

Coverage Initiation

Societatea Energetică Electrica - EL

BUY

Curent price (18.07.2023): 9,17 Ron/share.

Target price: 10,80 Ron/share.

Appreciation potential: 17,75%.

Considerations

- Since 2021, the international energy market has been characterised by an imbalance between supply and demand at European level, largely caused by the outbreak of the Russian-Ukrainian war, which led to significant increases in electricity prices. These factors have created an environment conducive to accelerated inflation rate, high financing costs, and combined with geopolitical factors have led to an unfavorable and unstable economic context.
- Against the backdrop of rising electricity prices, 2022 was the most profitable year in the last 4 years for Electrica Group, i.e. recovery of the loss recorded in 2021 (net profit 2022: 559 million Ron).
- It should be borne in mind that legislative changes to help companies operating in the energy market (implementation of the EEBM mechanism), i.e. in support of end customers by capping the price of electricity and gas supply, may have long-term repercussions. Economic theory tells us that after a period of price capping and lifting of the cap, prices tend towards equilibrium (determined by supply and demand), and most of the time this equilibrium is seen in higher prices.
- Massive investments in electricity distribution networks.** One positive aspect is that Electrica is attracting non-reimbursable funds to modernise distribution networks. In July 2023 alone, it attracted €64.17 million, representing 75% of the total value of projects being funded. This contributes to maximising performance in the managed infrastructure.
- In the long term, we expect the Electrica Group's power generation segment to grow** by continuing to invest in renewable power projects.
- However, **we should be mindful that the Group's liquidity is declining** (to 0.84 in March 2023 from 1.38 in 2019) and below the optimal accepted level. We believe that the Group should give more weight to this indicator given the investments expected to be made in the coming years. Also, legislative changes with a short implementation time could create an imbalance in the Group's operational activity.

Economic context

- Electrica together with its subsidiaries mainly addresses the electricity market. EFSA (Electrica Furnizare SA), in addition to electricity trading, is also involved in the supply of natural gas.
- The general legal framework for the electricity market is provided by the Electricity and Natural Gas Law 123/2012**, as amended and supplemented, by the European regulations and is monitored by ANRE (National Energy Regulatory Authority).
- According to the provisions of the Electricity Law, two markets are distinguished, namely: **the wholesale market** (comprising, among others, the PCCB, PZU, CV, PE markets) and **the retail market** (competitive and regulated market).

Key information

Symbol	EL
Capitalization (Million Ron)	3.176,88
No. of shares (Mil.)	346,44
Maximum/Minimum 52 weeks (Ron/share)	9,73 / 6,09
YTD change	13,35%
Market Maker	BRK Financial Group Wood & Co

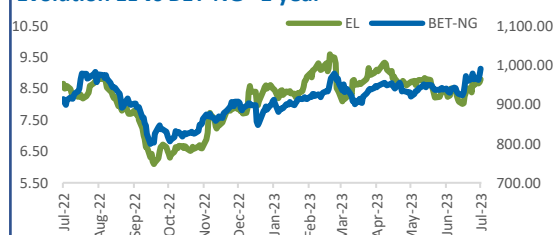
Upcoming events

Financial results H1/2023	25-Aug-23
Conference call - presentation of H1/2023 results	30-Aug-23
Financial results Q3/2023	15-Nov-23
Conference call - Q3/2023 results presentation	20-Nov-23

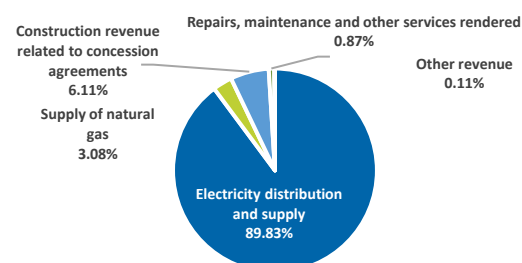
Shareholding structure as at 31.03.2023

Romanian State through the Ministry of Energy	48,79%
European Bank for Reconstruction and Development	5,01%
Electrica SA	1,99%
BNY MELLON DRS, New York, USA	0,62%
Other legal persons	37,78%
Other individuals	5,81%

Evolution EL vs BET-NG - 1 year



EL turnover structure as at 31.12.2022.

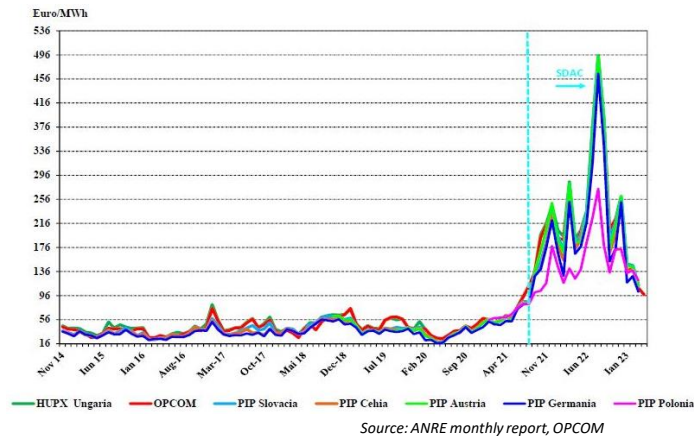


Source: BVB, Bloomberg, BRK processing of EL financial statements

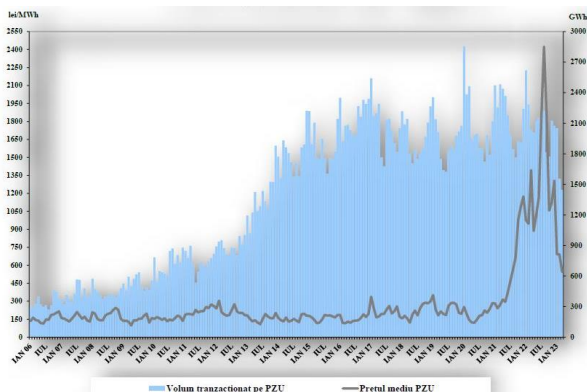
The disclaimer is at the end of the report

- **The wholesale electricity market** is an organised framework in which suppliers purchase electricity from generators or other suppliers for resale or for their own consumption. At the same time, electricity is also purchased by network operators to cover their own technological consumption.
- **The retail electricity market**, according to the law, is the framework in which electricity is purchased by final customers to meet their own consumption. Suppliers sell electricity to final customers either through contracts at negotiated prices or through standard offers.
- **At the beginning of this year, Romania recorded the highest electricity exports** between January 2019 and March 2023, after a period of about 4 years in which electricity imports were clearly higher than exports.
- To the extent that there is an upward trend in imports, electricity prices will most likely increase.
- The graph below shows the evolution of monthly average spot prices over the last 10 years by country. It can be seen that since the coupling of the 4M MC project (November 2014, the establishment of the regional energy exchanges by Romania, Hungary, Czech Republic and Slovakia means that these four countries will end up with a single price for electricity traded on the spot markets) and until the pan-European SDAC project (Romania's PZU is moving to a Europe-wide coupled mechanism), prices remained relatively constant, followed by an exponential increase.

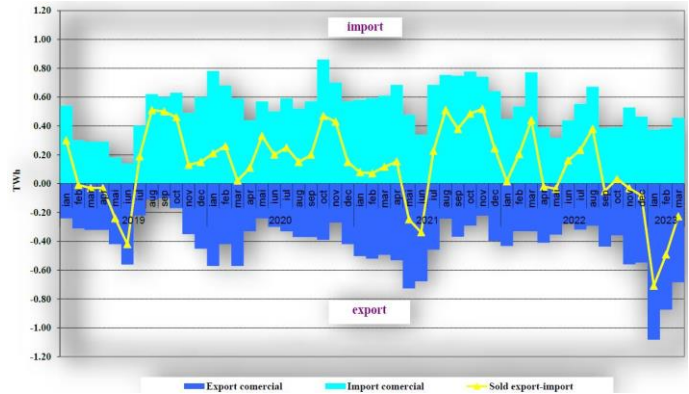
Evolution of coupled PZU prices in the 4M MC project countries and those after SDAC integration November 2014 - March 2023



Monthly evolution of average price and traded volume on PZU January 2006 - March 2023

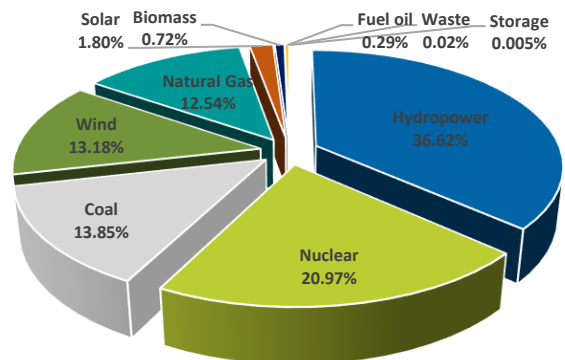


Monthly evolution of electricity exports and imports - Romania



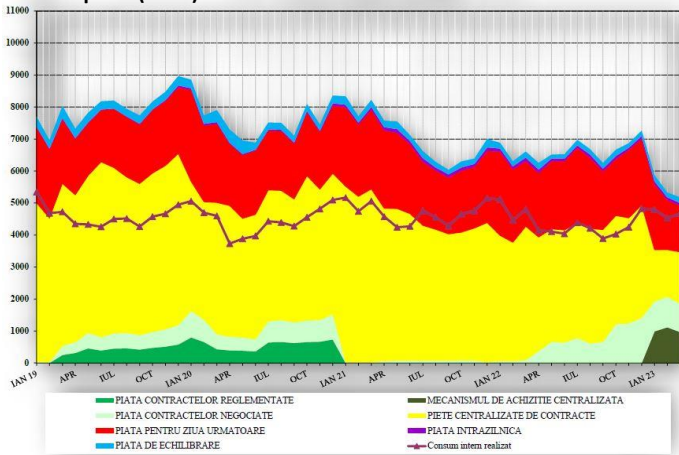
- The graph below, which shows the volumes traded on the PZU market and the evolution of the average price between 2006 and March 2023 in Romania, shows the substantial change in prices after the coupling of the pan-European SDAC project, at approximately the same volumes traded since 2014. At the same time, in March 2023, as the volume traded decreases, the average PZU price also decreases.
- **According to ANRE data as of March 2023, the main sources of electricity for Romania are hydroelectric (36.62%), and nuclear (20.97%). Coal, as of March 2023, is in the top 3 categories of sources of delivered electricity (13.85%).** We believe that in the long term, this percentage will most likely decrease, due to the closure of mines and related power plants and the trend to switch to green energy production.
- **Globally, the top 3 main energy sources are: oil (31.5%), coal (26.73%) and gas (23.49%).** The source shares for green energy range from 1.4% to 6.7% (Source: ourworldindata.org, 2022).

Source structure of electricity delivered to the grid - March 2023

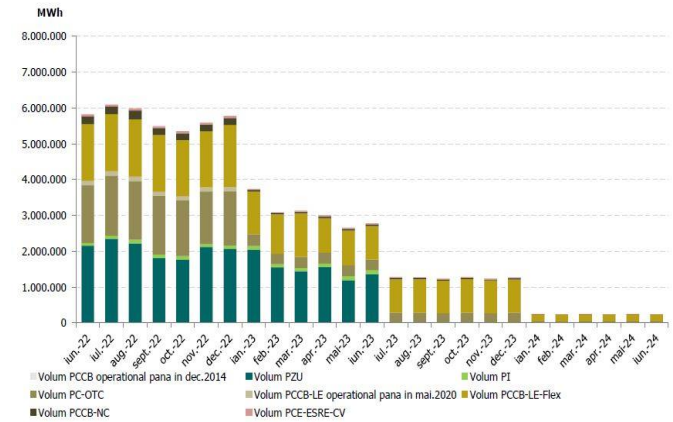


- At the level of the markets where energy is traded, the most demanded is the centralised market, followed by the day-ahead market (PZU). According to data published by OPCOM, trading volumes on the PZU, IP and forward markets with delivery between September 2021 and September 2023 are expected to fall from around 7 million MWh to just over 1 million MWh by the end of this year.

Monthly evolution of delivered volumes and realised internal consumption (GWh)



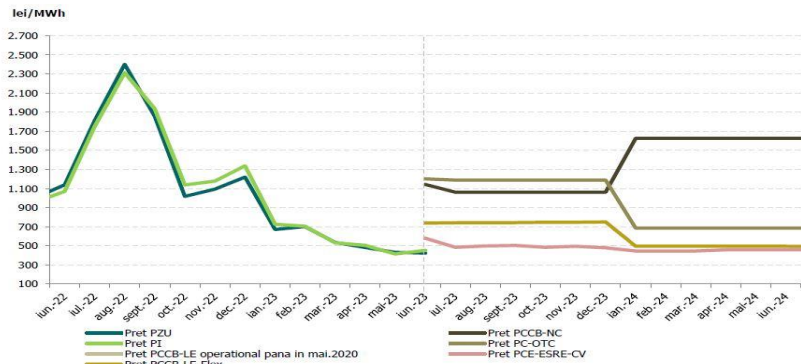
Monthly evolution of traded volumes



Source: ANRE monthly report, OPCOM

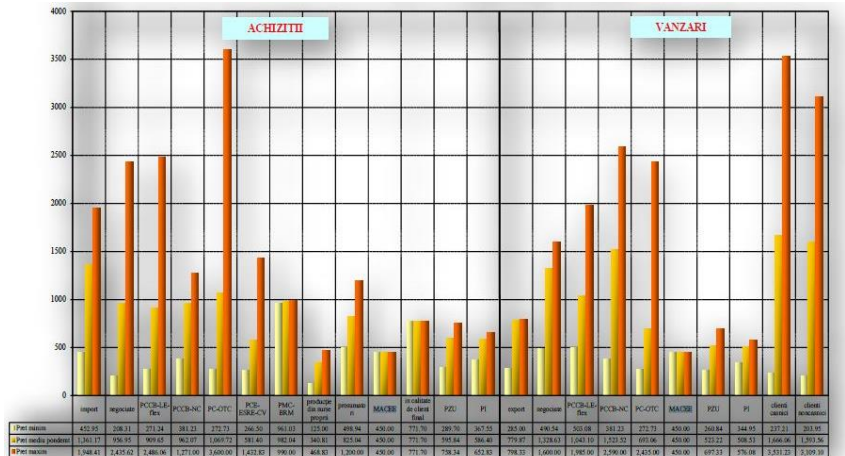
- The year 2022 has brought a number of legislative changes, which will apply in 2023, with a significant impact on the electricity supply business. These include: **price capping for household and non-household consumers for the period 1 November 2021 - 31 March 2025**, **establishment of the Centralised Electricity Purchase Mechanism (CEPM) for the period 1 January 2023 - 31 March 2025**.
- This mechanism provides for the purchase by OPCOM (as single buyer) of electricity from generators with an installed capacity of 10 MW or more and its sale to suppliers to cover their own technological consumption (CPT) at a price of 450 Ron/MWh. **The impact of the implementation of MACEE on the Group's operating results is positive** in terms of lower electricity costs to cover CPT for the distribution segment.
- In conclusion, we can say that the significant increase in electricity prices was caused by a combination of internal and external factors. **The full liberalisation of the electricity market (1 January 2021) combined with the onset of the energy crisis seen in an imbalance between supply and demand, i.e. the very high share of energy traded on the PZU market, had a major impact on energy price increases in 2022.**

Monthly evolution of average PZU, PI and futures prices



Source: ANRE monthly report, OPCOM

Average, maximum and minimum values of transaction prices of suppliers operating on the retail market - March 2023 (RON/MWh)

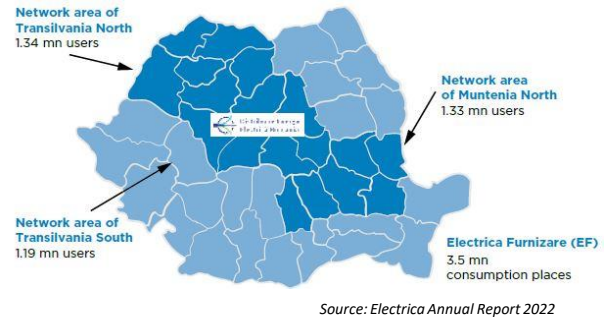


Source: ANRE monthly report, OPCOM

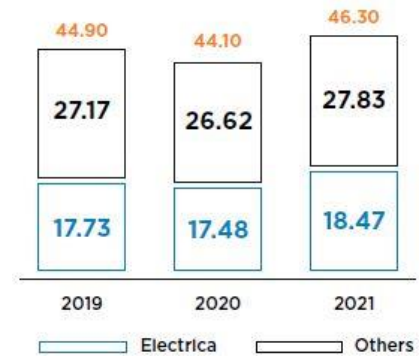
Activity

- Electrica Group is **one of the main electricity distributors and suppliers in Romania** and has been listed on the Bucharest Stock Exchange for 10 years (BVB trading date: since 4 July 2014) with the **stock symbol: EL**.
- **The Group operates through four business lines:** electricity distribution in the geographical areas of Northern Transylvania, Southern Transylvania and Northern Muntenia (Distributie Energie Electrica Romania S.A. - DEER), electricity trading and natural gas supply (Electrica Furnizare S.A. - EFSa), maintenance, repair and construction services (Electrica Serv S.A. - SERV) and electricity generation (EPE, SWE, NTE and CGEC&I). Thus, Electrica together with its subsidiaries addresses the electricity market.
- **Electrica's distribution segment is geographically limited to 18 counties** in the regions of Muntenia and Transylvania, for which it holds **licenses valid until 2027 with the possibility of extension for 25 years**.
- As regards the **electricity supply segment**, the Group holds a **license covering the entire territory of Romania** (the license was renewed in 2021 for 10 years). At the same time, with a view to **expanding into Hungary**, the Hungarian Energy and Utilities Regulatory Authority (MEKH) **has granted an electricity trading licence**. The licence for gas supply is valid until 2032.
- Three years ago (**starting with 2020**), the Group entered the segment of **electricity production from renewable sources** with the acquisition of a photovoltaic park (installed capacity 7.5 MW). The expansion of this activity continued with the acquisition of four photovoltaic and one wind farm project.
- **The company continues to make investments to add to the green power generation segment**, completing the acquisition of the ready-to-build project companies Green Energy Consultancy & Investments (6 February 2023, developing the "Vultur" photovoltaic project) and Sunwind Energy SRL (24 March 2023, developing the "Satu Mare 2" photovoltaic project).

Geographical coverage of the Group in 2022

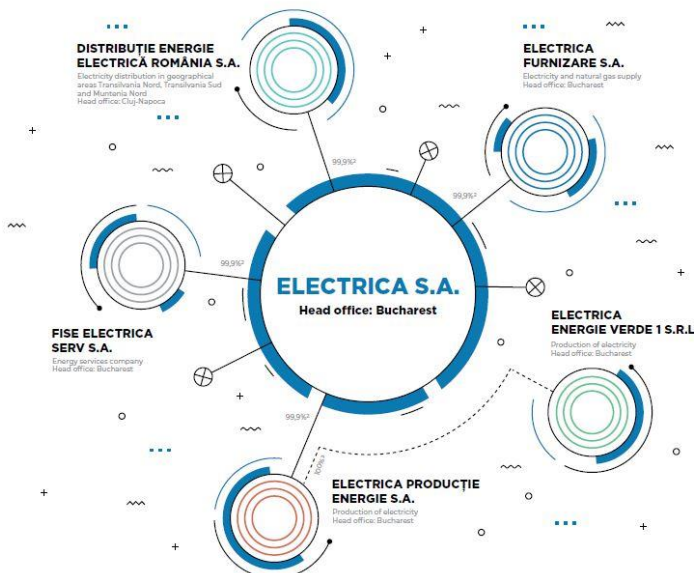


Quantity distributed (TWh)



- On average, **the quantity distributed by Electrica accounts for 40% of the total quantity distributed**, which shows that it is the main player in this segment.
- At the end of 2022, the Group had distributed 17.73 TWh.

Electrica Group

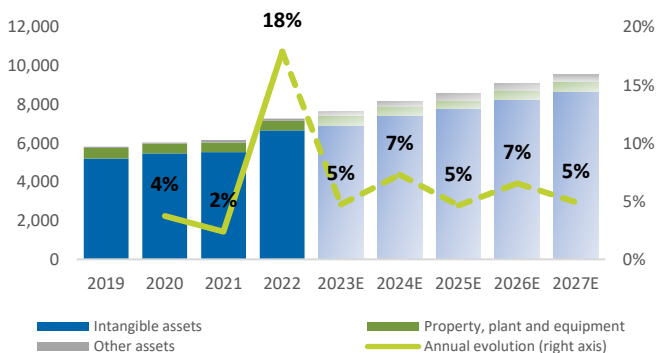


Source: Electrica Annual Report 2022

Statement of financial position

- The company's **total assets** at consolidated level are growing at a compound annual growth rate (**CAGR 3y**) of **14.14%** between 2019 and 2022. The increase in the balance to 2022 is mainly due to network investments made by the distribution subsidiaries, the doubling of trade receivables correlated with the increase in sales, and the recognition of subsidies to be received from the Ministry of Energy following the application of the capping and compensation mechanism for electricity and natural gas prices. At March 2023, total assets increase insignificantly (+4.26%) compared to the balance at 31 December 2022.
- The **largest share of total assets over the period 2019-2022** is held by fixed assets (specifically, intangible assets relating to concession agreements), on average 72%. The difference up to 100% is represented by current assets (on average 28%), mainly trade receivables.
- The **Capital Asset Turnover indicator increases from 1.09x in 2019 to 1.39x in 2022**, indicating an efficient use of fixed assets. In the period 2023-2027, we consider that this indicator will average 1.19x, **resulting in fixed assets of 9,534 mil Ron in the last forecast year.**

Non-current assets evolution (Mil. Ron)



Source: BRK Financial Group calculations and processing based on EL annual financial statements

- The **average number of days for the stock is 5 days** (December 2019 - March 2023). **For the year 2023** we have considered the stock turnover rate recorded at the end of March 2023 (**3 days**). Given the downward trend of this indicator, **for the next 5 years** we expect a decrease in the turnover speed to 2 days on average.
- The **recovery of the company's receivables** during the review period is on an upward trend, reaching **98 days** at the end of March 2023 compared to 68 days in the previous year. Based on this assumption, we have considered for the period 2023-2027, a stagnation in the recovery of receivables at the level of 98 days.

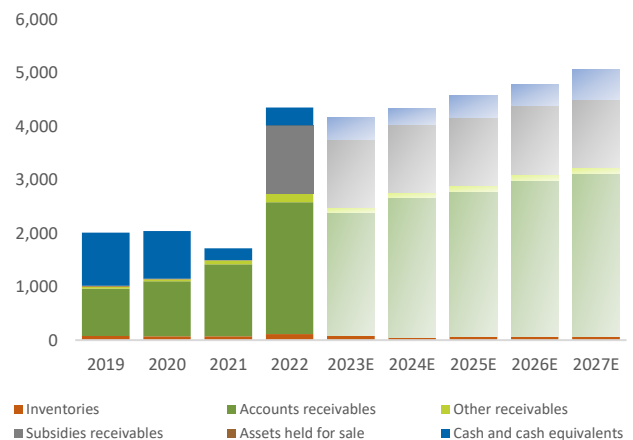
Mil. Ron

	2019	2020	2021	2022	3M/2023	2023E	2024E	2025E	2026E	2027E
Intangible Assets	5.202	5.462	5.524	6.652	6.689	6.919	7.422	7.765	8.273	8.679
Property, plant and equipment	544	508	505	499	499	517	486	424	452	474
Other assets	57	48	132	111	152	149	230	325	346	362
Non-current assets	5.802	6.019	6.161	7.262	7.340	7.604	8.156	8.533	9.089	9.534
Inventories	74	70	73	114	101	92	56	59	63	65
Accounts receivables	890	1.030	1.345	2.466	2.710	2.298	2.604	2.724	2.927	3.045
Other receivables	37	34	72	151	87	87	99	103	111	115
Subsidies receivables	0	0	0	1.281	1.752	1.281	1.281	1.281	1.281	1.281
Assets held for sale	17	16	5	0	0	0	0	0	0	0
Cash and cash equivalents	994	891	222	335	109	400	284	405	397	561
Current assets	2.012	2.041	1.717	4.347	4.759	4.158	4.324	4.573	4.778	5.068
Prepayments	3	3	5	14	20	24	27	28	30	31
Total Assets	7.817	8.062	7.883	11.623	12.119	11.786	12.507	13.133	13.897	14.633

Source: BRK Financial Group calculations and processing based on EL annual financial statements

- Intangible fixed assets** have the highest share in total fixed assets (on average 91% in the period 2019 - March 2023) and have recorded an upward trend, reaching 6,689 million RON at the end of March 2023. This category includes concession agreements for electricity distribution services, as well as licenses and accounting system implementation costs.
- Current assets** at 31 March 2023 increased by 9% compared to the end of 2022, mainly due to an increase in trade receivables (+10%) offset by a decrease in cash (-68%).
- The decrease in cash is mainly due to a decrease in cash in the electricity and gas supply segment.

Current assets evolution (Mil. Ron)



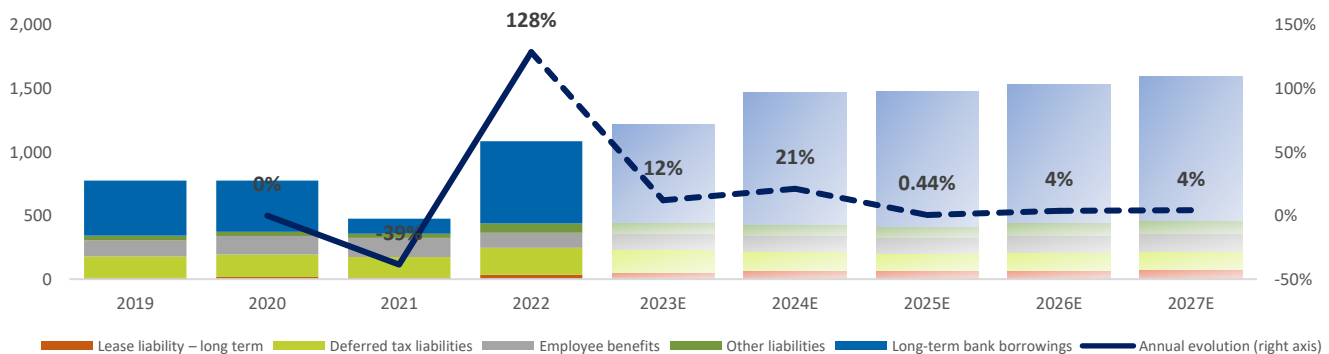
Source: BRK Financial Group calculations and processing based on EL annual financial statements

- **Equity capital** fluctuates between December 2019 and March 2023, with the highest value reached in 2020 (5,760 million RON, +3% compared to 2019), mainly due to the 7% increase in retained earnings and 33% increase in revaluation reserves. The increase in retained earnings comes amid a significant increase in net profit in 2020 compared to 2019 (+88%) mitigated by the payment of dividends in the amount of 246.11 mil Ron. **Share capital** remains at 3,464 mil Ron during the period under review. **For the period 2023 - 2027 we bet on an increase in equity** to 7,784 mil Ron in 2027, supported by the increase in net profit with positive impact in the retained earnings. As regards dividend distribution, we have considered for the period 2023 - 2027 a dividend distribution rate on average of 96% of the individual annual net profit and other reserves, based on the company's history related to the dividend policy (*detailed information can be found in the chapter "Dividend policy"*).
- **Long-term liabilities** are mainly represented by bank loans (the share fluctuates between 25% and 65% during the reference period), followed by **deferred tax liabilities and employee benefits**.
- **Long-term and short-term bank loans (including overdrafts)** as at 31 March 2023 relate to the group company operating in the electricity distribution segment (DEER) **for the purpose of financing investments in the electricity distribution network** according to the 2020 - 2023 investment plan, i.e. for working capital. For the period 2024 - 2027 we have considered as assumptions - the continuation of the activity foreseen by the company representatives in the report in 2022, namely: the use of confirmed financing facilities up to the amount of 4,028 mil Ron, respectively a facility in the amount of 633 mil Ron.
- **In June 2023, Electrica is attracting €63.25 million through the Modernisation Fund (FM)** to implement investment projects to help maximise performance in the managed infrastructure.

	Mil. Ron									
	2019	2020	2021	2022	3M/2023	2023E	2024E	2025E	2026E	2027E
Share capital	3.464	3.464	3.464	3.464	3.464	3.464	3.464	3.464	3.464	3.464
Share premium	103	103	103	103	103	103	103	103	103	103
Treasury shares reserves	-75	-75	-75	-75	-75	-75	-75	-75	-75	-75
Revaluation reserve	88	116	103	92	90	92	92	92	92	92
Legal reserves	372	392	408	430	430	449	476	507	539	573
Retained earnings	1.638	1.760	950	1.354	1.289	1.646	2.073	2.571	3.088	3.627
Total equity attributable to shareholders of the Company	5.590	5.760	4.953	5.368	5.301	5.679	6.133	6.662	7.212	7.784
Non-controlling interests	0	0	0	-1	0	0	0	0	0	0
Total equity	5.590	5.760	4.953	5.367	5.301	5.679	6.133	6.662	7.211	7.784
Lease liability – long term	10	17	12	34	28	50	68	72	70	72
Deferred tax liabilities	168	178	162	213	200	182	149	127	136	142
Employee benefits	126	144	149	117	117	126	122	128	137	143
Other liabilities	37	34	33	72	73	89	87	91	97	101
Long-term bank borrowings	433	400	119	647	762	767	1.042	1.058	1.087	1.133
Total non-current liabilities	774	773	475	1.084	1.180	1.214	1.468	1.475	1.528	1.591
Lease liability – short term	27	11	9	19	20	33	45	43	46	46
Bank overdrafts	351	165	627	2.571	2.842	2.571	2.571	2.571	2.571	2.571
Accounts payables	730	607	891	1.407	1.297	1.182	1.119	1.170	1.257	1.308
Other payables	219	241	271	868	1.031	699	679	711	763	794
Deferred revenue	7	6	10	25	33	19	19	19	21	22
Employee benefits	88	92	101	114	123	93	90	94	101	105
Provisions	20	19	35	54	51	54	54	54	54	54
Current income tax liability	5	9	-	1	0	0	0	0	0	0
Current portion of long-term bank borrowings	8	379	510	114	241	242	329	334	343	358
Total current liabilities	1.454	1.529	2.455	5.172	5.638	4.892	4.906	4.997	5.157	5.258
Total liabilities	2.228	2.302	2.930	6.256	6.818	6.107	6.374	6.472	6.686	6.849
Total Equity and Liabilities	7.817	8.062	7.883	11.623	12.119	11.786	12.507	13.133	13.897	14.633

Source: BRK Financial Group calculations and processing based on EL annual financial statements

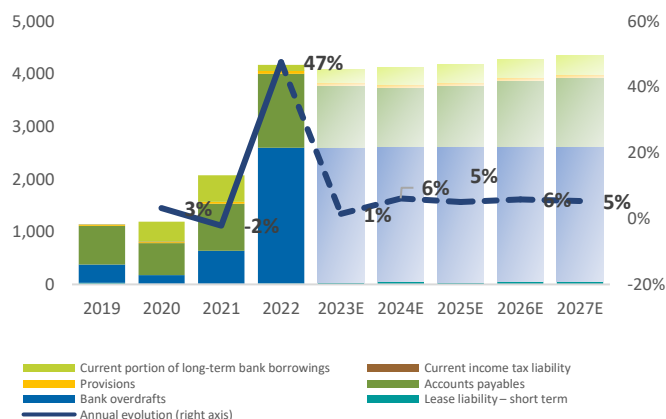
Non-current liabilities evolution (Mil. Ron)



Source: BRK Financial Group calculations and processing based on EL annual financial statements

- **Current liabilities** are mainly represented by the overdraft facility (the share increases to 50% in March 2023 from 24% in 2019) and **trade payables** (the share decreases to 23% in March 2023 from 50% in 2019), followed by **other liabilities** (the share increases to 18% in March 2023 from 15% in 2019).
- **The average number of days in which the company pays its suppliers is 55 days** (December 2019 - March 2023). During this period this indicator decreases to 41 days in March 2023 from 69 days at the end of 2019. Taking this development into account, we are betting on an average no. of days to pay suppliers of 40 days for the next years.

Current liabilities evolution (Mil. Ron)



Source: BRK Financial Group calculations and processing based on EL annual financial statements

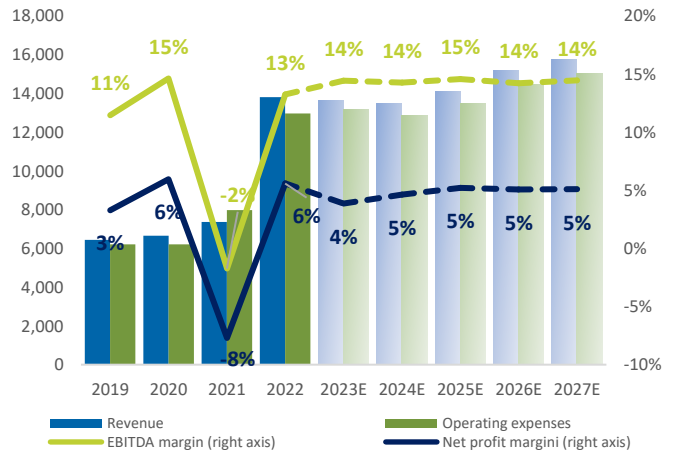
Profit and Loss Account

	Mil. Ron								
	2019	2020	2021	2022	2023E	2024E	2025E	2026E	2027E
Revenue, of which:	6.280	6.501	7.179	10.010	8.580	9.721	10.172	10.927	11.369
Electricity distribution and supply		5.698	6.518	8.992	7.437	8.575	9.021	9.766	10.194
Supply of natural gas		42	99	309	274	271	271	282	296
Construction revenue related to concession agreements		696	500	611	747	747	747	747	747
Repairs, maintenance and other services rendered		54	60	87	112	118	122	122	122
Other revenue	0	10	2	11	11	11	11	11	11
Other operating revenue	160	165	196	3.793	4.972	3.683	3.854	4.140	4.307
Income from the production of intangible fixed assets	0	0	0	0	95	95	95	95	95
Total operating revenue	6.440	6.667	7.375	13.802	13.647	13.499	14.120	15.162	15.771
Electricity and natural gas purchased	3.860	3.906	5.695	10.507	10.502	10.207	10.680	11.473	11.937
Construction costs related to concession agreements	759	676	486	594	509	486	509	656	682
Employee benefits	620	775	803	823	912	961	991	1.020	1.050
Repairs, maintenance and materials	100	105	102	88	118	118	118	118	118
Depreciation and amortization	480	491	481	496	734	769	825	863	920
Ajustari pentru deprecierea creantelor comerciale si altor create, net	5	-62	71	112					
Impairment for trade and other receivables, net	0	-8	0	0					
Other operating expenses	381	325	343	353	368	340	340	340	340
Total operating expense	6.206	6.207	7.980	12.973	13.143	12.882	13.464	14.471	15.048
EBIT	234	459	-605	829	504	617	656	691	723
EBITDA	719	950	-125	1.325	1.238	1.386	1.481	1.554	1.643
EBITDA margin	11%	15%	-2%	13%	14%	14%	15%	14%	14%
Net finance costs	-8	-17	-27	-165	-114	-86	-33	-38	-43
EBT	226	442	-632	664	390	531	623	653	681
Income tax expense	19	55	-80	105	59	80	93	98	102
Net result	207	388	-553	559	332	451	530	555	578
Net Profit margin	3%	6%	-8%	6%	4%	5%	5%	5%	5%

Source: BRK Financial Group calculations and processing based on EL annual financial statements

- **The year 2022** represented for Electrica Group **the best year in terms of turnover evolution** (10,010 million Ron, +39% vs 2021) and financial performance in terms of profitability (559 million Ron net profit vs loss of 553 million Ron in 2021).
- The largest share of consolidated turnover at Electrica Group level is held by the electricity distribution and supply segment (on average 89%).
- The financial performance for 2022 is mainly due to an increase in electricity distribution and sales tariffs on the retail market (+53%) and in the quantity of electricity supplied (+8.7%) offset by a decrease in volumes of electricity distributed (net impact of -24.9).
- **We consider the forecast for the next 5 years** to be at a higher level in terms of operating income and EBITDA margins (*more details can be found in the "Financial forecast" section*).

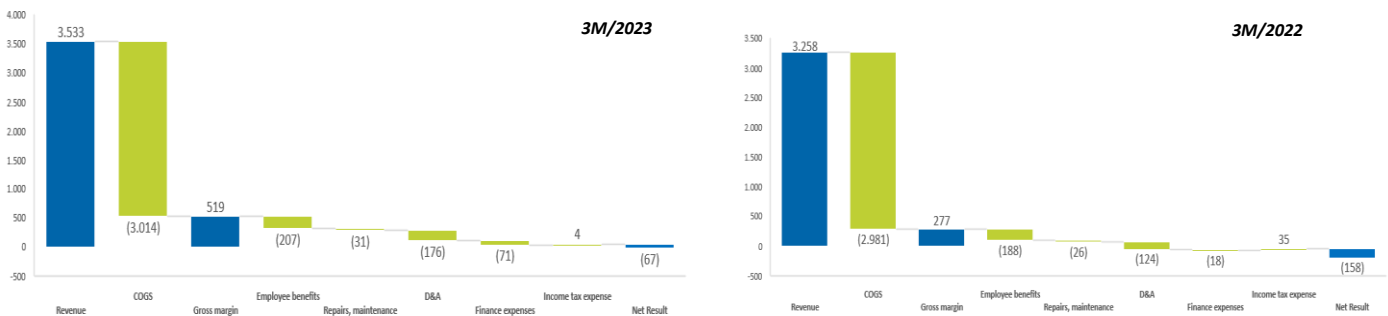
Evolution of Turnover, Operating Expenses (Million RON) and EBITDA and Net Margins



Source: BRK Financial Group calculations and processing based on EL annual financial statements

- **In the first 3 months of this year**, Electrica Group records a slight decrease in both turnover (3%) and cost of purchased electricity and natural gas (1%) compared to the same period last year. At the level of operating activity (EBITDA), Electrica Group generates a profit of 170 million Ron compared to the loss of 51 million Ron recorded in the first three months of the previous year. Although the Group's operating activity generates profit (EBITDA margin 7%), it is not sufficient to cover the depreciation expense (176 million Ron) and interest, thus **generating losses** (-67 million Ron vs -158 million Ron in Q3/2022).

Net profit 3M/2023 vs 3M/2022 (Mil. Ron)

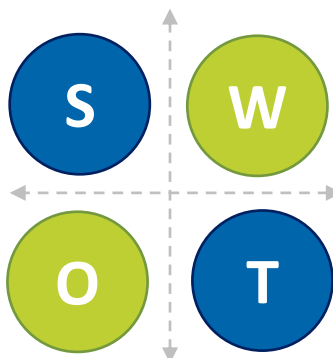


Source: BRK Financial Group calculations and processing based on EL annual financial statements

SWOT analysis

- Continued investment in electricity distribution networks and green energy generation projects.
- Low valuation levels.
- It is a dividend company (DIVY of 6%-7%)

- Favourable state regulations in the field of energy.
- Grant funding for green economy impact investments.



- Low return on equity (below market average).
- Low liquidity (below 1).
- Net debt to EBITDA - fluctuating.

- Uncertainties regarding the settlements of national government programmes to help the population pay for household consumption.
- Legislative changes with short implementation time.
- Pressure on the liquidity of EL shares since the listing of Hidroelectrica.

Revenue and expenditure budget - consolidated level

- The main indicators achieved vs. budgeted by Electrica have fluctuated from period to period, with the exception of turnover which is around 100% compared to the budgeted amount.
- Profitability indicators recorded in 2021 were negatively affected** by the significant increase in energy costs (the average purchase price of electricity for CPT was 67% higher than the value set by ANRE ex-ante in tariffs).

% Achieved vs Budgeted	2020	2021	2022
Turnover	98%	104%	88%
EBITDA	102%	na	161%
EBITDA margin achieved/budgeted	15% / 14%	- 2% / 11%	13% / 7%

Source: BRK Financial Group processing of EL annual financial statements

- For the year 2023, the Electrica Group expects slight increases in financial performance, due both to a 22.6% increase in tariffs in the distribution segment, offset by a 3.2% decrease in the estimated quantity distributed, and an increase in the sales volumes of electricity supplied.



Source: BRK Financial Group processing of EL annual financial statements

Board of Directors and Group Management

- The company is managed on a unitary basis by the Board of Directors and the General Meeting of Shareholders.

- Iulian Cristian Bosoanca**: experience in the economic field, since 2016 he holds the position of Chairman,
- George Cristodorescu** : experience in the energy sector, from 20 April 2021,
- Radu Mircea Florescu** : stock exchange experience from 7 February 2019,
- Gicu Iorga**: experience in the field of economics, from 1 May 2017,
- Adrian-Florin Lotrean**: expertise in insolvency, as from 28 April 2021,
- Dragos-Valentin Neacsu**: expertise in investment management, from 28 April 2021,
- Ion-Cosmin Petrescu**: business development expertise, starting 28 April 2021.

Structure of the Board of Directors as at 31.12.2022

Iulian Cristian Bosoanca	Chairman
George Cristodorescu	Independent non-executive director
Radu Mircea Florescu	Independent non-executive director
Gicu Iorga	Independent non-executive director
Adrian-Florin Lotrean	Independent non-executive director
Dragoş-Valentin Neacşu	Independent non-executive director
Ion-Cosmin Petrescu	Non-executive director

Source: BVB, BRK Financial Group processing after EL annual financial statements

- The company has three advisory committees, namely the Audit and Risk Committee, the Nomination and Remuneration Committee and the Strategy and Corporate Governance Committee.

- Audit and Risk Committee**: Radu Mircea Florescu (Chairman), Dragoş-Valentin Neacşu, Iulian Cristian Bosoanca.
- Nomination and Remuneration Committee** : Adrian-Florin Lotrean (preşedinte), Radu Mircea Florescu, Ion Cosmin Petrescu.
- Strategy and Corporate Governance Committee** : Dragoş-Valentin Neacsu (preşedinte), George Cristodorescu, Iulian Cristian Bosoanca.

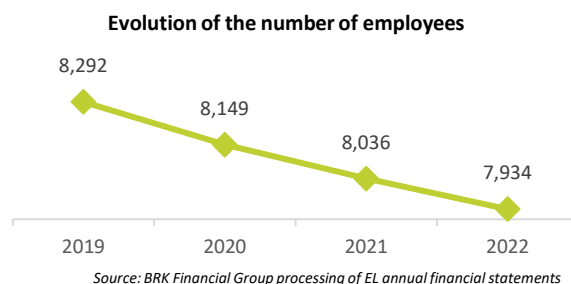
- The Group's executive management is provided by:

- Alexandru Chiriță**, interim CEO.
- Ștefan Frangulea**, interim CFO.

- Livioara Șujdea**, distribution manager
- Andreea Lambru**, business development director.

Electrica Group Team

- Over the last four years, the Electrica Group has seen a decrease in the number of employees, reaching 7,934 employees at the end of 2022 from 8,292 employees at the end of 2019, mainly as a result of organisational measures aimed at resizing and redefining the staffing scheme.



Dividend policy

- The company's dividends are distributed from the annual net profit of the individual financial statements after approval by the AGM.
- Since listing and to date, Electrica has distributed dividends every year, allocating a dividend payout ratio above 80% of net profit, with the exception of 2021 (50%).
- Following the resolution of the AGM of 27 April 2023, the company distributed dividends in the amount of 40.00 mil Ron, which corresponds to a **gross dividend of 0.1178 Ron/share. This amount represents 100% of the 2022 net profit** (23.03 mil Ron) to which was added the amount of 16.97 mil Ron from previous years' reserves.

An	Gross dividends (Ron/share)	Dividend distribution rate	Record date	Payment date
2022	0,1178	100%	31-May-23	23-Jun-23
2021	0,4500	50%	25-May-22	17-Jun-22
2020	0,7300	88%	3-Jun-21	25-Jun-21
2019	0,7248	100%	9-Jun-20	26-Jun-20
2018	0,7300	87%	7-Jun-19	24-Jun-19
2017	0,7237	100%	8-Jun-18	22-Jun-18
2016	0,7415	71%	8-Jun-17	22-Jun-17
2015	0,8600	80%	12-Jul-16	18-Jul-16
2014	0,7217	85%	10-Jul-15	15-Jul-15

Source: BVB, BRK Financial Group processing after EL annual financial statements

Vektor index and ESG scores

- Vektor** is the investor communication indicator for listed companies. It was calculated by ARIR (Romanian Association for Investor Relations) for the first time in 2019 for the Regulated Market. The Vektor indicator methodology is based on four pillars: Communication of financial results, ESG, Corporate Governance and Other instruments.

Electrica's Vektor indicator recorded maximum values - score 10, indicating active communication in terms of investor relations

- ESG (Environment, Social & Corporate Governance)** refers to a set of principles and standards that guide and assess the environmental, social and governance activities and impacts of companies.
- A number of ESG policies are implemented within the Group, which help to move closer to the optimal standard. There is also a major interest in looking for the best ways to reduce the carbon footprint and promote the circular economy.
- This project was initiated in 2020 by the Bucharest Stock Exchange together with Sustainalytics to calculate ESG ratings for listed companies.

At the end of 2022 (02.11.2022), Electrica records the following ESG scores:

ESG Risk Score
29,9

ESG Risk Ranking Score
84/302 top 28%

Exposure
54,8

Management
48,8

Momentum
-3,0

Source: ARIR, BVB, Electrica Group Sustainability Report 2022

Financial forecasts

Revenues.

- According to the revenue and expenditure budget for 2023, Electrica's representatives expect a 3% decrease in the volumes of electricity distributed and a slight increase in the volumes of electricity supplied. As for the electricity distribution tariffs charged by DEER, as of 1 April 2023, they show significant increases on each voltage level. In contrast to the distribution segment, according to the legal provisions, for the electricity and natural gas supply prices a cap is established for the period from 1 November 2021 to 31 March 2025.

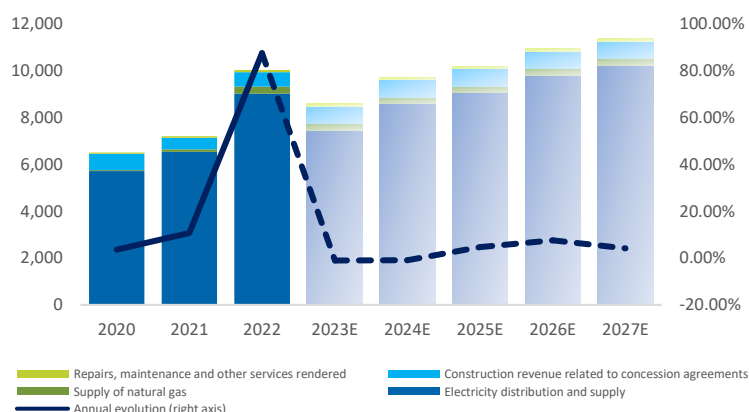
Tariffs for the electricity distribution service(lei/MWh) 2023		
MN	HV	31,23
	MV	69,44
	LV	229,96
TN	HV	29,09
	MV	71,38
	LV	182,24
TS	HV	28,48
	MV	62,32
	LV	171,97

Source: processing of EL quarterly financial statements

Tarife furnizare (lei/KWh)	2023
Electricity	
Domestic consumers	0,93
Non-domestic consumers	1,10
SoLR (lei/MWh)	80,00
Non SoLR (lei/MWh)	73,00
Natural Gas	
Domestic consumers	0,31
Non-domestic consumers	0,37
SoLR (lei/MWh)	13,50
Non SoLR (lei/MWh)	12,00

Source: processing of EL quarterly financial statements, BVC 2023

Evolution of turnover by segment (Million RON) and Group 2019 - 2027E



Source: BRK Financial Group calculations and processing based on EL annual financial statements

- Taking into account the above and in conjunction with the following aspects: slightly decreasing trend in the volumes of electricity distributed in the period 2023 - 2025 (on average -2%), followed by an increase of 2% in the period 2026 - 2027; increase in distribution tariffs based on the inflation rate estimated by the CNSP; progressive increase in electricity volumes (on average 6%), for the period 2024 - 2027 we expect the Electrica Group's activity to record, on average, slight increases (+3%).
- It is important to note that although we have applied the estimated inflation rate to estimate electricity supply prices in 2026 and 2027, economic theory shows us that after a period of price capping (of electricity sales in our case), and the lifting of that cap, there follows a rebalancing of the market, often seen as an increase in prices.

Electricity and natural gas purchased and expenditure on the construction of electricity networks in connection with concession agreements.

- The cost of purchased electricity and natural gas accounts for the largest share of the Group's turnover in 2019-2022, with values ranging from 60% to 105%. Our forecasts for the next 5 years indicate an average share of 108% of total turnover, with a progressive increase in the period 2020 - 2022.
- With regard to the expenditure on the construction of electricity grids in connection with concession agreements, their share in turnover followed a downward trend during the period under review (to 6% in 2022 from 12% in 2019). In the following period 2023 - 2027 we expect this share to remain at 6% on average.

Mil Ron

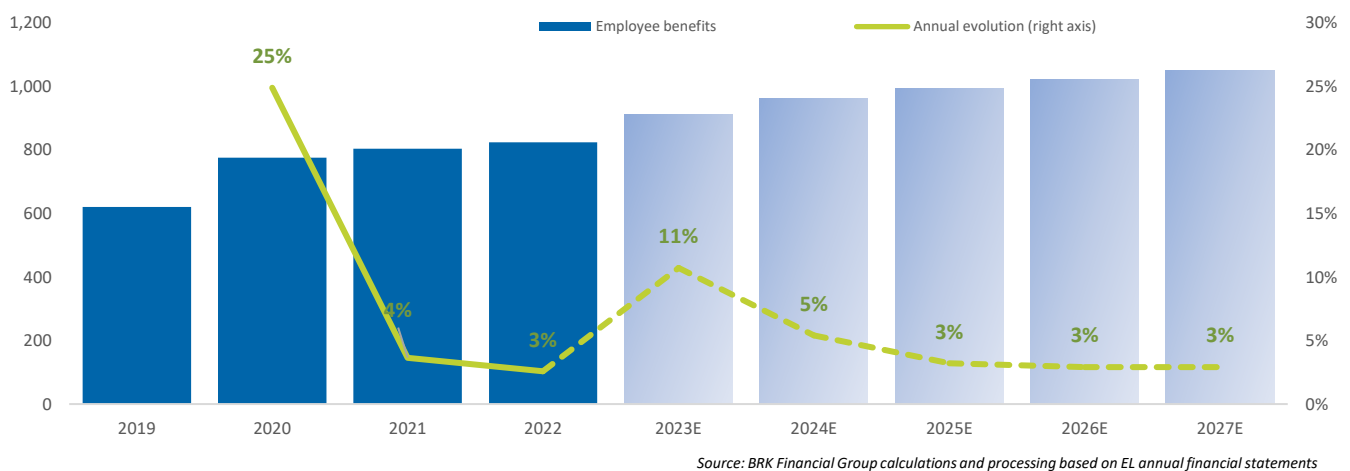
An	Electricity and natural gas purchased	Construction costs related to concession agreements
2019	3.860	759
2020	3.906	676
2021	5.695	486
2022	10.507	594
2023	10.502	509
2024	10.207	486
2025	10.680	509
2026	11.473	656
2027	11.937	682

Source: BRK Financial Group calculations and processing based on EL annual financial statements

Expenses with employees.

- In the period 2019 - 2022, employee benefits expenses are on an upward trend, reaching 823 million RON at the end of 2022 from 620 million RON in 2019. According to Electrica Group representatives, the specific assumptions for estimating these costs are based on the inflationary economic context, i.e. staff turnover. Starting from 2023, we are betting on an increase in the cost of employee benefits in line with the inflation rate estimates according to the data published by the CNSP (National Commission for Statistics and Forecasting) in the report "Projection of the main macroeconomic indicators 2022 - 2026".

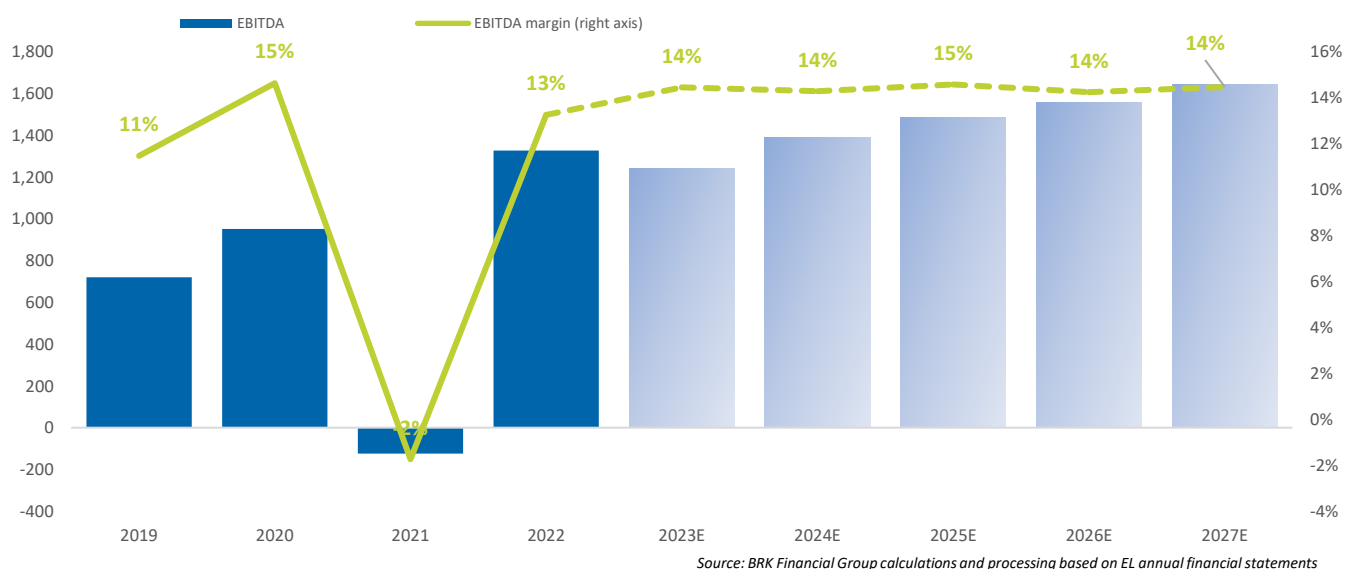
Evolution of employee expenditure (Million RON) 2019 - 2027E



EBITDA.

- Based on the above revenue and expenditure assumptions, and in conjunction with maintaining the historical average cost of repairs, maintenance and materials at 1% over the period 2023 - 2027, we expect operating profit (EBITDA) to increase on average by 7% and margin to improve to 14% - 15%.

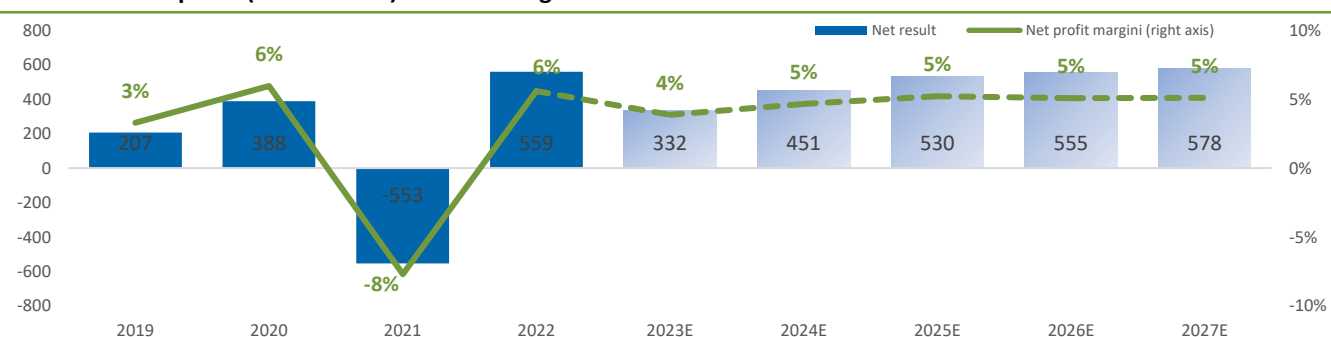
Evolution of EBITDA and operating margin 2019 - 2027E



Net Profit.

- **The items impacting net profit** after EBITDA calculation consist of **depreciation and amortisation cost, interest cost and income tax**. As for depreciation and amortisation cost, it represented on average 8% of the closing balance of non-current assets in the period 2020 - 2022. For the next five years we have considered the 10% percentage against the background of continued investments in the electricity network based on the investment projects foreseen in the framework of attracting funding from the Modernization Fund (FM). The CAPEX considered for the period 2023 - 2027 amounts on average to 1,276 million Ron. We expect that in the coming years, the interest cost will record an average absolute value of 72 million Ron, taking into account as a basis for estimation the loan repayments made in the first three months of the current year allocated on each bank loan.
- The corporate income tax expense was calculated taking into account: the current corporate income tax rate in Romania of 16%, the effect of non-deductible expenses in 2022 of 4%, the effect of non-taxable income of -3%, i.e. the deduction of legal reserves and the impact of previously unrecognised losses of -1%.
- Taking these considerations into account, our estimates count on a compounded annual increase in net profit of 15% in the period 2023-2027, respectively an average net margin of 5%, slightly below the level recorded in 2022 and 2020 (6%).

Evolution of net profit (Million RON) and net margin 2019 - 2027E



Main indicators 2019 -2023E

	2019	2020	2021	2022	2023E
Price (Ron/share)	11,1000	12,5500	10,0400	8,0900	10,80
Market cap. (mil. Ron)	3.845,52	4.347,87	3.478,29	2.802,73	3.740,72
Revenue/nr. acțiuni	18,127	18,765	20,722	28,893	24,767
EPS	0,597	1,119	-1,596	1,613	0,957
EV/EBITDA	5,11x	4,66x	-36,39x	4,42x	5,66x
EV/Sales	0,59x	0,68x	0,63x	0,58x	0,82x
P/E	18,61x	11,22x	-6,29x	5,01x	11,28x
P/S	0,61x	0,67x	0,48x	0,28x	0,44x
DIVY (%)	7%	6%	7%	6%	1%
Net debt/EBITDA	-0,23x	0,08x	-8,47x	2,30x	2,64x
ROE		6,83%	-10,32%	10,83%	6,01%
ROA		4,88%	-6,93%	5,73%	2,83%

Source: BRK Financial Group calculations and processing based on EL annual financial statements

Valuation

- We believe that the Discounted Cashflow Model is relevant to the valuation of Electrica, therefore the calculation of the target price for the Electrica company is based only on the results obtained within this model. We estimate a target price of 10.80 Ron/share, 17.75% above the closing price on July 18, 2023 (9.17 Ron/share), which corresponds to a buy recommendation for Electrica shares.

Evaluation summary

Target Price DCF (Ron/act)	10,80
Appreciation potential (%)	17,75

Source: BRK Financial Group calculations and processing based on EL annual financial statements

DCF

- Within the DCF evaluation model (FCFF method -> Free Cashflow to firm) we considered the following assumptions:

- WACC of 10.0%, considering a capital structure of 52% equity/48% debt (calculation can be seen in the adjacent table).
- Final value calculated as EV/EBITDA multiple of 6.4x

Assumptions	Model	Exit Multiple
Terminal Value	EV/EBITDA	6,4x
Terminal Value in Model (Mil. Ron)	10.162,02	10.162,02
WACC	10,0%	
Shares Outstanding as of Valuation Date (Mil.)	346,44	
Current price la 18.07.2023 (Ron/share)	9,17	
Tax rate	16%	

Weighted average cost of capital (WACC)	
Element	Value
Cost of equity (Ke)	12,46%
Risk free rate (Rf)	7,63%
Premium market (Rm-Rf)	6,00%
Unlevered Beta	0,46
Market Net Debt/ Market Equity ratio	91,26%
Relevered Beta (βE)	0,81
Cost of Debt net of taxes (KD)	8,63%
Credit risk premium	1,00%
Capital structure	
% Equity	52,28%
% Debt	47,72%
Tax rate	16,00%
WACC (in nominal terms, net of tax)	10,0%

Source: BRK Financial Group calculations based on Electrica's annual financial statements

Mil. RON							Terminal value
	31-Dec-23	31-Dec-24	31-Dec-25	31-Dec-26	31-Dec-27	31-Dec-27	
year fraction*	0,75*	1,00	1,00	1,00	1,00	1,00	1,00
EBIT	504,36	617,25	656,17	690,57	723,35		
Tax rate	80,70	98,76	104,99	110,49	115,74		
NOPAT	423,66	518,49	551,18	580,1	607,61		
D&A	734,00	769,25	825,14	863,4	919,80		
CAPEX	1.080,03	1.318,03	1.200,35	1.417,5	1.363,30		
Δ NWC	-178,88	-412,49	-54,73	-44,89	-26,27		
Unlevered FCFF	256,51	382,20	230,71	70,81	190,39		
Transaction FCFF	192,38	382,20	230,71	70,81	190,39		10.489,06
NPV	7.524,87	8.083,54	8.680,32	9.125,60	9.781,88	10.679,44	
Cash and equivalents	108,61						
Debt	3.892,77						
EV	3.740,72						
Target price (Ron/share)	10,80						

* At the time of the analysis, the financial statements as of March 31, 2023 are available

Source: BRK Financial Group calculations based on Electrica's annual financial statements

Sensitivity analysis

		Intrinsic Value (Ron/share)				
		WACC				
		12,0%	11,0%	10,0%	9,0%	8,0%
Exit Multiple	4,4x	3,576	4,154	4,762	5,401	6,075
	5,4x	6,346	7,045	7,780	8,553	9,368
	6,4x	9,116	9,935	10,80	11,705	12,661
	7,4x	11,886	12,826	13,815	14,857	15,954
	8,4x	14,656	15,717	16,833	18,009	19,248

Source: BRK Financial Group calculations based on Electrica's annual financial statements

Relative valuation

- Regarding this valuation method, we used for comparison a group of companies in Europe, **similar in terms of activity, for which we calculated price multiples EV/EBITDA, P/E and P/S**. In terms of price multiples, Electrica's shares, which are the subject of this analysis, are at attractive levels compared to similar companies in the energy sector.
- To the extent that we relate the estimated figures for 2023 to the average values obtained on each price multiple, the price of Electrica shares could reach 11.04 lei/share (we maintain the total number of shares at 346.44 million).

Company Name	Country	Market data				Financial data (2023E)			Valuation (2023E)			
		Price (€/act.)	No of shares (Mil.)	Market Capitalisation (Mil. €)	Net debt (Mil. €)	EV (Mil. €)	Revenue (Mil. €)	EBITDA (Mil. €)	Net Profit (Mil. €)	P/S x	EV/EBITDA x	P/E x
AB Ignitis grupe	Lithuania	20,250	72,39	1.465,88	762,80	2.229	3.177,14	441,75	206,51	0,46x	5,05x	7,10x
Acciona, S.A.	Spain	137,150	54,69	7.500,67	NA	na	10.928,07	1.943,93	511,87	0,69x	na	14,65x
Acinque S.p.A.	Italy	1,990	197,34	392,71	261,47	654	NA	NA	NA	0,00x	na	na
Ahlatci Dogal Gaz Dagitim Enerji ve Yatirim A.S.	Türkiye	0,320	2.600,00	830,99	(188,53)	642	NA	NA	NA	0,00x	na	na
AS Latvijas Gaze	Latvia	10,550	39,90	420,95	(118,61)	302	NA	NA	NA	0,00x	na	na
Aygaz A.S.	Türkiye	3,701	219,80	813,59	14,42	828	2.078,63	38,75	142,01	0,39x	21,37x	5,73x
BKW AG	Switzerland	157,755	52,78	8.326,86	NA	na	4.792,18	842,03	na	1,74x	na	na
CNTEE Transselectrica SA	Romania	5,212	73,30	382,07	NA	na	834,54	60,39	0,39	0,46x	na	na
Dala Energi AB (publ)	Sweden	4,360	24,77	108,01	17,47	125	NA	NA	NA	0,00x	na	na
EDP - Energias de Portugal, S.A.	Portugal	4,323	4.165,41	18.007,05	17.093,54	35.101	19.261,51	4.845,28	1.102,32	0,93x	7,24x	16,34x
Elektro Ljubljana d.d.	Slovenia	2,600	39,13	101,74	NA	na	NA	NA	NA	0,00x	na	na
Elia Group SA/NV	Belgium	109,100	73,50	8.019,11	NA	na	3.921,70	1.218,51	na	2,04x	na	na
Elmera Group ASA	Norway	1,771	108,63	192,42	57,71	250	1.645,14	68,98	28,44	0,12x	3,63x	6,77x
EnBW Energie Baden-Württemberg AG	Germany	87,000	270,86	23.564,39	9.004,10	32.568	NA	NA	NA	0,00x	na	na
ENEA S.A.	Poland	1,472	529,73	780,00	1.273,52	2.054	5.211,72	1.569,43	89,30	0,15x	1,31x	8,73x
Enel SpA	Italy	6,120	10.159,53	62.176,30	72.775,00	134.951	111.397,72	20.640,71	5.892,63	0,56x	6,54x	10,55x
Enerjisa Enerji A.S.	Türkiye	1,303	1.181,07	1.538,74	155,78	1.695	5.670,84	719,66	198,50	0,27x	2,35x	7,75x
Fortum Oyj	Finland	11,970	897,26	10.740,26	2.498,00	13.238	7.398,44	2.252,41	1.290,74	1,45x	5,88x	8,32x
Iberdrola, S.A.	Spain	11,130	6.174,91	68.726,70	42.550,00	111.277	53.354,43	14.425,75	4.553,54	1,29x	7,71x	15,09x
Italgas S.p.A.	Italy	5,225	810,75	4.236,14	6.089,50	10.326	1.756,00	1.180,49	413,76	2,41x	8,75x	10,24x
Jersey Electricity plc	United Kingdom	5,067	30,64	155,25	(14,96)	140	NA	NA	NA	0,00x	na	na
Kazakhstan Electricity Grid Operating Company JSC	Kazakhstan	3,221	260,00	837,47	177,16	1.015	452,75	230,23	68,66	1,85x	4,41x	12,20x
Naturgy Energy Group, S.A.	Spain	25,760	960,92	24.753,26	NA	na	28.712,92	5.036,84	1.810,81	0,86x	na	13,67x
Ørsted A/S	Denmark	81,832	420,18	34.383,56	4.741,59	39.125	na	3.069,96	na	na	12,74x	na
PGE Polska Grupa Energetyczna S.A.	Poland	1,590	2.243,71	3.568,45	1.024,12	4.593	19.210,32	1.630,35	547,70	0,19x	2,82x	6,52x
Public Joint-Stock Company Federal Hydro-Generating Company - RusHydro	Russia	0,013	435.436,65	5.450,80	2.543,55	7.994	NA	NA	NA	0,00x	na	na
Public Power Corporation S.A.	Greece	10,400	371,33	3.861,88	1.950,80	5.813	6.966,00	1.219,40	na	0,55x	4,77x	na
Redeia Corporación, S.A.	Spain	14,845	539,58	8.010,07	4.691,60	12.702	na	1.536,34	659,47	na	8,27x	12,15x
Romande Energie Holding SA	Switzerland	54,719	25,66	1.403,97	NA	na	790,06	157,98	87,32	1,78x	na	16,08x
Rosseti, Public Joint Stock Company	Russia	0,009	200.592,01	1.888,42	NA	na	NA	NA	NA	0,00x	na	na
S.N. Nuclearelectrica S.A.	Romania	9,334	301,64	2.815,41	NA	na	1.769,19	789,95	576,76	1,59x	na	4,88x
S.N.T.G.N. Transgaz S.A.	Romania	3,838	188,38	723,10	357,77	1.081	391,33	78,23	11,31	1,85x	13,82x	na
SSE plc	United Kingdom	20,449	1.082,65	22.139,73	10.550,44	32.690	12.046,20	3.632,46	1.927,40	1,84x	9,00x	11,49x
TAURON Polska Energia S.A.	Poland	0,632	1.752,55	1.107,97	3.652,58	4.761	9.599,79	876,05	220,65	0,12x	5,43x	5,02x
Terna S.p.A.	Italy	7,416	2.006,16	14.877,67	8.847,20	23.725	na	2.109,28	866,02	na	11,25x	17,18x
VERBUND AG	Austria	70,150	347,42	24.371,21	2.282,70	\$26.654	13.986,33	4.279,09	2.397,23	1,74x	6,23x	10,17x
Min							391,33	38,75	0,39	0,0x	1,3x	4,9x
Average							13.556,37	2.773,86	1.026,23	0,8x	7,4x	10,5x
Median							5.441,28	1.219,40	511,87	0,5x	6,4x	10,2x
Max							111.397,72	20.640,71	5.892,63	2,4x	21,4x	17,2x

Source: BRK Financial Group calculations by EL, Capital IQ annual financial statements

Investment Research Disclaimer

Buy: Share price may exceed 15% over the next 12 months

Hold: Share price may fall within the range of +/- 15% over the next 12 months

Sell: Share price may fall by more than 15% over the next 12 months

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