



ENDORSED

CHIEF EXECUTIVE OFFICER

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**PRESENTATION OF KEY ELEMENTS OF THE
INCOME AND EXPENSES BUDGET
FOR THE YEAR 2016**

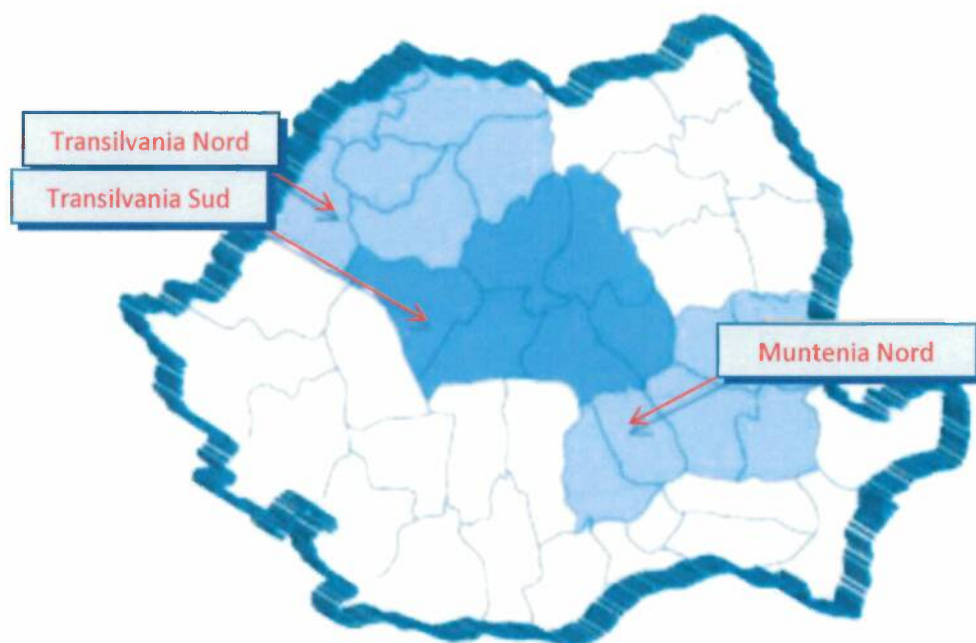
Electrica Furnizare SA

1. Overview

Electrica FURNIZARE SA (“EFSA”) is the supply subsidiary of Electrica SA:

- market share: > 20% (B2016)
- customers: 3.61 mn. (B2016)
- personnel: 1,038 (B2016), compared to 1,110 (B2015)

Coverage of EFSA as supplier of last resort



Electrica Furnizare supplies electricity to customers both in the regulated market (in the geographic regions in which the Group operates the market distribution segment), and in the competitive market throughout Romania.

The Company operates under the supply license no. 1028/ August 18, 2011 valid for 10 years, until 2021.

2. Strategic Objectives for EFSA

Overview

In accordance with the Law of electricity and natural gas, the tariffs are non-discriminatory; they have been set out for covering justifiable costs for providing electricity and to ensure reasonable profit. The tariffs for the final customers are:

- Regulated tariffs – approved by ANRE for household customers that have not exercised their eligibility right;
- Competitive Tariffs „CPC” (competitive market component), endorsed by ANRE for the consumers which benefit from universal service ;
- Suppliers of last resort tariffs – elaborated by the supplier for the customers which do not benefit from universal service;
- Competitive market tariffs – elaborated by Electrica Furnizare for the competitive market.

Supply activity

Currently, the suppliers from the electricity retail market are divided in:

- competitive suppliers;
- suppliers of last resort (FUI).

The conditions the competitive retail market are

- electricity supplied on that market is sold to eligible consumers;
- the price of electricity is set out based on demand and supply;
- the contracts according to which the electricity is sold can be negotiated (based on the limitations set out by the regulations in force).

The supplier of last resort is designated by the competent authority for delivering the global supply service according to the regulated specific conditions. The suppliers of last resort in Romania, are Electrica Furnizare, Enel Energie, Enel Energie Muntenia, E.ON Moldova and CEZ Vanzare.

The conditions of the retail market on which the suppliers of last resort operate are:

- ANRE approves the prices according to the Methodology of setting out the tariffs charged by suppliers of last resort to the end customers (ANRE Order no. 92/2015);
- ANRE regulates the contracts for purchasing and selling electricity;
- ANRE sets out by decisions the electricity quantities and purchase prices (electricity supplied at regulated tariffs); they can also be set out by tender procedures organized on the PCSU platform (supplied at CPC tariffs).

It must be mentioned that by the end of 2017, the regulated tariffs will be eliminated including those for household customers.

Therefore, the electricity supplier must comply with the methodology approved by ANRE regarding the supply segment, aiming to reach or even exceed the targets set out by ANRE.

The main objectives of Electrica Furnizare in 2016 mainly refer to

- maintaining the market share to a level of > 20%;
- purchasing green certificates at the mandatory annual level established by ANRE;
- maintaining its market leader position;
- implementing technology in customer service;
- rationalizing and modernizing the customer service centers;

- reducing operational costs per RON 1,000 revenue;
- reducing overdue receivables;
- increasing customer satisfaction.
- diversifying the services and products offered to customers.

The investment program of EFSA

The main investments of EFSA will include: upgrading and / or improving the commercial offices / business facilities, service unification and SAP system development and implementation of an IT system for workflow management and collaborative management (CRM).

When establishing the budget, Electrica Furnizare has considered the next forecasts of electricity consumption for 2016 split by the type of the tariffs applied to the end customers, as it follows:

Table 1: Sale of electricity (MWh) EFSA

Category	2015	2016
Negotiated tariffs (ELIGIBLE)	4,147,963	5,133,128
ANRE supervised tariffs (CPC)	2,868,113	3,649,328
ANRE regulated tariffs (households)	2,417,742	1,562,283
Total	9,433,818	10,344,739

It is estimated an increase of 9.7% of the amount sold on the retail market compared to 2015, in terms of evolution of electricity market and consumption to end customers.

Beginning on January 1, 2016 the Regulatory Authority for Energy ("ANRE) approved and endorsed the following tariffs:

Table 2: Tariffs valid beginning on January 1, 2016:

ANRE Order no./ ANRE endorsement no.	
Regulated tariffs	176/ December 16, 2015
CPC tariffs	ANRE endorsement no. 37/ December 22, 2015
Transport and system service tariffs	93/ June 25, 2015
Regulated tariff used by OPCOM	167/ December 14, 2015

3. Operating Results

Table 3: Selected financial information from the Income and Expense Budget prepared in accordance with OMF 1802/2014

th. RON

	2015 Budget	2016 Budget	B2016 vs B2015	%
1	2	3	4=3-2	5=3/2
Income from electricity sale	4,015,123	4,133,045	117,922	2.9%
Retail active electricity sale	3,495,097	3,615,765	120,668	3.5%
Wholesale electricity sale - OTHERS	11,617	32,000	20,383	175.5%
Electricity sale to entities within the Group	42,079	34,379	-7,700	-18.3%
Reactive electricity sale	58,093	67,826	9,733	16.8%
Green certificates sale	408,237	383,075	-25,162	-6.2%
Electricity expenses	3,744,595	3,858,011	113,416	3.0%
Active electricity purchase	1,854,895	2,114,008	259,113	14.0%
Green certificates purchase	408,237	383,075	-25,162	-6.2%
Reactive electricity purchase	58,093	67,826	9,733	16.8%
Electricity distribution services	1,423,370	1,293,102	-130,268	-9.2%
Energy margin	270,528	275,034	4,506	1.7%
Supply costs*	201,565	205,642	4,077	2.0%
Profit from main activity	68,964	69,392	423	0.6%
Other operating income	80,829	61,243	-19,586	-24.2%
Other operating expenses	41,314	4,100	-37,214	-90.1%
Operating Profit	108,478	126,535	18,057	16.6%
Financial result	1,533	2,500	967	63.1%
Total income	4,097,485	4,196,788	99,303	2.4%
Total expenses	3,987,474	4,067,753	80,279	2.0%
Profit before tax	110,011	129,035	19,024	17.3%
Profit tax	14,933	15,575	642	4.3%
Net profit	95,079	113,460	18,382	19.3%

*The supply cost for 2016 include the expense of 4 million RON related to the re-contracting activity, according to article no. 5 (3) of the ANRE Order no.88/2015

Revenues

According to the budget for 2016, EFSA estimates revenues of RON 4,194,288 th. compared to 4,095,952 th. in 2015, representing an increase of 2.4%, mainly due to the increase of the 2016 budgeted quantity.

Purchased electricity

The electricity quantity estimated to be purchased in 2016 increases by 10.6% as against 2015. The average purchase price estimated for 2016 is RON 164.4/MWh, growing by 1.3% compared with RON 162.23/MWh, budgeted for year 2015.

The increase of cost of electricity is generated by:

- schedule of regulated tariffs elimination;
- price increase of regulated contracts set out by ANRE, meant for covering the consumption of customers invoiced based on regulated tariffs (ANRE set out an average price increase for SN Nuclearelectrica of 2.57%, and for Hidroelectrica of 5.51%);
- price growth trend in the purchase contracts from the retail market having direct implications on the price of tender processes from PCSU, meant to acquire electricity allotted to consumption invoiced at CPC tariffs;
- increase of tariff for administering centralized markets, which OPCOM charges.

In the budget projection for year 2016, the increase of purchased electricity cost is 49% of the total income from active electricity sale, and for 2015, it was 45.4%.

Green certificates

The cost of green certificates is recognized in the Profit and Loss account based on a quantitative quota established by the regulatory authority referring on the quantity of the green certificates that Electrica must purchase for the current year and based on the centralized market price of the certificates. The cost of the green certificates acquisition is a pass-through cost.

In 2016, the cost of the green certificates acquisition will decrease by RON 25,162 th. or 6.2%, to RON 383,075 th. from RON 408,237 th. budgeted in 2015. This fluctuation is the result of the green certificates average trading price.

Table 4: Purchasing cost of green certificates (GC)

ANRE estimated share in 2016	2016 Sales to consumers MWH	GC required for 2016	Budgeted value purchase 2016	Unit cost of GC 2016	RON/MWh
0.32	9,086,004	2,880,263	383,075,000	133.00	42.16
ANRE estimated share in 2015	2016 Sales to consumers MWH	GC required for 2015	Budgeted value purchase 2015	Unit cost of GC 2015	RON/MWh
0.27	9,932,105	2,721,397	408,237,000	150.01	41.10

As a percentage of income, the costs of Green Certificates acquisition will be 9% in 2016 compared to 10% in 2015.

Salaries and other employee benefits

In 2016, the estimated expenses with salaries and other employee benefits, including the layoff compensations will remain almost constant compared to 2015, RON 86,941 th.

Through a business reorganization and/or restructuring process through individual or collective lay-offs, the number of employees will diminish by 6.49 %.

The current staff structure and the estimate staff structure scheduled for the end of 2015 and 2016:

Table 5: Evolution of staff number, 2015/2016

	2015	2016
Staff at the beginning of the year	1,227	1,110
Staff numbers to be diminished during	117	72
Staff at the end of the year	1,110	1,038

As a percentage of income, the costs for salaries and other employee benefits will be 2.07% in 2016 compared to 2.12% in 2015.

Other operating expenses

Other operating expenses have significantly decreased, by RON 20,507 th., respectively 13%, reaching RON 133,521 th. from RON 154,028 th.

Operating profit

As a result of the factors mentioned above, in 2016 the operating profit will increase by RON 18.057 th. or 16.6%, to RON 126,535 th. RON from 108,478 th. RON in 2015. At the same time, the operating profit margin registered an increase from 2.6% to 3% in 2016.

Profit before tax

Profit before tax increased in 2016 by RON 19,024 th. or 17.3%, to RON 129,035 th. from RON 110,012 th. in 2015.

Income tax

In 2016 the profit tax is estimated to increase from RON 14,933 th. to RON 15,575 th., thus increasing by 4.3%.

Net profit of the period

As a result of the factors presented above, in 2016 the profit of the period is estimated to increase by RON 18,382 th. from RON 95,079 th. in 2015 to RON 113,460 th. in 2016.

The net profit margin will increase from 2.3% in 2015 to around 2.7% in 2016.

4. Key factors, significant market directions and trends influencing the operating results of Electrica Furnizare

The Board of Directors differentiates the key factors, significant market trends and directions that they cannot control and those they can control (although often only to a limited extent).

The key factors, significant market directions and trends that the Board of Directors cannot control include:

- General regulatory and legal framework in which Electrica Furnizare operates;
- Tariffs regulated and approved by ANRE (transport, distribution, supply etc.);
- Cost of electricity purchased;
- Macroeconomic trends in the Romanian economy and
- The electricity demand.

The key factors and directions that the Board of Directors of EFSA can control at least partially, include the capital investments and some of the operating expenses.

An important part of the EFSA business strategy consists of:

- reorganizing the processes and reallocation of resources;
- promoting modern solutions for customer management by implementing advanced software applications;
- optimizing costs;
- developing new services and products;
- increasing competitiveness.

Those strategic elements are included in the administration/management plan developed by the company management.

Given that Electrica Furnizare operates on a highly competitive market in which the product sold, i.e. electricity, does not differ from among suppliers, the competitive advantage can be achieved by rendering costs effective, providing additional services to customers, trust earning actions and modern means of communication and payment.

CFO

Iuliana ANDRONACHE

