Speaker A

[00:01 - 00:22] My name is Valentina Dinu. I am with the Investor Relations Department at SNN, and this conference call addresses the financial statements for the first quarter of 2023. The presentation is going to be delivered by Mr. Dan Nicolae. He's CFO of the company, and then after

[00:22 - 00:29] the presentation, we can go to questions and answers. So, Dan, the floor is yours. Thank

Speaker B

[00:29 - 00:48] you very much. Hello, everyone. Thank you for participating in this presentation. Today, I'm going to present the individual interim financial statements as at end for the period

[00:48 - 01:09] of three months ended March 31st, 2023, basically the first quarter of this year. So, the presentation will include a short presentation of the financial statements, starting with the profit and loss

[01:09 - 01:33] statement. As you can see from this slide, the quantity of energy sold in the first quarter of this year was almost identical with the one in the quarter of 2022, small variation. However, the sales of electricity was, including thermal energy, was about 2.09 billion lei,

[01:33 - 01:55] higher than the one in Q1, 2022. The operating expenses were higher than the one in 2022. For this reason, the EBITDA and the net profit is slightly less than the one in 2022. The

[01:55 - 02:12] reason why the revenue is higher, it's based on the fact that we were able to sell almost 50% of our eligible quantity at higher than prices, average prices than 450 lei per megawatt.

[02:14 - 02:32] In terms of operating expenses, we have a significant impact on this, we call it, contribution to the energy transition fund and I will present the detailed impact in a later slide.

[02:33 - 02:50] In terms of the breakdown of this net result, you will see here that in 2023 first quarter compared to the first quarter of 2022, we have a significant increase in windfall tax contribution,

[02:50 - 03:15] it's almost 400 million lei impact, so higher energy transition fund contribution. Increase in personal costs, a relatively small amount, increasing sales from increase of electricity. This with a positive impact of 250 million lei and we managed to derive a good financial result

[03:15 - 03:35] with a net impact of 104 million. In terms of balance sheet position, nothing significant changed here. We have a small increase in non-current assets mainly coming from the fact that we've invested profitably in long-term

[03:35 - 03:57] bonds issued by a local bank, CEC bank, with a fixed annual interest of 7.5. We granted some loans to our subsidiaries. In terms of current assets, of course, we have an increase of 15% mainly derived from the increase in cash and cash equivalents and increase in

[03:57 - 04:14] trade receivables by 37% because of the fact that we managed to sell half of our quantity at higher than anticipated prices. A small decrease in our loan with Euratom and of course

[04:14 - 04:37] an increase in our current liabilities mainly because of the fact that we are paying this contribution to the energy transition fund in April, so therefore we have a payable. Next, we see the corresponding impact as a result of the profit being carried forward.

[04:39 - 05:01] The next slide presents a detailed picture of income statement. The highlights were presented in the first slides. What I wanted to point out in this financial highlight income statement

[05:01 - 05:21] is the fact that we managed to sell almost the same quantity of energy for higher revenues compared to the first quarter of 2022. It's almost with 50 million lay more than as anticipated

[05:21 - 05:42] in our three-month budget. In terms of operating expenses, you'll see that we have a significant impact from the contribution to the energy transition fund, higher than the budgeted of course much higher than the one in the first quarter of 2022. Another good news is that

[05:42 - 06:00] we managed not to purchase electricity because we managed to keep the reactors almost uninterrupted in these three months beginning, so therefore the cost of traded electricity is insignificant

[06:00 - 06:23] compared to the budgeted value. EBITDA, almost 1 billion lay, 956 million which is higher than the budget and the net profit is similar, it's almost 38% higher than the budgeted amount.

[06:24 - 06:45] The next slide presents a breakdown of the impact on ourselves. You'll see that with this green shadow you see the positive effect on our electricity source evolution and with the other

[06:47 - 07:07] colors you'll see the negative impact. In terms of more detailed analysis of our electricity source evolution, I will point you to the next slide where you'll see that we managed to sell

[07:07 - 07:31] 44.41% of our electricity within this MACCE mechanism which allows the sale of electricity at 450 lay per megawatt. And the rest of the energy was sold mainly on the competitive market

[07:31 - 07:53] about 43.6% at an average price of 1.1, 1100 RON per megawatt hour which is much better than the same average price in the first quarter of 2022. On the spot market about 11.7% of the total.

[07:54 - 08:17] The average was still very good, 613 lay per megawatt which is lower than what we managed to obtain in the first quarter of 2022. In terms of operational expenses, you'll see on top of the

[08:17 - 08:34] page the main elements. Of course the first element is the windfall tax expense, 840 million lay and then the personal expenses. Technological and non-technological water and energy, depreciation

[08:34 - 08:53] and amortization. I'll go through the first four or five. So the windfall, you may remember that we are impacted by special legislation providing that we need to pay a contribution to the energy

[08:53 - 09:13] transition fund. Basically we have to, first of all we are taxed at the level of 80% to the additional income resulting from the difference between the average monthly selling price of electricity

[09:13 - 09:38] and the regulated fixed price of 450. Because of this taxation we derived this 840 million lay cost. In the first quarter of 2023 the legislation changed and then we are taxed at 100%, not 80% as in 2022.

[09:39 - 10:02] So therefore we have this higher windfall tax expense cost. Personal expenses, we increased the number of employees and we have increased some of the salaries and we have recorded a quota for the employees'

[10:02 - 10:18] participation to profit. Technological and non-technological water and energy, a 10% increase mainly because of higher utility prices. Depreciation and amortization slightly the same. Cost of uranium fuel almost the same.

[10:19 - 10:35] The contribution to ANDR for decommissioning the same, no notable variation. The electricity transmission expenses, a significant increase of almost 70% with the increase of the level of the transmission tariff into the grid

[10:35 - 11:02] as compared to 2022. Cost of traded electricity, it's a significant decrease of 72.3% because in the first quarter we haven't had any unplanned outage. So we managed not to, we were lucky enough not to be forced to buy electricity

[11:02 - 11:30] on the competitive market. In terms of CAPEX, we budgeted for the entire year about 1.3 billion layoff investments, out of which 1.1 was for ongoing investments, 111 for investment major on tangible assets and the rest for equipment.

[11:30 - 11:47] In terms of completion, we've managed to invest so far about 73 million layoff, but we're catching up, I believe. So by the end of the year I'm confident that we'll achieve our target CAPEX.

[11:51 - 12:13] In terms of the main projects, you probably know all about these projects, but the Unit 1 refurbishment is one of the largest in terms of value and of course it's extremely important for us. We are working and collaborating with SNC Lavalin Group,

[12:13 - 12:35] basically with their Candu subsidiary, in order to progress with this project. We're signing engineering contracts in order to substantiate the production of long-lived materials and other elements required for this refurbishment project.

[12:36 - 12:55] With regards to the other big project of the company, the development of two new reactors by our subsidiary Energonuclear, you probably know that on March, at the end of March, the Parliament and then our President adopted Law No. 74

[12:55 - 13:11] for the approval of the signing of the support agreement between the Romanian state and Nuclearelectrica. This is a milestone for the development of the project because it includes a host of measures in support of the development of the project,

[13:12 - 13:29] including the issuance of sovereign guarantees for 100% of the value of the debt, the implementation of a contract for different mechanisms, and a lot of regulatory, administrative, urbanistic and other types of support.

[13:30 - 13:48] In terms of small modular reactors, we are working with our partners in order to progress the project. You may remember that we have the support of the US government in terms of subsidizing part of the engineering costs

[13:49 - 14:06] and the project is progressing as anticipated. In terms of radioactivity emissions, nothing very good, very good performance, nothing really to report on that. The same with nuclear fuel burn factor.

[14:07 - 14:22] In terms of capacity factor, we had this exceptional three months with 98.91% capacity factor, which is confirming the fact that we are running one of the best nuclear power plants in the world.

[14:25 - 14:43] And that's about it. The next event will be the publication of the first half year report, which is due and the conference is due on 14th of August, 4 o'clock as usual, so up until then.

[14:44 - 14:47] Thank you very much. I'm here to listen to any questions.

Speaker C

[14:59 - 15:17] Hi, good afternoon. A question for me, Juliana Ciopraga here. On the windfall tax, can you clarify how that's calculated? I mean, in the second quarter, you're probably going to see significant costs with the electricity bought,

[15:17 - 15:34] because you've already started the works on one of the reactors. How would those be treated? I mean, how would you take them into account in the windfall tax? Are you going to take them into account in some way?

Speaker B

[15:36 - 15:51] I think we're not anticipating any change in the calculation of the windfall tax, because the re-technologization process will start on 1st of January, 2027.

Speaker C

[15:52 - 15:58] No, no, from the works, from the maintainers, from closing one of the reactors to the maintainers.

Speaker B

[15:59 - 16:22] Ah, the standard outage. Yes, exactly. Unfortunately, given the formula which is applied for this computation of the tax, the energy for the outage is computed in the tax,

[16:22 - 16:27] the energy for unplanned loader is not computed in the tax, if that was the question.

Speaker C

[16:29 - 16:42] So, the energy that you need to buy for the outage is accounted for in the tax? Yes? I mean, you basically are allowed to deduce those. Yes, the formula allows us to deduct them.

Speaker B

[16:42 - 17:03] But basically, our strategy, we have not sold the capacity of the reactor which is under outage, so therefore we are not forced to buy on the market the energy in order to complement what we sold.

[17:04 - 17:05] So, there is no impact.

Speaker C

[17:06 - 17:24] Okay, so you don't anticipate basically to buy significant volumes like you did in the previous years? No. Okay, thank you. And also, on the CAPEX plan, you started deploying, you didn't start,

[17:24 - 17:42] but you're probably going to start deploying significant CAPEX towards the refurbishment, the one starting in 2027. You already provided an estimate for the total CAPEX, if I remember correctly,

[17:42 - 17:57] it's somewhere around 1.9 billion euros. Are you going to reanalyse that, revise those figures? How would it work? Because you're four years away right now, and I guess that costs have changed in the last year.

[17:58 - 18:03] How would you know what the final costs are? Have you contracted anything?

Speaker B

[18:04 - 18:29] We have contracted some of the pre-engineering contracts, and we will of course revise the budget in direct relation with the value of the contract that we're concluding. So, we will know the actual and the total value of the project once all the contracts have been concluded,

[18:29 - 18:34] and second we'll see what will be the final value of the works at the end of the project.

Speaker C

[18:35 - 18:45] But when do you expect to have an updated estimate for the costs? Of course you'll know when you can put the contracts.

Speaker B

[18:45 - 19:05] We will know with greater accuracy the budget for the re-technologisation somewhere in mid-2026. By then we are slowly but surely contracting the necessary engineering and the works and the materials in order to complete the project.

Speaker C

[19:07 - 19:24] And how much of the costs should be deployed before 2027? I mean we can see what you've included in the budget, because you included also estimates for 2024-2025, but how much in total would need to be spent before 2027?

Speaker B

[19:25 - 19:31] I think it will be in the region of 300 million euros, but we'll know for sure when we want to conclude the contracts.

Speaker C

[19:33 - 19:36] So, around 300 million euros would be spent in advance?

Speaker B

[19:37 - 20:01] Yes, but basically we'll buy some long-line materials, and we'll invest in engineering. The long-line materials are the components with a long production cycle that we need to order, so that on 1st of January 2027 everything is deployed on the site,

[20:01 - 20:07] waiting for the reactor to be closed and the start of the works on the reactor.

Speaker C

[20:07 - 20:19] But I see in the budget that you've booked much more than that, I mean you've booked 700 million already in 2023, 963 in 2024 and 1.6 billion in 2025.

Speaker B

[20:20 - 20:33] These are all estimates. As I mentioned before, we'll know for sure when we sign the contracts, and we are currently in discussions with our partners.

Speaker C

[20:33 - 20:50] And for the amount for this year, for example, 700 million, 721 million, how likely is that to happen? But that's already significant, I mean it's 150 million euros.

Speaker B

[20:51 - 21:07] We think that it's very highly likely to happen, because it relies on either soon to be signed contracts, or by the end of the last quarter to be signed and paid advances.

Speaker C

[21:09 - 21:21] Okay, but then you're a bit less unsure in 2024-2025, so it's possible that CAPEX IV retubing would be lower than what you've included in the budget.

Speaker B

[21:21 - 21:33] It all depends on the cash curve negotiated with our partners. This is something that is still under discussion.

Speaker A

[21:34 - 21:34] Okay.

Speaker C

[21:36 - 21:49] Thank you. One more thing if I may, are you allowed to conclude forward contracts now? I mean can you sell energy forward?

Speaker B

[21:51 - 22:12] We are under the current mechanism, we have to sell whatever is not already sold, the un- let's call it in the legislation, the non-contracted quantities we are bound to sell under the MACCE mechanism,

[22:12 - 22:14] with OPCOM as a counterparty.

Speaker C

[22:16 - 22:20] So whatever is not contracted you have to sell on the centralized market?

Speaker B

[22:22 - 22:39] Yes, you know there is this mechanism of 80% of the quantity that was not sold, that we need to sell with OPCOM, and the rest may be sold on forward contracts,

[22:41 - 22:46] but basically using stock exchange prices and mechanisms.

Speaker C

[22:47 - 23:00] You mean when you say you have to sell them via OPCOM, you mean you can sell them forward via the market, but not necessarily on the centralized market, so not necessarily at 450, that's what I'm trying to understand.

Speaker B

[23:01 - 23:19] Basically this year, if the mechanism is implemented as anticipated, about 50% of our energy will be sold at 450, and the rest will be sold at the average price which is indicated basically in our budget.

[23:25 - 23:36] So this year we are lucky that we managed in 2022 to sell almost half of our available quantity at very good prices.

Speaker C

[23:37 - 23:54] So you don't anticipate going forward as well, you don't anticipate to be selling much on the day ahead market, because you sold around 12% if I remember correctly on the day ahead market in the first quarter, that's probably going to be the same in the following quarters, right?

[23:55 - 23:56] Do I understand correctly?

Speaker B

[23:57 - 24:14] At the end of the year we'll have about 50-50, 50% 450, and the rest will be sold at a higher price. We'll see what will be the average, but it will be considerably higher than the last year.

Speaker C

[24:16 - 24:30] And for 2024 you won't have at that time any more forward contracts, I guess, or the forward contracts will be very small.

Speaker B

[24:31 - 24:31] Exactly.

Speaker C

[24:32 - 24:41] So next year you'll be selling 80% on the centralized market, and the rest probably on the day ahead, right? Is this how this would work?

Speaker B

[24:43 - 24:57] Yes, we'll see how this mechanism will apply next year, but I assume that 80% will be in the north and will be required to sell this quantity.

Speaker C

[24:58 - 25:03] Thank you.

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[25:24 - 25:24] Thank you.

Speaker C

[25:25 - 25:33] And what's the next step? If there are no other questions from the other participants, what would be the next step for Unis 3 and 4? I mean, what needs to happen next?

Speaker B

[25:34 - 25:35] For Unis 3 and 4?

Speaker C

[25:36 - 25:36] Yes.

Speaker B

[25:38 - 25:59] We will be contracting the engineering works. The first part of the engineering works, so the initial elements, let's put it this way.

Speaker C

[26:01 - 26:09] Pre-engineering, basically, right? Yes. And what would be the cost involved?

Speaker B

[26:10 - 26:20] This is not sure at this moment. It's going to be negotiated with our partners. And of course, it's going to be competitively procured.

Speaker C

[26:31 - 26:52] So, the support agreement is basically like a framework, but then all the details about contract for difference, who assumes the risks, when, for example, if you go over the budget, etc. Those details fall to be set. They're not included in the support agreement, right?

Speaker B

[26:53 - 26:56] Of course, yes. The support agreement is a framework.

Speaker C

[26:57 - 27:11] And when would more details come out regarding CFD, etc.?

Speaker B

[27:11 - 27:25] It's a decision of the Ministry of Energy, who's implementing a similar mechanism for the renewable market. We are working closely with the Ministry in order to progress this mechanism also.

Speaker C

[27:27 - 27:32] And the other support agreement payout is limited at 50%, right? If I remember correctly.

Speaker B

[27:33 - 27:33] Yes.

Speaker C

[27:35 - 27:37] And do you plan to pay 50%?

Speaker B

[27:38 - 27:40] Of course, if it's by law.

Speaker C

[27:41 - 27:50] Yeah, but the support agreement limits the payout at 50%. So, the maximum would now be 50%, if I understand correctly, via the support agreement, is that right?

Speaker B

[27:50 - 27:57] Yes, we have certainty on our payout ratio and it's set at 50% of the net distributable profit.

Speaker D

[28:27 - 28:53] I see that there are no more questions. I would like to ask something. Going back to the sales structure analysis for the forecasted three months. So, I see that on the three-month 2023 budget year, there are no more questions. It's on the spot market, it's 85,800. And the actual for the three months is, yeah, it's a pretty big difference of 325.

[28:54 - 29:08] Could you give some details, a bit of color, what drove this difference? And if you have, as a follow-up question, if you have, for instance, a prognosis for the next three months, a forecast. Thank you.

Speaker B

[29:10 - 29:24] Unfortunately, I don't have a forecast on this and even if I had, I wouldn't be allowed to. It's a competitive information. And the first question was in regards of, if you could please repeat.

Speaker D

[29:25 - 29:32] Yes, what drove the difference between the budgeted three months for, yeah, three months budgeted and actual?

Speaker B

[29:34 - 29:35] In terms of quantity or value?

Speaker D

[29:36 - 29:37] The value, yeah.

Speaker B

[29:38 - 30:00] So, in terms of value of the sales, we had sales of electricity at 2.09 billion lei and the budgeted was at 2.04 billion lei. Money-wise.

[30:06 - 30:12] So, a slight difference of 2.5%.

Speaker D

[30:12 - 30:15] Okay. Thank you.

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[30:33 - 30:41] Okay. Okay. Thank you, David. Thank you.

Speaker A

[30:41 - 31:07] Okay. So, if there are no more questions, thank you very much for taking part in this conference.

[31:07 - 31:23] As usual, I'm going to send you both the presentation and the audio file. You can also find them on our website on the investor relations page. Thank you very much. Have a good afternoon and a great weekend. Thank you.