

1962 2012

Liberalization on the Romanian market

An investor perspective

Bucharest, September 26th, 2012

Electricity sector in Romania – status



Regulation stimulating efficiency

- Heavily regulated
- Low efficiency generation (old equipment)

- Transparent, stable, EU level regulation
- Third party access

- Cross subsidy
- No incentive for efficient consumption
- Free market for business customers

Privatization

- 93% state owned
- Lack of investments

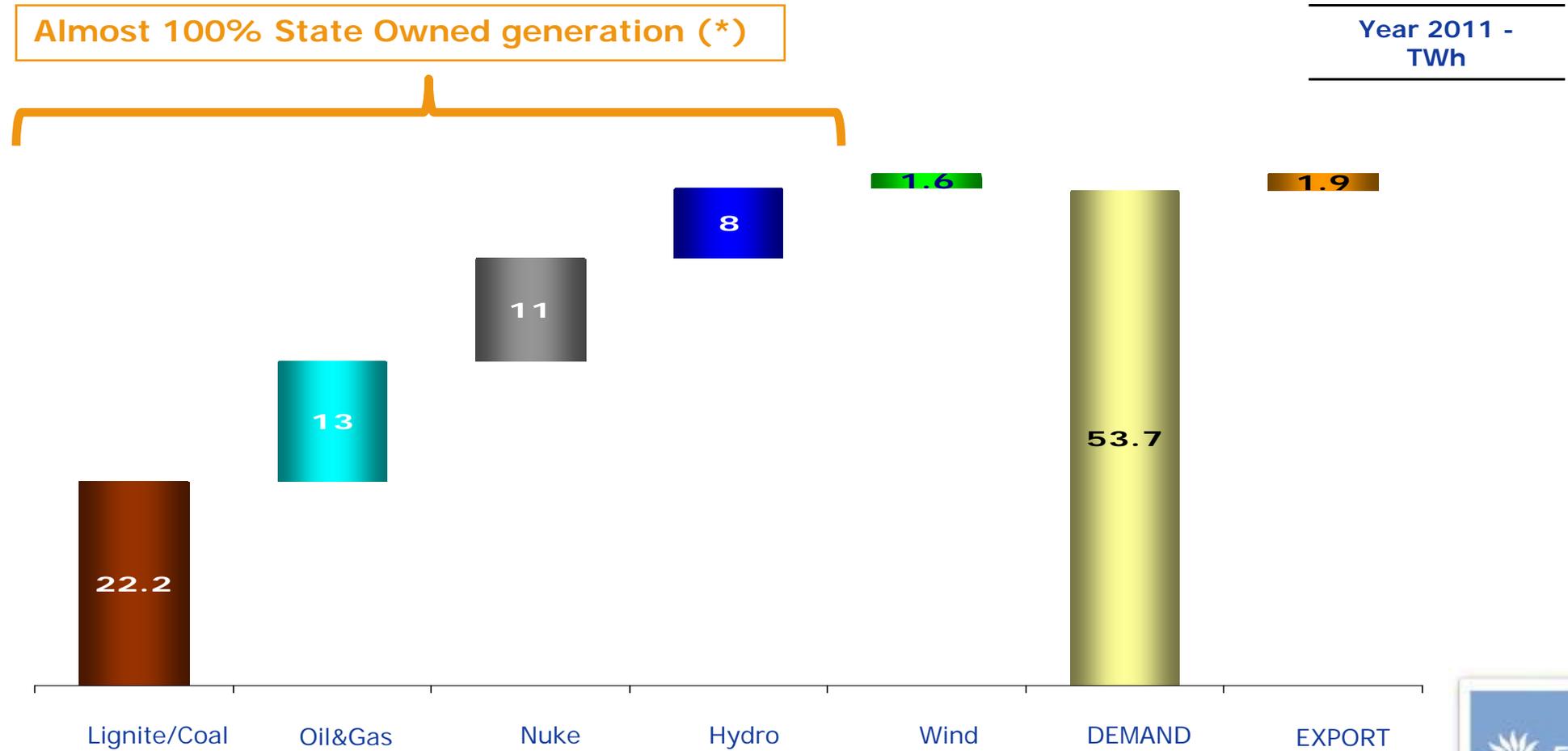
- 60% distribution privately owned
- BVB listed transporter

- 80% private



Electricity market overview

Generation capacity heavily concentrated in State hands - 93%



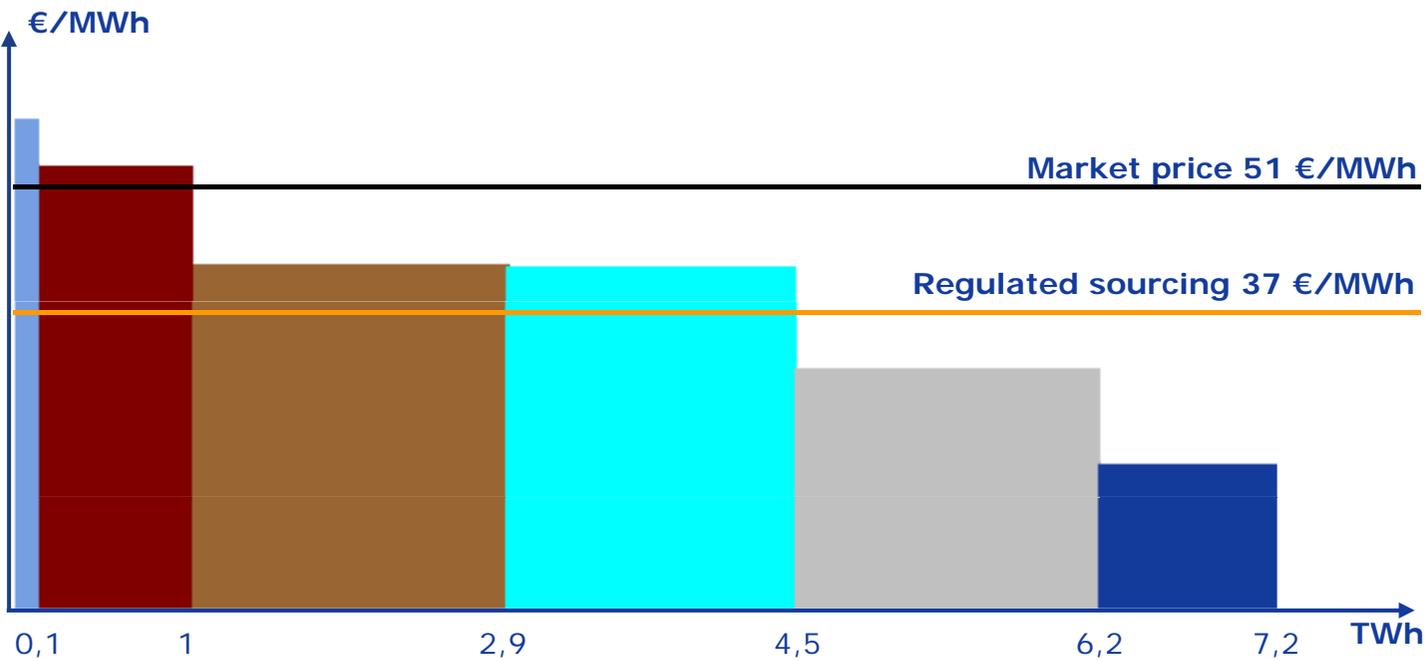
2011 confirmed Romania as net exporting country



Note: in 2011 Petrom started 860MW CCGT representing 1.1% of total market
Source: Enel analysis; ANRE Report, December 2011

Sourcing costs

High cost plants are included in basket and sell above free market price



Year 2012
(forecast)

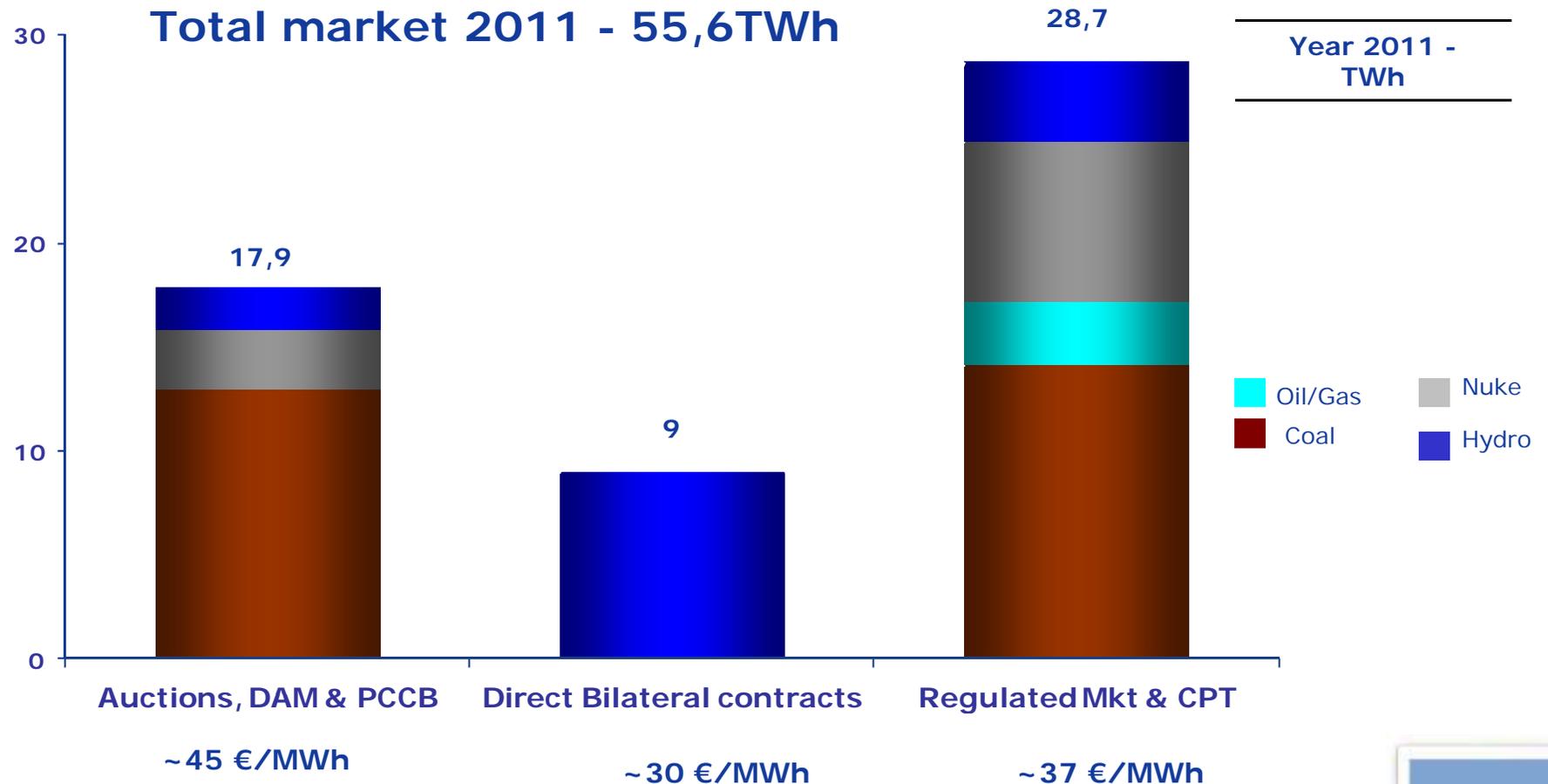
- Small hydro
- Hard coal
- Lignite
- Oil/Gas
- Nuke
- Hydro



(*) Including 2,5% increase vs 2011 and GC fee on top (12 Ron/MWh) of tariffs starting 1 September 2012

Wholesale: volumes and destination

Transparent and competitive market mechanisms are limited in volumes

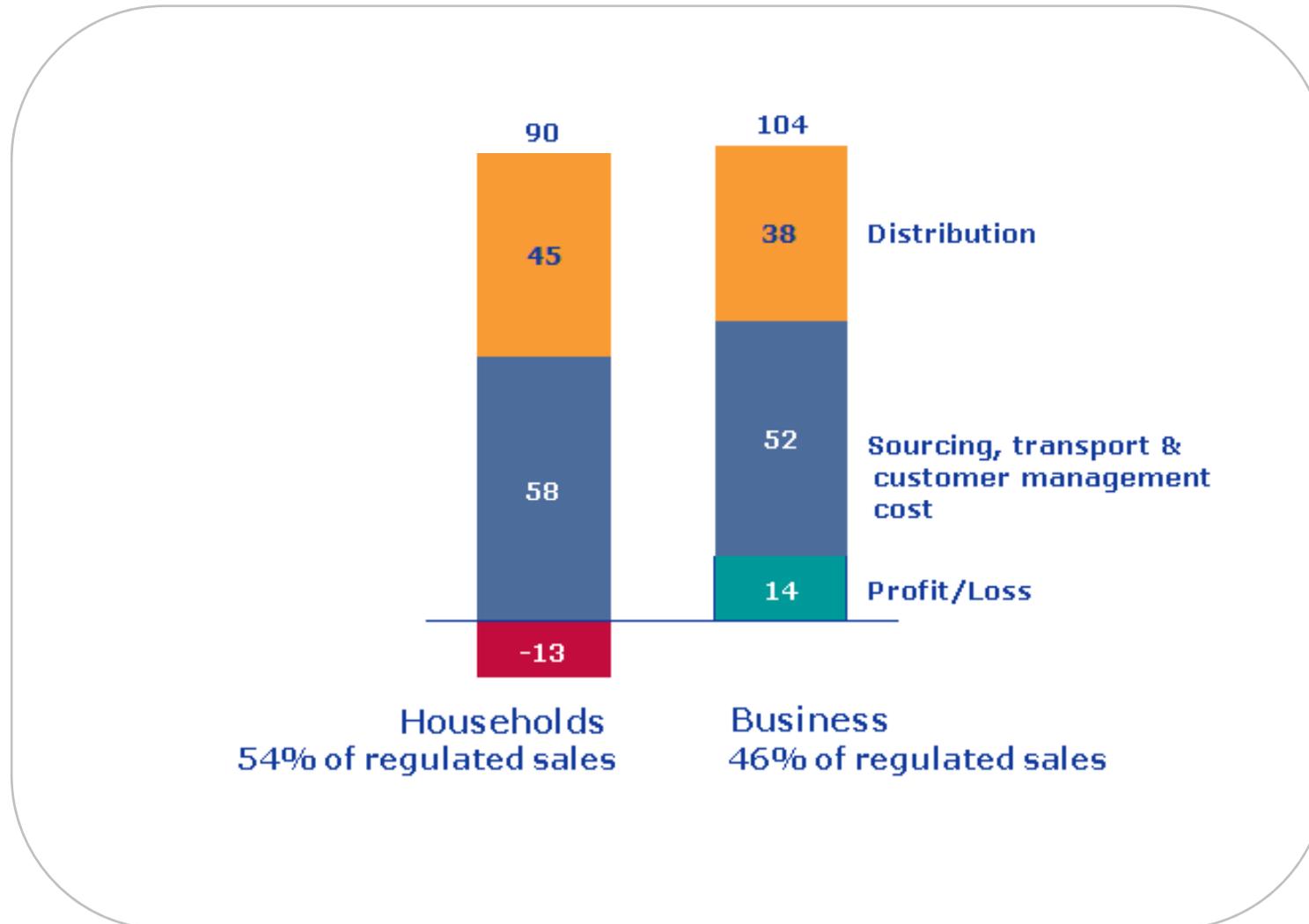


Note: PCCB sourcing for hidro represents the only transaction closed at the end of 2011

Tariff imbalances

Regulated prices by customer type

€/MWh



Strategic objectives

EU Roadmap

- Cut carbon emission
- Renewable development
- Integrated market

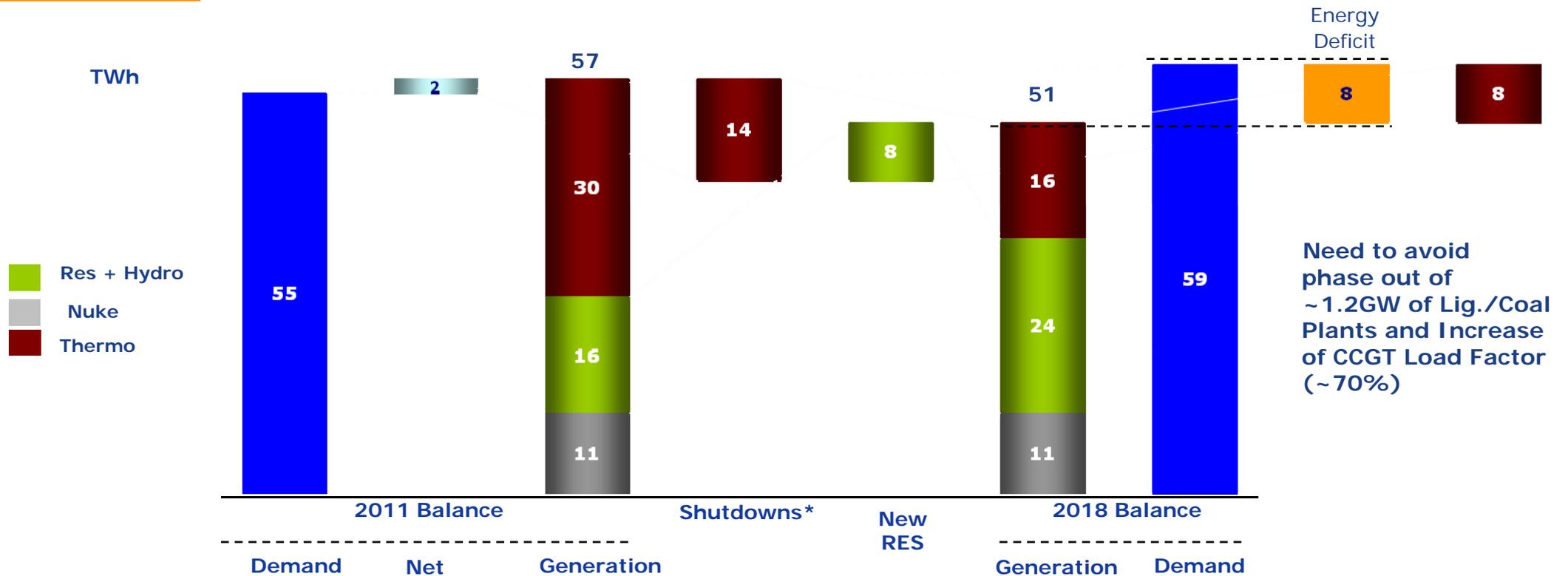
Government

- Country energy independence
- Attract investments
- Protect vulnerable customers



Market evolution scenario up to 2018

Energy balance



- Security of system from 2018 onwards can only be assured by means of imports
- Imports flows will align Romanian power price to neighboring countries prices



*Shutdowns are included in the Energy Strategy Draft of the Government

Recommendation on market reform

The path forward



Stop preferential contracts & exposure to market of high cost plants

- Immediate termination of existing preferential contracts ('smart guys')
- Increase liquidity by shifting marginal cost generation from regulated baskets to free market
- Sustainable pricing strategy to households

Virtual Power Plant (VPP) Auctions:

- VPP ('Virtual Power Plant') auctions as a transitional provision before privatization
- EU environmental compliance of generation assets

Towards new efficient power generation

- Implement measures to set up investments in new generation
- Foster investments for environmental refurbishment of existing assets

1. Reinforcement and correction of current market and VPP to build competition

2. Financial revitalization and sustainable development for the electricity sector in Romania



Proposal to increase competition

VPP: effective to unlock competition towards full market opening

Characteristics

- VPPs are **virtual allocation of generation capacity** for a temporary period
- Instead of selling the physical power plant, the firm retains management and control, but offers contracts that are intended to replicate the output of the plant
- Contracts awarded through competitive auctions

Benefits for the market

- **Transparency:** capacity is sold in open and transparent auctions
- **Competition:** strengthened competition and reduced concentration of the offer
- **Liquidity:** the Regulator can tailor the contracts to be auctioned (MW, duration, reserve price)

Benefits for generators

- **Keep ownership:** the generators maintain the assets' ownership
- **Price reliability:** VPPs improve liquidity and therefore price formation in the wholesale electricity market

Benefits for investors

- **Gradual market entry:** VPPs make easier for investors to start-up and gradually strengthen their presence in the market
- **Financial hedging:** VPPs make electricity available for predefined periods of time through auctions at a price that is fixed in advance

