

COVID-19

Power and utilities

Impact of COVID-19 and Economic Downturn on South East Europe Power and Utility Sector

Selection for the EnCs Athens Forum



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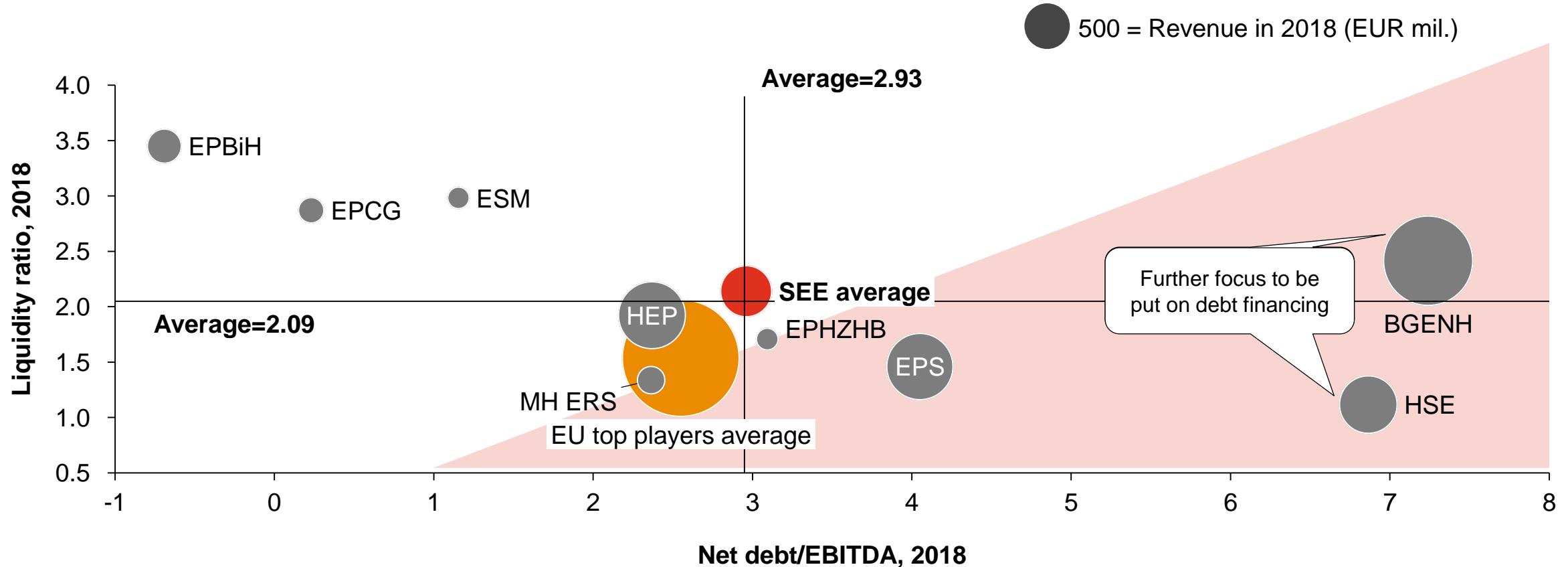
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PwC perspective

Based on historical performance, SEE utilities might be less resilient to market shock than their European peers...

Financial resilience of SEE energy companies and European best practice



Note: As companies have different level of vertical integration, purpose of this chart is not a comparable benchmark, but rather an individual overview of current resilience position
 Source: Company financial and annual reports, PwC analysis

...with some companies more exposed to liquidity, cash flow, and debt financing challenges

Key performance indicators of SEE utilities (2018)



KPI	HEP	HSE	EPS	MH ERS	EP B&H	EPHZHB	EPCG	ESM	BGENH	SEE mean	EU top players average ¹
Operating efficiency (Net income / Revenue)	9%	-1%	-1%	2%	5%	4%	15%	12%	-4%	5%	12%
Cash ratio (Cash and cash eq. / Current liabilities)	0.78	0.30	0.33	0.15	1.19	0.13	0.30	0.17	1.15	0.50	0.26
Cash flow coverage (Op. cash flow / Total liabilities)	24%	20%	17%	15%	44%	9%	50%	16%	6%	22%	11%
Current liability coverage (Op. cash flow / Current liabilities)	100%	74%	66%	47%	206%	43%	155%	74%	32%	89%	47%
Debt to equity (Total liabilities / Equity)	0.66	0.96	0.39	0.23	0.14	0.50	0.16	0.42	0.56	0.45	1.57
Assets to equity² (Total assets / Equity)	1.66	1.96	1.39	1.23	1.14	1.50	1.16	1.42	1.56	1.45	6.38
Return on equity (Net income / Equity)	6%	-1%	0%	0%	2%	2%	5%	5%	-2%	0%	41%
Asset use efficiency (Revenue/ Total assets)	38%	70%	19%	16%	31%	35%	27%	29%	39%	34%	55%

1) Includes E.ON, RWE, Iberdrola, ENEL, EDF, Vattenfall and Engie






















2) Assets to equity ratio is not color coded across performance as interpretation of this ratio highly depends on several other indicators and company's strategy in this concern

Source: Companies' financial reports, PwC analysis

Leading Middle Slightly lagging Lagging

Regional utilities are affected by the crisis across the value chain, with demand drop and price volatility leading the way

Overview of COVID-19 SEE impact across key categories in Q1 2020 (WK9 to WK15 of 2020)

Category	 Consumption and customer behaviour	 Supply and power generation	 Prices and market	 Corporate reaction	 State response
Key takeaway	<ul style="list-style-type: none"> Economic slowdown has decreased the overall electricity consumption (WK15 9% YoY, 18% vs WK9) Households more resilient 	<ul style="list-style-type: none"> 16% drop W15 vs WK9 9% decrease WK15 YoY Coal/gas decrease during COVID but flat YoY due to bad hydrology in SEE (Europe had strogner decrease) PV and Wind growth 	<ul style="list-style-type: none"> Regional PX spot prices dropped ~50% since crisis start, with Q3/Q4 futures stable for now (changed) In case of further imbalance and volatility, export oriented utilities could be at risk 	<ul style="list-style-type: none"> Work went digital with more safety measures for field operations Liquidity is #1 priority now, with some cost rationalisation Capital projects are currently not postponed 	<ul style="list-style-type: none"> Governments have introduced payment relaxation measures to protect customers The EU leaders are calling for collective efforts to continue the energy transition as planned
COVID-19 impact	High	Low / Medium	High	Medium	Medium
Impact magnitude for P&U					
P&U most impacted area	<ul style="list-style-type: none">  Revenue  Profitability 	<ul style="list-style-type: none">  Operations  Profitability 	<ul style="list-style-type: none">  Revenue  Profitability 	<ul style="list-style-type: none">  Cash  Operations  OPEX 	<ul style="list-style-type: none">  Revenue  Cash

Source: PwC analysis

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PwC

May 2020



SEE utilities have adjusted their operations to COVID-19 safety measures and relatively smoothly overcame supply chain issues

Overview of SEE utilities current response actions (1/2) - as at April 28, 2020

Key trends

Observation



Change in operations

- Day-to-day work needed to quickly be adjusted to the COVID-19 situation, causing disruptions in electricity supply
- Part of desk based work is organised from home by using necessary IT systems
- Protection of key O&M personnel (field workers and dispatchers) needed to be ensured through special shift modes



Regional utilities have successfully adopted to the 'new normal' working mode by going digital and introducing stricter safety measures for field workers



Disruptions in supply chain

- Minor delays in raw materials and components delivery occurred due to suppliers being shut down or not able to ensure full capacity
- Some companies started renegotiation of contracts and exercising of contractual options
- Companies have started considering back-up supplier networks and developing continuity plans



Utilities are successfully facing the supply chain delays through contract renegotiations and back-up options



Companies are now primarily focused on stabilising their liquidity, while major capital projects are continuing with minor delays

Overview of SEE utilities current response actions (2/2) - as at 28 May 2020

Key trends

Observation



Focus on financial stability

- Cash collection is currently the top priority of SEE utilities, as they are seeking ways to stabilise liquidity
- Cost scrutiny is also on their agenda where some have already introduced measures such as postponement of non-critical procurement activities and reduction in G&A cost
- For some companies, measures include partial decrease of employee cost/benefits

Cash collection is now the main concern where most players have turned to lenders for additional funds. The need to rationalise operating cost strongly correlates to pre-crisis financial stability



Temporary slowdown in investments

- Large capital projects are not heavily impacted at the moment
- There could be minor delays on some project activities due to lockdown measures and lower mobility
- No major financing risks are expected for utilities, as they are considered a relatively safe asset
- There are no major disruptions in M&A activities for now, but there could be some slowdown in the future

There are no major drawbacks to continue with large capital projects, but in the upcoming months, delays could be expected to a certain extent

As SEE power and utilities are exiting disruption phase, mindset needs to be shifted towards recovery and transformation

Selection of specific response actions for P&U through stages

