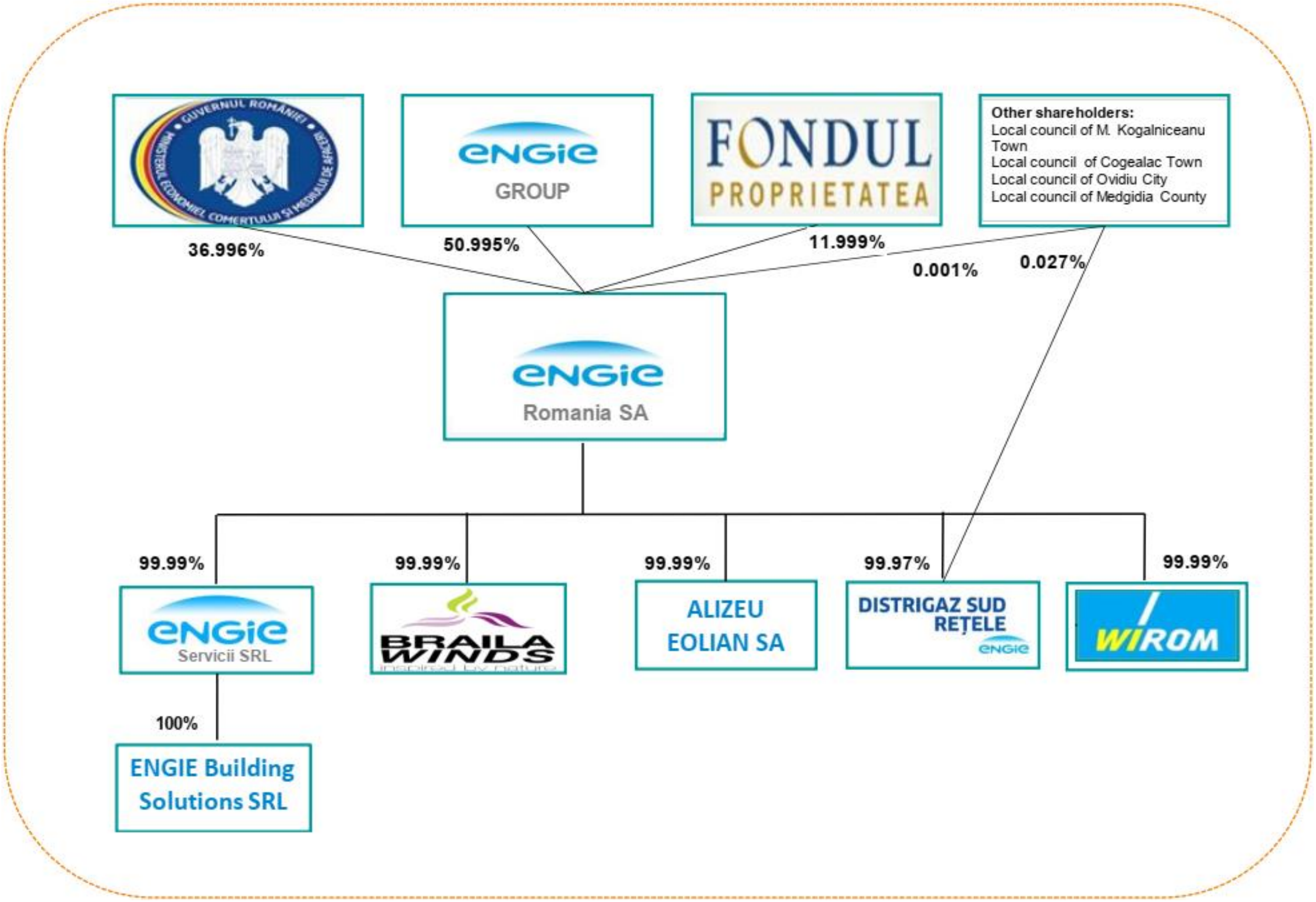
ENGIE Group Romania

2020 Budget – ENGIE Romania, consolidated
2020 Budget – ENGIE Romania S.A.

C3 - Restricted

Contents

Perimeter



The WIROM outturns consolidated as of March 2019; the integration of activities within ENGIE Romania and DGSR is estimated starting from January 2020

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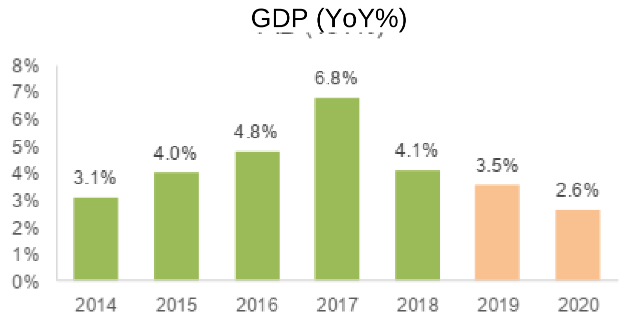
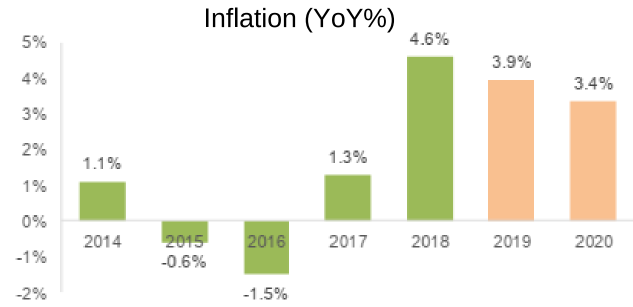
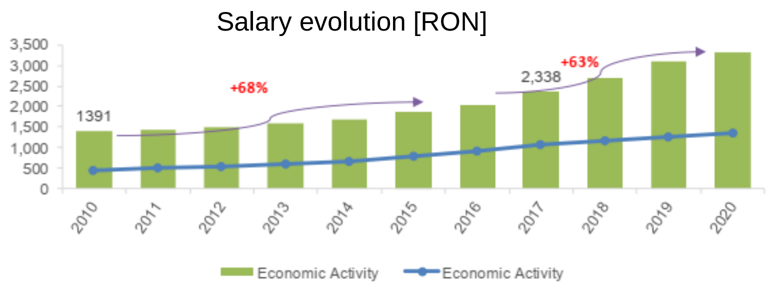
Economic context and macroeconomic indicators (1/2)

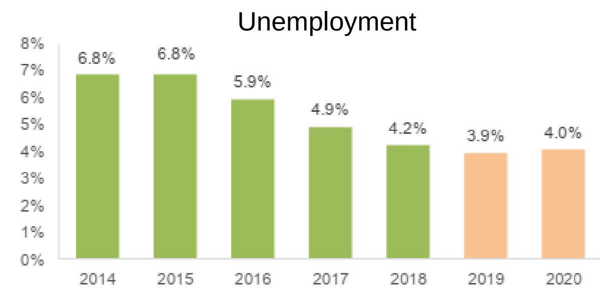




→ **GDP increase:** The forecasts by the local banks and Bloomberg indicate economic stability in Romania. The expectations are that private consumption will remain the primary growth engine of the Romanian economy, however, at a slower pace, due to the mecroeconomic context changes (a higher inflation rate and higher interest rates, which implicitly generate higher debt servicing costs and lower consumer confidence levels), which will weaken the household consumers' spending power. Potential growth suffers from the lack of structural reforms. GDP throughout the first 9 months of 2019 increased by 4% from 2018.

→ **Inflation growth:** Expectations are for a gradual decrease of the inflation rate, set to remain at a constant level, taking into account the stabilising effect of NBR's monetary policy. The very significant foreign exchange fluctuations: a 1 bp depreciation of RON leads to an inflation rate increase by 0.3 bp. Inflation rate in June 2019 reached 4.12% YoY.

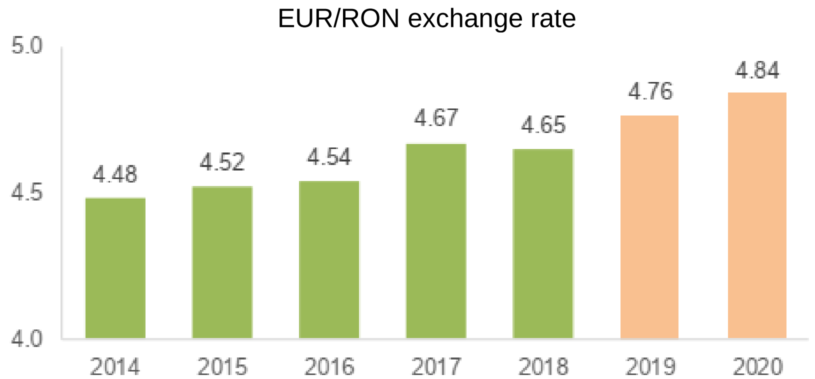


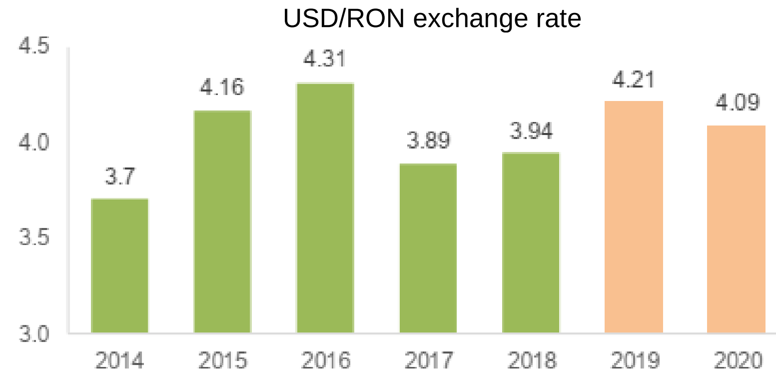


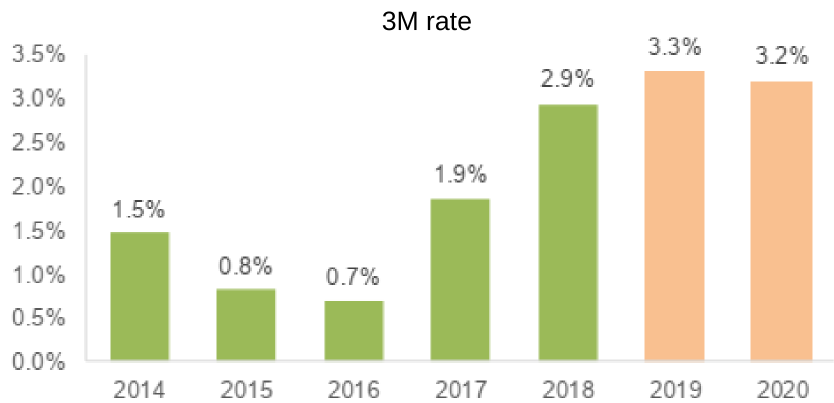
→ **The labour market:** the significant salary increases in recent years are primarily due to the state salary policy across the budgetary sector: the minimum wage increase and the wage increases of public sector employees place private sector employers under pressure. Unemployment is close to reaching a historic minimum level (following the development of economic activity, but also due to a low employment rate nationwide), thus placing additional pressure on salary increases and generating concern in regard to competitiveness across industries predominantly relying on the use of human capital. The average salary increased by 68% over 8 years (2010-2017). The data presented in the "Salary evolution" table are actual values for the 2010-2017 interval and estimated values for the 2018-2020 interval.

The values presented for the 2019-2020 interval rely on the data provided by the local banks (ING, BRD - SocGen, Unicredit, CITI Raiffeisen, BCR), Bloomberg and the National Institute of Statistics

Economic context and macroeconomic indicators (2/2)







→ **EUR/RON:** According to the banks' forecasts, the EUR/RON exchange rate will stay elevated over the following years; this forecast is due to the upward trends of foreign deficits, the financing structure under continuous deterioration and the uncertainty characterising the political arena. Nevertheless, NBR will remain active on the market, attempting to mitigate significant foreign exchange fluctuations, but will not oppose long-term trends).

→ **USD/RON:** the values projected for the 2019-2020 period exceed the 4 RON threshold, but will be dependent upon the international context.

→ **Interest Rates:** according to forecasts, money market rates will have upward trends only for the short term, mainly due to the strong dependence upon global markets. The NBR reference rate remained unchanged since May 2018. The interest rate is the instrument by means of which NBR influences growing inflation, however, in a balanced manner, since the population's debts are primarily in RON.

The values presented for the 2019-2020 interval rely on the data provided by the local banks (ING, BRD - SocGen, Unicredit, CITI, Raiffeisen, BCR) and Bloomberg.

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2019 highlights (1/2)

→ **Regulated tariffs: applied as of July 1, 2019:**

- ➢ The distribution tariffs decreased on average by 6% (from 25.5 RON/MWh to 23.92 RON/MWh), primarily due to the RoR decrease (6.9% as opposed to 8.43%);
- ➢ Higher revenues from the supply of natural gas pertaining to the regulated sector (+7% compared with 2018), as well as higher sold volumes in 2019 → the supply fix unit rate will decrease from 4.16 RON/MWh to 3.79 RON/MWh – the effect of the larger volumes sold;
- ➢ The Delta CUG (*gas unit cost*) recovery component increased from 5.22 RON/MWh to 9.54 RON/MWh, primarily due to the recovery, over a year, of the Delta CUG generated during the period between the second quarter 2018 and the end of the first quarter 2019;
- ➢ Updating the assumptions regarding the gas costs (which also include the transportation and storage costs), leading to a decrease from 92.95 RON/MWh to 80.35 RON/MWh, primarily due to the purchase price of gas from domestic production, set forth at 68 RON/MWh;

  ➔ The final selling price for household consumers decreased by 7.9%.

→ **Emergency Ordinances 114/2018 and 19/2019:**

- ➢ Natural gas:
  - ○ As of May 1, 2019 and until February 28, 2022, local gas producers are bound to sell domestically sourced natural gas for 68 RON/MWh;
  - ○ The purchase price set forth at 68 RON/MWh only applies to household consumers and thermal power plants serving household customers;
  - ○ The increase of the rate of return regulated for the gas and electricity distribution activity and the related storage and transportation, from 5.66% to 6.9% for the 2019 – 2024 period.
- ➢ Electricity:
  - ○ After becoming completely deregulated as of January 2018, the electricity market for household consumers will be once again regulated as of March 1, 2019 and until February 28, 2022;
- ➢ The energy sector licence: companies who possess licences for the electricity, cogeneration and natural gas sector are taxed 2% of their turnover pertaining to the activities within the scope of these licences. The licence-related contribution for 2019 was calculated based on the 2018 turnover and the gross margin.
- ➢ The European Union Commission submitted a notification to the Romanian Government, requesting amendments to the natural gas legislation. The Romanian Government proposed the following changes, requesting a 3-month deferral in order to implement the changes:
  - ○ The obligation to sell domestically sourced gas for 68 RON/MWh shall apply until March 31, 2020;
  - ○ Throughout the transition period, set to last from April 1, 2020 to March 31, 2021, 50% of the consumption for household consumers shall be purchased at a regulated price, whereas the rest will be purchased from the centralised market;
  - ○ As of April 1, 2021, the household consumer natural gas supply market shall be deregulated.
- ➢ At the time of formulating the budget assumptions, the discussions between the Romanian Government and the European Union representatives were in progress.

2019 highlights (2/2)

→ **The Competition Council:** the investigation concerning the position of DGSR in regard to the technical services for the approval of gas installations design and commissioning commenced in 2017. According to the preliminary report received in August 2019, a fine amounting to 4.83% of the company's turnover (59 mil. RON) was proposed. Following the hearings and the discussions in search of a possible settlement in the case, the Competition Council Committee will rule on the investigation result (a 19 mil. RON provision set up in 2019 BE (*estimated budget*)).

→ **Beirut:** case file settlement via the payment of 4.8 mil. RON in the Beirut case (a 13.5 mil. RON provision set up last year).

→ **Outstanding payables by ELCEN:** the collection of amounts pertaining to invoices for the October 2018 - August 2019 consumptions (39.2 mil. EUR), with a 90-day payment deadline.

→ **CETs:** the status of CETs (*heating power plants*) continues to deteriorate, particularly in Bucharest, which has become a real problem in view of the upcoming cold season:

- Ecogen Therm, the electricity and heat producer of Buzău town, filed for bankruptcy in August 2019, whereas Ecogen Energy filed for insolvency in October 2019;
- ENET, the heat distribution company of Focșani town, filed for insolvency in October 2019;

➔ A negative impact amounting to 29 mil. RON from the derecognition of revenues not collected throughout 2019, as per the IFRS 15 treatment.

→ **RADET:** the heat supplier of Bucharest city was declared bankrupt in November 2019 by Bucharest Court of Appeal. The activity of RADET shall be taken over by Termoenergetica Municipal Company. A negative impact of 10 mil. RON was included in the outturn estimates for 2019, resulting from the derecognition of revenues for the month of November 2019, as per the IFRS 15 treatment.

→ **The obligation to store natural gas:** ANRE set forth the storage obligation for ENGIE Romania in 2019, at 6.65 TWh (4.97 TWh for household consumers, 1.68 TWh for free market customers); moreover, the additional storage of +2.3 TWh estimated at the end of 2019 lead to a working capital increase.

→ **WIROM:** the transaction was concluded on February 20, 2019 ➔ consolidation under P&L starting from March 1, 2019. The Court dismissed the case file submitted in regard to integrating WIROM in ENGIE Romania and DGSR - estimated to take place on December 31, 2019, as the Court deemed the provided information not sufficiently detailed. In early November an appeal was filed, pending the ruling of the Court ➔ the assumption of having the activities integrated as of January 1, 2020 is still achievable;

→ **The climatic effect:** the hot weather in the months of October and November 2019 lead to a negative effect, of -0.7 TWh, on the distributed volumes.

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2020 budget assumptions

→ **Distribution**: **a new substantiation period commenced in 2019:**

- **the application of the new tariffs as of July 1** → the outturns pertaining to the first semester 2019 were influenced by the higher tariffs in 2018, whereas the positive impact would be consistently reimbursed, over the following 4 years of the regulatory period, starting from 2020.

- **the impact of the accelerated depreciation of meters is also reflected in the outturns pertaining to the first semester 2020**

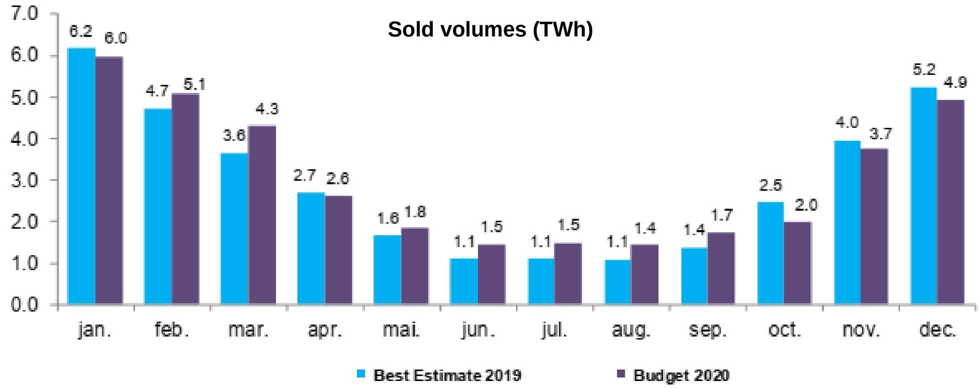
→ **Expectations are for an average decrease of distribution tariffs by 6% in 2020**, given that the positive effect of meter depreciation will cease as of July 2020, whereas the positive impact from the first semester 2019 will be partially yielded by means of tariffs;

→ **Supply margin:** the basic scenario was built upon the following assumptions:

- The price of locally sourced gas, set forth at 68 RON/MWh, will remain in effect until the end of the first semester 2020. As of April 2020, the purchase price shall align to the gas price on the free market, whereas the sale prices applied in relation to household consumers will remain unchanged until July 2020 → negative Delta CUG is expected to be generated starting from April 2020, whereas its recovery is expected to commence in July 2021;
- **The assumption on the final sale price increase by 20% as of July 2020, prior to the Parliamentary elections.** The significant increase of the CUG component within the final sale price is required in order to partially lower the gap specific to the wholesale market ➔ negative Delta CUG to be generated as of the second semester 2020;
- The major risk is to have an early deregulation of the final sale prices, which will make it impossible to recover the Delta CUG generated in 2020.

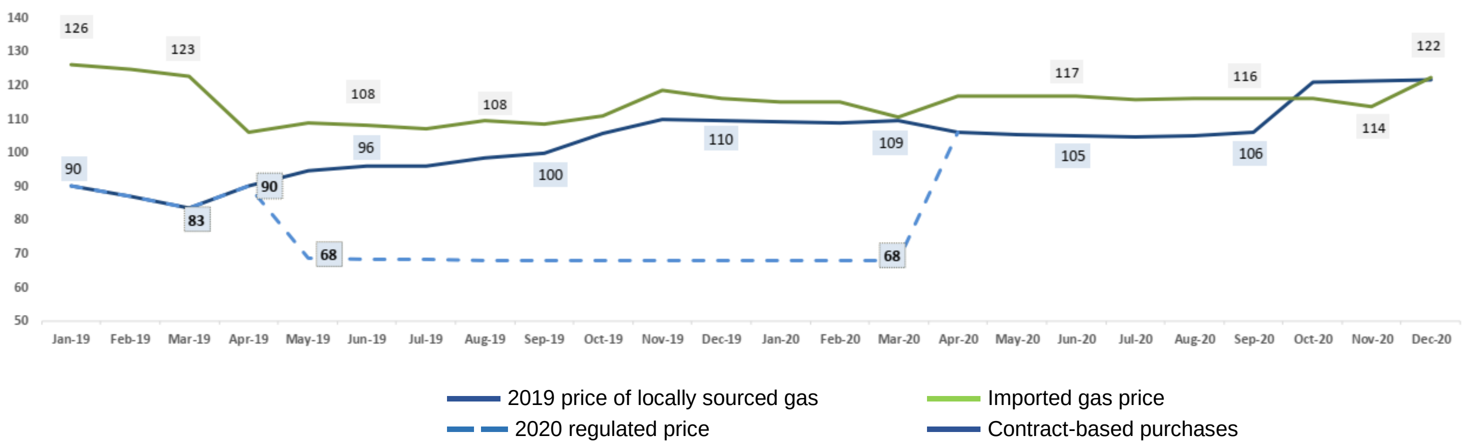
→ **The assumption regarding the salary increases is 4.5% starting from July 2020.**

Gas supply – Main assumptions



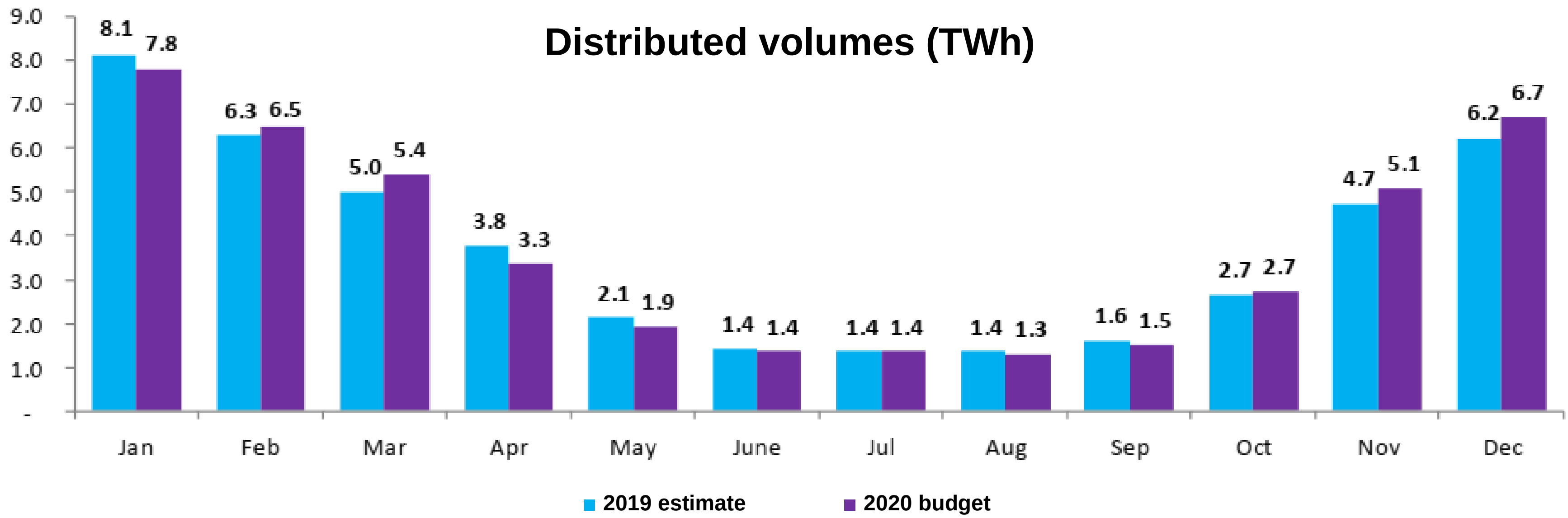
Higher sold volumes *(36.6 TWh vs. 35.2 TWh in 2019), primarily due to the development of wholesales.*

Purchase price evolution (RON/MWh)



- *Uncertainty in terms of the evolution of the regulated gas purchase prices for household users and CETs: it is assumed that the 68 RON/MWh ceiling will remain in effect until the end of March 2020;*
- *The price of locally sourced gas is estimated to increase in 2020 → the risk of generating Delta CUG on the regulated market and margin decrease on the free market.*

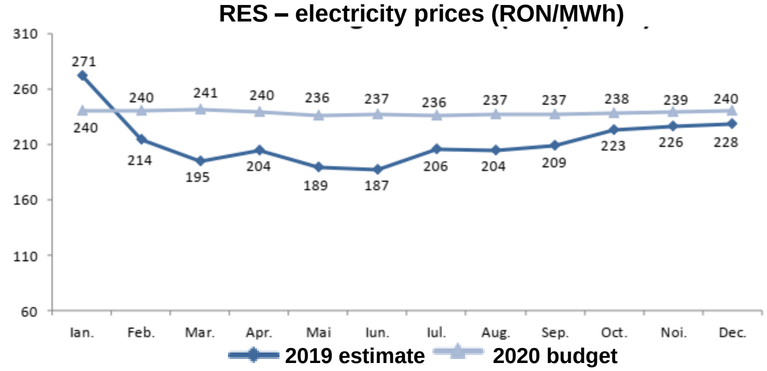
Distribution – Main assumptions



Volumes [TWh]	2019 estimate	2020 budget	2020 budget vs 2019 estimate	
			TWh	%
Distributed volumes, of which:	**44.6**	**45.0**	**0.3**	**1%**
Distributed for ENGIE	26.1	26.4	0.4	1%
Distributed for third parties	18.5	18.5	0.0	0%

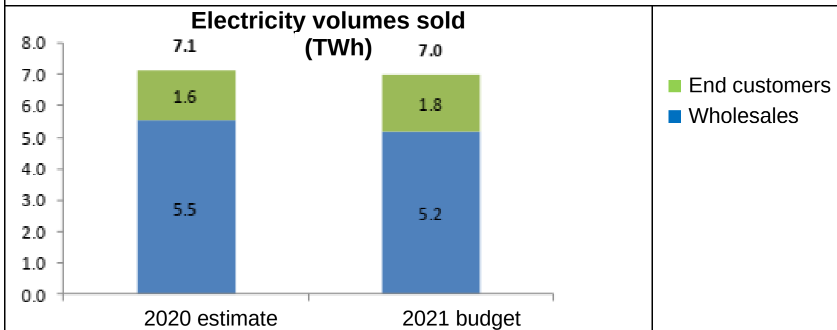
- **Distributed volumes:** 2020 Budget vs. 2019 Estimated: increase by +0.3 TWh of the distributed volumes in 2020 (primarily due to the consolidation of WIROM as of March 1, 2019).
- **The technological consumption** is estimated to remain steady at 1.2 TWh.

Electricity – Main assumptions

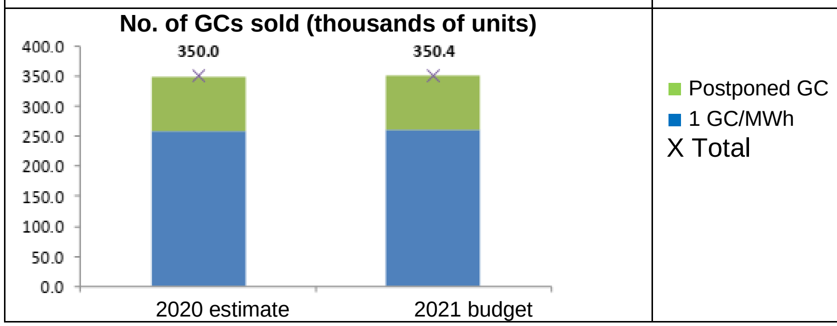


* electricity price after the balancing cost deduction

- ➢ *Higher electricity prices owing to a mix of factors:*
  - *high consumption throughout 2019*
  - *production from conventional sources (coal, gas)*
  - *low energy production from renewable sources*
- ➢ *Electricity prices are estimated to stabilise in 2020.*



➢ *The sold volumes are expected to remain constant (7.1 TWh in 2020 vs. 7.0 TWh in 2019).*



➢ *It is estimated that a higher number of green certificates will be sold throughout 2020 due to an energy production increase in 2020 (low wind levels in 2019).*

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Consolidated outturns – ENGIE Group Romania

Mil. RON	2019 estimate	2020 budget	2020 budget vs 2019 estimate	
			mil. RON	%
Revenues from gas supply	4,475.8	4,786.3	310.5	7%
Revenues from gas distribution – other suppliers	343.2	316.8	-26.4	-8%
Revenues from electricity supply	1,688.2	2,145.1	457.0	27%
Revenues from green certificates	46.9	47.9	1.1	2%
Revenues from services	88.7	106.0	17.2	19%
Other revenues	196.9	209.1	12.2	6%
Turnover	**6,839.7**	**7,611.2**	**771.5**	**11%**
Gas purchase costs	-3,714.7	-4,062.7	-348.0	9%
Electricity purchase costs	-1,623.5	-2,082.4	-459.0	28%
Gas margin	**1,104.3**	**1,040.4**	**-63.9**	**-6%**
Electricity margin	**111.6**	**110.6**	**-1.0**	**-1%**
OPEX	-867.3	-957.5	-90.3	10%
Amortisation	-202.8	-202.4	0.4	0%
Provisions	-35.4	-34.8	0.6	-2%
Earnings from the first consolidation related to the purchase of WIROM	25.8	0.0	-25.8	
Operating profit/loss	**421.9**	**271.4**	**-150.5**	**-36%**
Financial outturn	**36.3**	**26.1**	**-10.2**	**-28%**
Corporate income tax	-84.2	-55.7	28.5	-34%
Net outturn	**374.0**	**241.8**	**[-132.2]**	**-35%**

2020 budget vs. 2019 estimate: Net outturn lower by -132.2 mil. RON, -35%

- **Lower gas margin by -63.9 mil. RON,** primarily due to the estimated decrease in distribution tariffs as of July 2020 (the outturn of first quarter 2019 benefited from the higher 2018 tariffs), as well as to a lower margin obtained on the regulated market (Delta CUG is expected to be generated as of April 2020, at a level similar to the Delta CUG generated in the first quarter 2019), partially offset by the higher margin obtained on the free market (the 2019 margin was negatively affected by the ENET / Ecogen CETs filing for insolvency and the RADET bankruptcy);
- **Higher operational expenditure by -90.3 mil. RON,** due to the staff expenditure increase (expectations are for increases in the average number of employees and salaries) and other higher OPEX (earthworks, materials, FM services, leases, maintenance, higher capitalized costs and increased expenses related to the development of activities required by B2B / B2C services);
- **Margin from electricity sales lower by -1 mil. RON,** primarily due to the lower margin from sales to end consumers (the 2019 margin is high due to electricity purchase optimization), an outcome partially offset by higher outturns produced by wind-powered facilities (higher selling prices);

effects partially compensated by:

- **Higher revenues from services rendered by +17.2 mil. RON,** primarily due to activity development – B2C and B2B services;
- **Other revenues, higher by +12.2 mil. RON,** primarily due to the capitalization of costs and of other revenues;
- **Lower provision costs by +0.6 mil. RON,** primarily due to the 2019 provisions 2019 (reversal of the provision related to the Beirut litigation +13.5 mil. RON, reversal of provisions for doubtful receivables, partially offset by setting up the provision concerning the penalty issued by the Competition Council -19 mil. RON);

Consolidated CAPEX

Mil. RON	2019 estimate	2020 budget	2020 budget vs 2019 estimate	
Gross investments	**339.6**	**383.4**	**43.8**	**13%**
DGSR	**285.4**	330.3	44.9	16%
Engie ROMANIA	**53.3**	52.3	-1.0	-2%
Engie Servicii	0.9	0.7	-0.1	-17%

Bigger investments in 2020, due to higher maintenance CAPEX (increase in the number of km of pipelines replaced in 2020 – 200 km) and due to the development CAPEX pertaining to extensions and connections).

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Individual financial outturns of ENGIE Romania S.A.

Mil. RON	2019 estimate	2020 budget	2020 budget vs 2019 estimate	
			mil. RON	%
Revenues from gas supply	4,574.6	4,927.2	352.6	8%
Revenues from electricity supply	1,677.2	2,125.2	448.0	27%
Other revenues	672.9	650.2	-22.7	-3%
Turnover	**6,924.6**	**7,702.6**	**778.0**	**11%**
Gas purchase costs	-4,489.2	-4,798.8	-309.6	7%
Electricity purchase costs	-1,653.5	-2,118.5	-464.9	28%
Gas margin	**85.4**	**128.4**	**43.0**	**50%**
Electricity margin	**23.7**	**6.8**	**-16.9**	**-72%**
OPEX	-356.7	-412.9	-56.1	16%
Amortisation	-168.7	-174.7	-6.1	4%
Provisions	3.3	0.0	-3.3	
Operating profit/loss	**259.8**	**197.8**	**-62.0**	**-24%**
Financial outturn	**30.0**	**18.6**	**-11.3**	**-38%**
Corporate income tax	-53.9	-38.1	15.8	-29%
Net outturn	**235.9**	**178.4**	**[-57.5]**	**-24%**

2020 budget vs. 2019 estimate: Net outturn lower by -57.5 mil. RON, -24%

❑ **Margin from electricity sales lower by -16.9 mil. RON,** primarily due to a decrease in the margin obtained from sales to end consumers (the 2019 margin is high due to electricity purchase optimization)

❑ **Other revenues, lower by -22.7 mil. RON,** primarily due to a decrease in the tariffs pertaining to the contract on leasing assets to DGSR (a decrease of the estimated distribution tariffs), partially offset by an increase in the revenues from the services contract (DGSR) and an increase of revenues from services rendered;

❑ **Higher operational expenditure by -56.1 mil. RON,** primarily due to the staff expenditure increase, following the estimated increase of the average number of employees and an increase in the value of services rendered by ENGIE Servicii in 2020, higher facility management expenses, leasing and maintenance costs, higher costs with services rendered by third parties and other operating expenses;

effects partially compensated by:

❑ **Higher gas margin by +43 mil. RON,** primarily due to the higher margin obtain on the free market (the 2019 margin was negatively affected by the ENET / Ecogen CETs filing for insolvency and the RADET bankruptcy), an outcome partially offset by the lower margin obtained on the regulated market (Delta CUG is expected to be generated as of April 2020, at a level similar to the Delta CUG generated in the first quarter 2019).