

ORES



Faciliter l'énergie, faciliter la vie

# Investor Presentation

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2019



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- 

# 1. Company and business overview

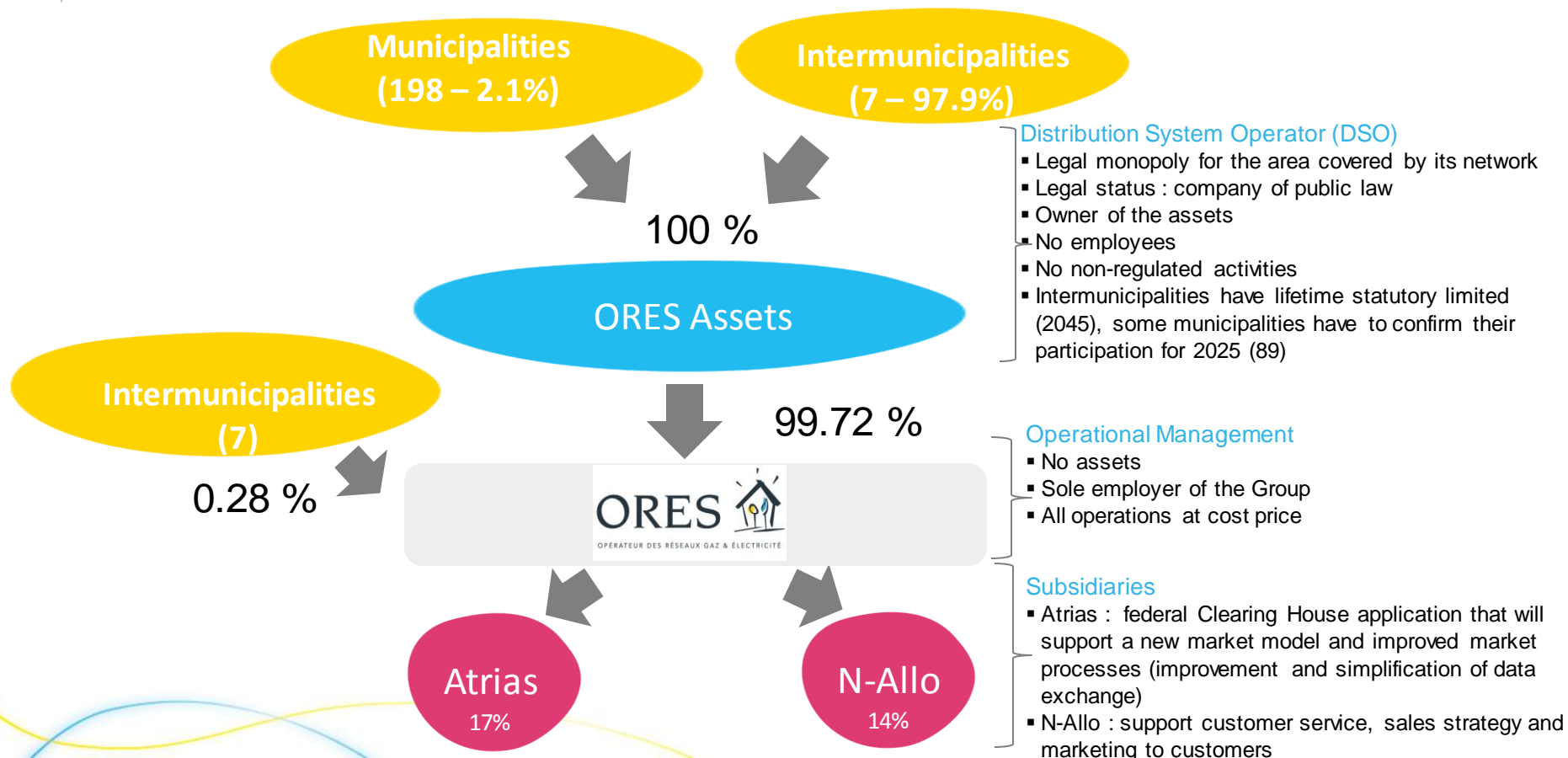
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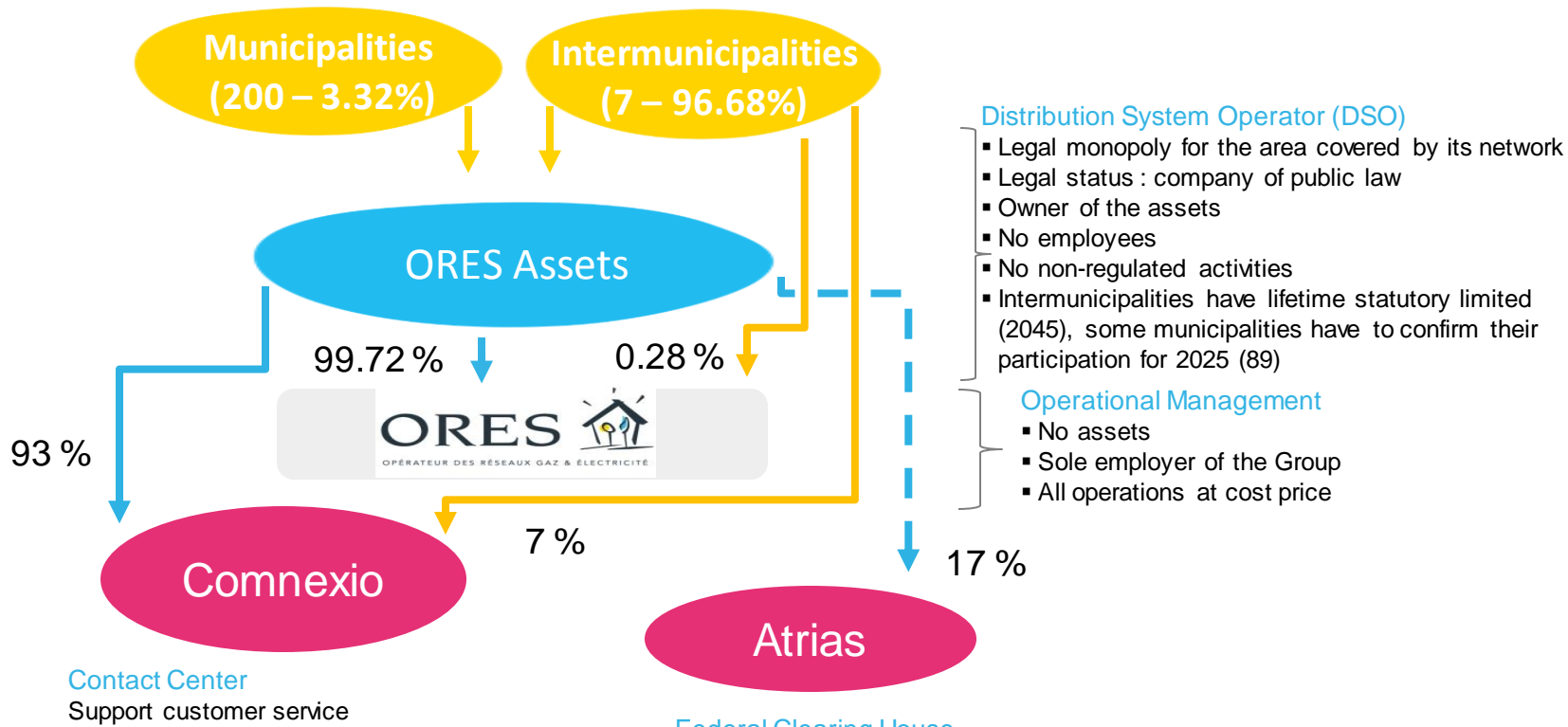
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# Shareholder structure (31/12/2018)



# Shareholder structure (01/06/2019)


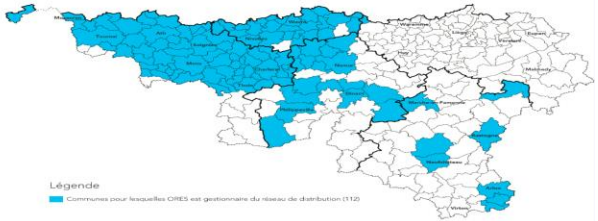


**Contact Center**  
Support customer service

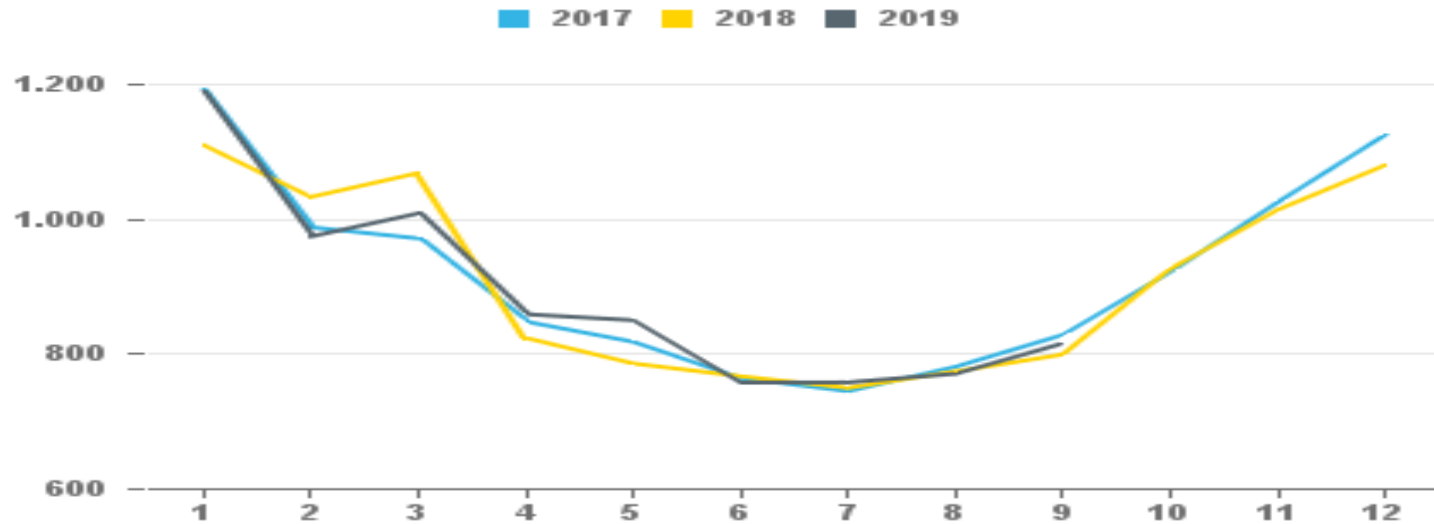
**Federal Clearing House**  
Application that will support a new market model and improved market processes (improvement and simplification of data exchange)



# ORES in a nutshell

2018 figures	ELECTRICITY	NATURAL GAS
<b>Network length (km)</b>	50,280	9,596
<b>Energy distribution (MWh)</b>	11,768,092	13,025,056
<b>Access points</b>	1,407,442	552,003
<b>RAB (€)</b>	2,513,675,503	1,220,766,171
<b>Geographical presence</b>	<p>Gestion des réseaux de distribution en électricité</p> 	<p>Gestion des réseaux de distribution en gaz naturel</p> 
<b>Street light installations</b>	443,164	

# Evolution of electricity quantities - Infeed



# ORES/ORES Assets' missions

## System operator

### Operation of the distribution grids

- Make the grid available to the customers
- Ensure security, reliability and efficiency of the electricity and natural gas distribution grids
- Take care of the day-to-day operation of the electricity and natural gas distribution grids
- Maintain, adapt and develop the electricity and natural gas distribution grids

### Municipal public lighting network

- Take care of the day-to-day opex and capex of the municipalities' public lighting network

### Connection works

- Establish new connections to the electricity and natural gas distribution grids (install meters)
- Adapt connectivity and upgrade meters

# ORES/ORES Assets' missions

Market facilitator – collect and manage the data's

## Harmonious functioning of the market

Implement the necessary conditions for an harmonious functioning of the market on its networks by managing all market's processes data's  
*(manage register, install and read meters,...)*

## Energy transition

In the transition world of energy, the customers expectations increase, new products and services are created,...

ORES has to adapt itself and its processes to allow this transition :

- modernize the networks (equip it with detectors, smart meters,...)
- introduce new tariffs proposals for new services
- set up pilot projects,...

# ORES/ORES Assets' missions

## Partner of public authority

### Natural partner of the authorities

Act as a natural partner of the authorities for the effective and efficient implementation of the policies they wish to pursue in terms of energy :

- Being independent from the players in the market
- By the expertise of ORES's personnel
- By the legitimacy conferred upon it by its public shareholders

### Public services obligations

- Social obligations :
  - Supply energy to protected customers at the request of customers
  - Install budget meters at the request of energy suppliers
- For public lighting : Operate and maintain public lighting for municipalities and promote energy efficiency (E-lumin program : replacement of 450.000 public lightings for 2030)

# Key considerations

## Strategic importance to the Walloon Region

- ORES/ORES Assets provide number of public services obligations
- ORES/ORES Assets cover more than 75% of the municipalities in Wallonia
- ORES ensures energy distribution to more than 1,4 million homes and small businesses in Wallonia on a daily basis

## Legal monopolistic business

- ORES Assets has a legally based regional monopoly for electricity and gas distribution to residential customers and small and medium size companies

## Low business risk

- ORES/ORES Assets is not involved in the competitive generation, trading and sales activities

## Regulated business and predictable cash flow generation

- Activities performed by ORES are regulated
- Predictable revenue of DSO is priced on a cost plus basis, determined in a legal framework (regional framework). From 2019, the tariff model will be revenue cap and will still be predictable.
- Tariffs 2015-2018 and 2019-2023 are approved by the CWaPE

## Strong balance sheet structure

- Relatively strong balance sheet structure
- Low financial leverage (RAB is finance with nearly 45% of equity while the regulator recommended 33% before 2019 and 47,5% from that date)

## Efficient operating structure

- ORES acts as a single entity for ORES Assets in Wallonia
- Since July 2017, disappearance of the sector committees (ORES Assets) and creation of Boards of Director's and Audit Committee "mirror" (ORES & ORES Assets)

## Some highlights 2018

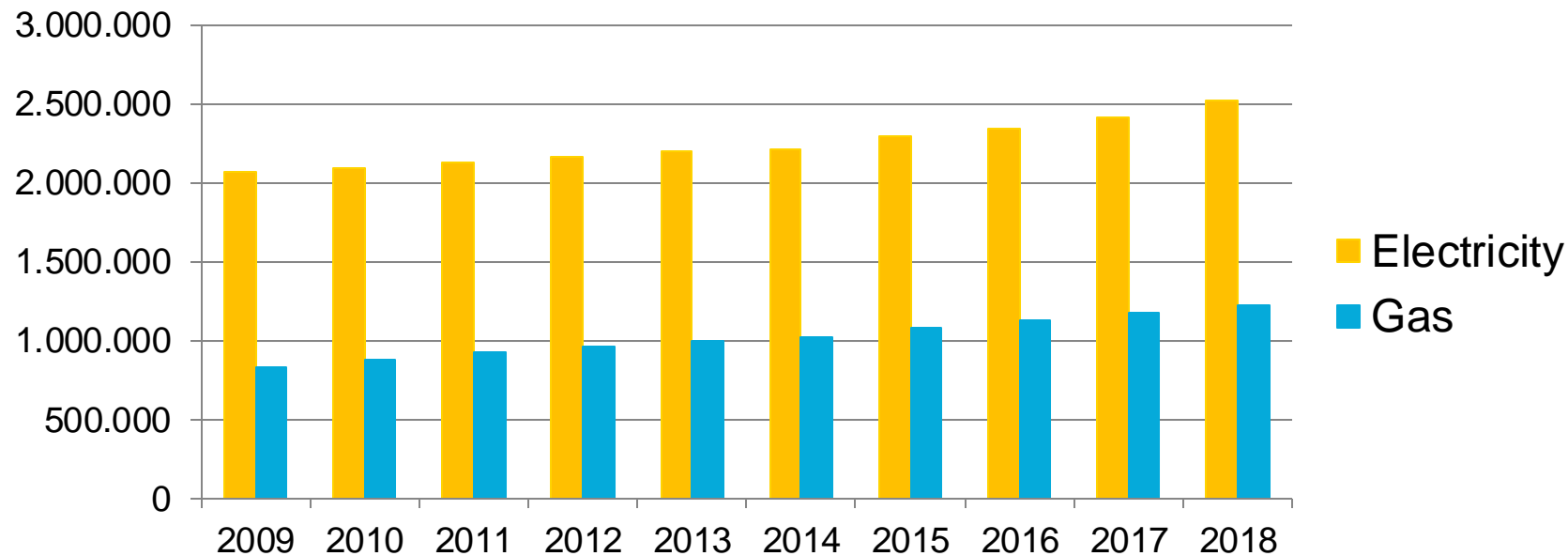
- 2,245 FTE on 31 December 2018 (2,172 FTE in 2017 – 2,229 in 2016)
- Net investments
  - In ORES Assets :
    - 2016 : 156 M€ for electricity and 88 M€ for gas
    - 2017 : 161 M€ for electricity and 90 M€ for gas
    - 2018 : 216 M€ for electricity and 97 M€ for gas
  - in ORES :
    - 2016 : 6 M€
    - 2017 : 5 M€
    - 2018 : 7.5 M€
- Annual recapitalization of ORES Assets (in cash) (for the last year) :
  - 2016 : 2.1 M€
  - 2017 : 15.1 M€
  - 2018 : 6.9 M€

## Some highlights 2018

- CWaPE approved electricity regulatory balances 2015 and 2016 (21<sup>st</sup> December 2017) and gas regulatory balances 2015 and 2016 (3 May 2018)
- CWaPE approved the authorized revenue for 2019-2023 (the budget for this period) (27 August 2018) and its transposition into tariffs (7 February 2019)
- Continuation and ending of Optimum (replace by facteur-X)
- Partial repurchase of bonds issued in 2012 (59.4 M€)
- Agreement with Engie/N-Allo on the curve-out of call center activities for ORES from N-Allo to ORES Assets (in 2018 and 2019 – write-down of the ORES' shareholding in N-Allo and transfer of the shareholding to ORES Assets)
- Cooperation agreement with RESA to reach synergies with added value (Smart meters)
- Regional harmonization of the territory of the Walloon and Flemish DSO's :  
Transfer of 4 municipalities from Gaselwest (Flemish DSO) in ORES Assets on the 1<sup>st</sup> January 2019  
(General meeting decision: 22 November 2018)



# Regulated Asset Base



RAB almost exclusively consists of tangible assets

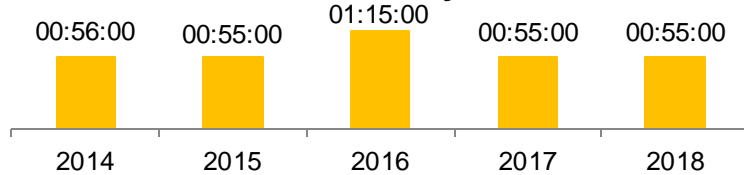
	E 2016	E 2017	E 2018	G 2016	G 2017	G 2018
Tangible	99,2 %	98,6 %	98,11 %	99,4 %	99,0 %	98,61 %
Intangible	0,8 %	1,4 %	1,89 %	0,6 %	1,0 %	1,39 %

# A network of quality...

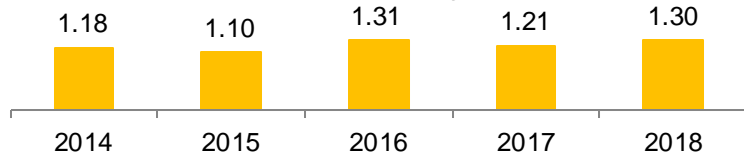
Electricity – Indicators of reliability of the distribution network (MV)

## Accidental cause

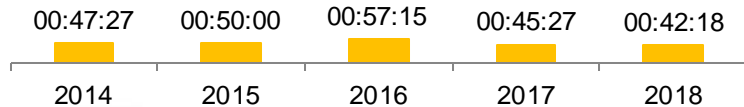
### Unavailability



### Frequency

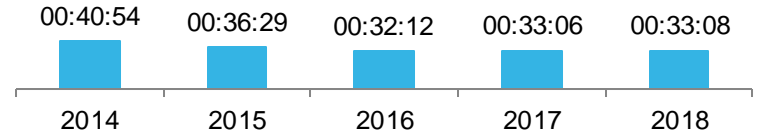


### Duration of restoration

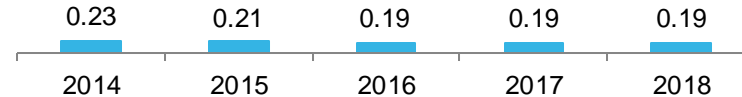


## Planned

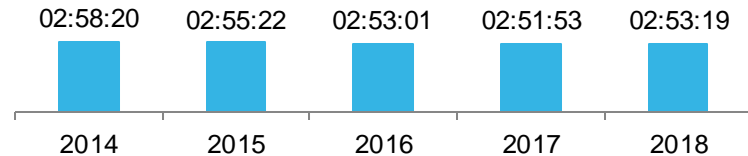
### Unavailability



### Frequency



### Duration of restoration



# A network of quality...

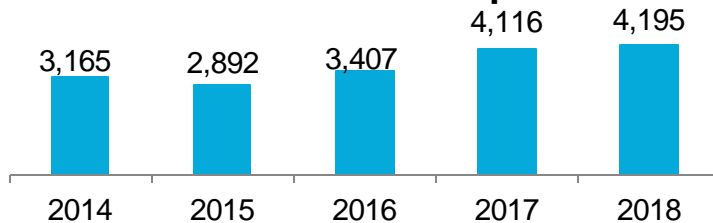
## Results of satisfaction survey amongst clients

A new survey was implemented in May 2016 :

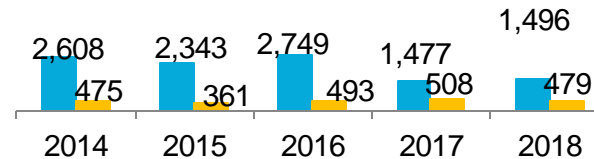
global satisfaction in 2016, 2017 and 2018 : 80%

## Complaints, compensation and mediation

**Dissatisfaction complaints**



**Compensation**



■ Compensation claim  
■ Effective compensation

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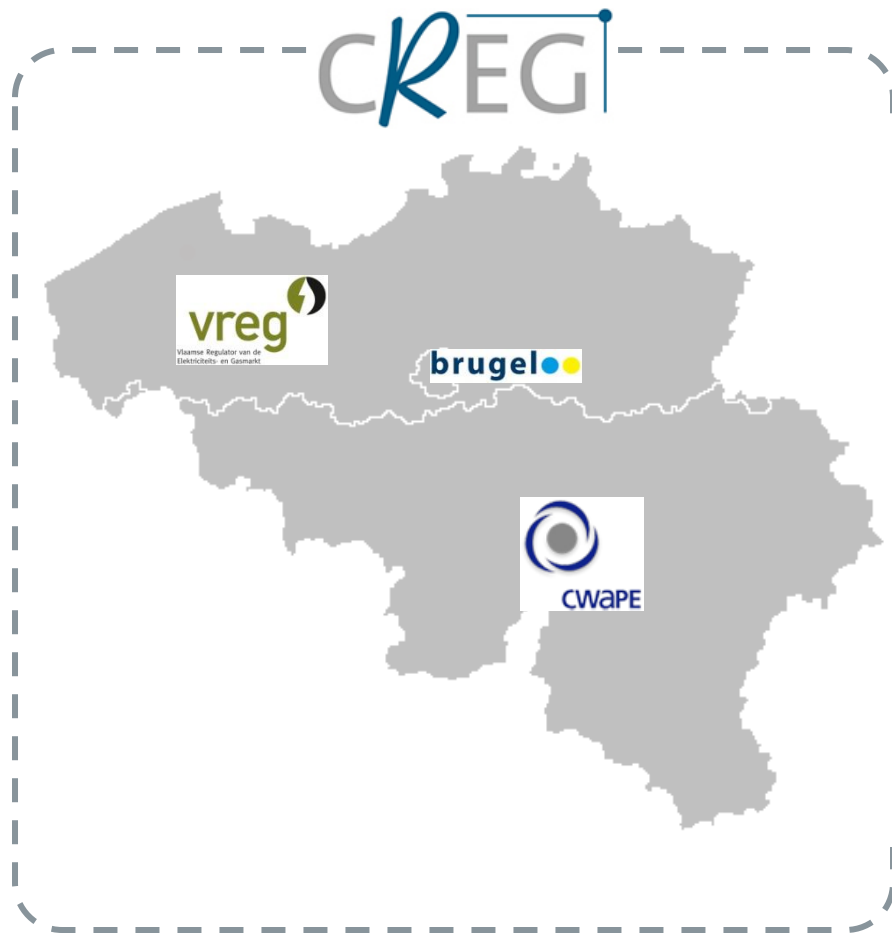
## 2. Regulatory framework

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# The energy regulation, same as the institutional landscape of Belgium

- Energy distribution is a regional competence, including the tariff competence
- The regional regulator in Walloon Region is **CWaPE** (Commission Wallone Pour l'Energie). He is in charge of technical regulations, local distribution of electricity and natural gas, execution of social public service obligations, approval of investments program, and setting of tariff



# Evolution of the regulatory framework...

Before  
2015

- **Total network income** is guaranteed for a regulatory period, covers the tasks set by law and allows for a reasonable profit margin in return for the capital invested in the network
- The income from each year of the regulatory period is divided into “manageable costs” and “non-manageable costs”:
  - **Manageable costs** : a factor for productivity and efficiency improvements is applied. In addition, the network operator is offered an incentive that increases profits by means of the balance of the manageable costs
  - **Non-manageable costs** : differences relating to non-manageable costs (ex: financial charges) and to volumes of transported energy are considered as a global liability or receivable towards the customers
- A decree gives the competence to the CWaPE for the approval of the regulatory balance since 2010 and for the allocation forward in the tariffs of the regulatory balance since 2008

2015-  
2018

- **Transitional period 2015-2018 with a new methodology but without** substantial change : ensure continuity of the regulatory framework set up at federal level - after consultation document, a new methodology was approved on 14.08.14 and on 11.02.2016
- Extension of the transitional period in 2018

2019-  
2023

## New regulatory framework :

- Methodology : revenue cap
- New tariff decree approved 19.01.2017
- Next period (5 years) 2019-2023 : new tariff methodology approved 17.07.2017
- Tariff approval process has started at the end of 2017 :
  - Approval of the total revenue (August 18)
  - Approval of the different tariffs (March 19)

# Tariff 2015-2018 – Key features

## □ Tariffs must aim at

- Being non-discriminatory and transparent
- Being fixed relative to costs and enabling the network operator to cover its costs incurred in the framework of its regulated activities, incl. financial charges
- Including a fair beneficiary margin for the remuneration of the capital invested in the network with a view to ensure its optimal development

## □ 3 objectives of the tariff methodology for 2015-2018

- Curb tariff budget envelope
- Ensure development of grids
- Establish a stable regulatory framework

## □ Cost oriented mechanism

## □ Formula

$$\frac{\text{Operational costs} + \text{Depreciation \& Amortization} + \text{Financial charges} + \text{Taxes paid} + \text{Return On Invested Capital}}{\text{Estimated booked capacity}} = \text{Tariff}$$

## □ Differentiation between primary regulatory asset base (investments before 2014) and secondary regulatory asset base (investments from 2014)

- Net working capital no longer included in RAB

## □ Manageable costs 2015-2017 = indexed actuals 2012 - Manageable costs 2018 = indexed budget 2017

- Special envelope for Atrias and smart grid



# Tariff 2019-2023 – Key features

## Guiding principles :

- Revenue cap methodology
- 5 years regulatory period
- Budget envelop 2019 capped to budget envelop 2017 (exclusive of regulatory balances and projects budgets)
- Automatic determination of 2020-2023 costs ( fixed ex ante : index – x factor)
- Implementation of a revenue cap system based on a business plan approved ex ante
- Totex model : opex and capex (amortization) are manageable
- No ex post revision of parameters except for evolutions of volumes
- Introduction of a stimulus to increase opex efficiency through a productivity factor (X factor : -1,5% annual) (imposed on the opex and public service obligations)
- Introduction of a new WACC computation (including debt) aligned to current market conditions (end of embedded cost principles and of the actual funding structure), normalized gearing, cost of debt within WACC computation fixed at 2,74%
- Additional budgets for specifics projects (smart meter and promogaz)
- End of distinction between primary and secondary asset base
- From 2020 : prosumers tariffs

# Opportunities for the future ?

- Thoughts on the valuation of ORES's data (digital saving)
- Innovative projects community of energy (E-cloud,...)

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### 3. Financials

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# Summary financials 2018 (actuals)

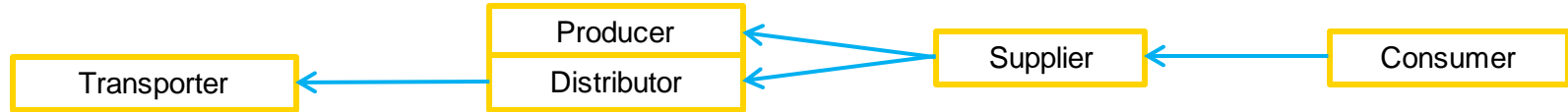
## Economic Group ORES/DSO (IFRS)

In M€

Income statement	2017	2018	Balance sheet	2017	2018
Total operating income (Turnover and other operating income including rate regulated balances)	1,206	1,213	Total Current Assets incl. CASH	486 193	369 116
EBITDA	477	453	Total Non Current Assets	3,911	4,122
EBIT	320	289	<b>Total Assets</b> (excluding rate regulated balances)	<b>4,396</b>	<b>4,491</b>
Financial Result	-54	-55	<b>Total Assets</b>	<b>4,514</b>	<b>4,609</b>
Net Profit	198	162	Financial debt	2,261	2,237
Global Income Profit Result	232	170	Total Shareholders' Equity	1,590	1,696
			<b>Total Liabilities &amp; Equity</b> (excluding rate regulated balances)	<b>4,463</b>	<b>4,565</b>
			<b>Total Liabilities &amp; Equity</b>	<b>4,514</b>	<b>4,609</b>

## A limited commercial risk...

- From producers to consumer (electricity) – payment flows



- Suppliers (grid fee) : 1.088 M€
  - Transport grid fee : 354 M€
  - Electricity distribution grid fee : 536 M€
  - Gas distribution grid fee : 198 M€
- Consumers (intervention for connection, work for account of third party) : 17 M€ = turnover in IFRS
- Social consumers (for consumption of energy) : 20 M€

## A limited commercial risk...

GRIDFEE	ELECTRICITY		
	2018	2017	Difference
Trans MV	35.559.613	31.879.502	3.680.112
MV	177.186.518	170.441.884	6.744.635
Trans LV	35.023.291	34.202.580	820.710
LV	648.712.892	646.139.704	2.573.189
<b>Total</b>	<b>896.482.314</b>	<b>882.663.669</b>	<b>13.818.645</b>

GRIDFEE	GAS		
	2018	2017	Difference
Group 1 (< 1.000.000 kWh)	203.203.571	201.039.436	2.164.135
Group 2 (between 1.000.000 and 10.000.000 kWh)	6.227.577	6.293.305	-65.728
Group 3 (> 10.000.000 kWh)	2.045.321	1.996.322	48.998
<b>Total</b>	<b>211.476.469</b>	<b>209.329.064</b>	<b>2.147.405</b>

## Indicative funding needs in 2019 (M€)

<b>Funding needs</b>		<b>-310.8</b>
	Refinancing existing debt	89
	Refinancing long term notes 2018	50.8
	Refinancing short term notes 2018	92
	New investments	79
<b>Covered by</b>		<b>311</b>
	EIB	100
	Bank loans	150
	Treasury	61

*Bank loans ( step II – under discussions)*

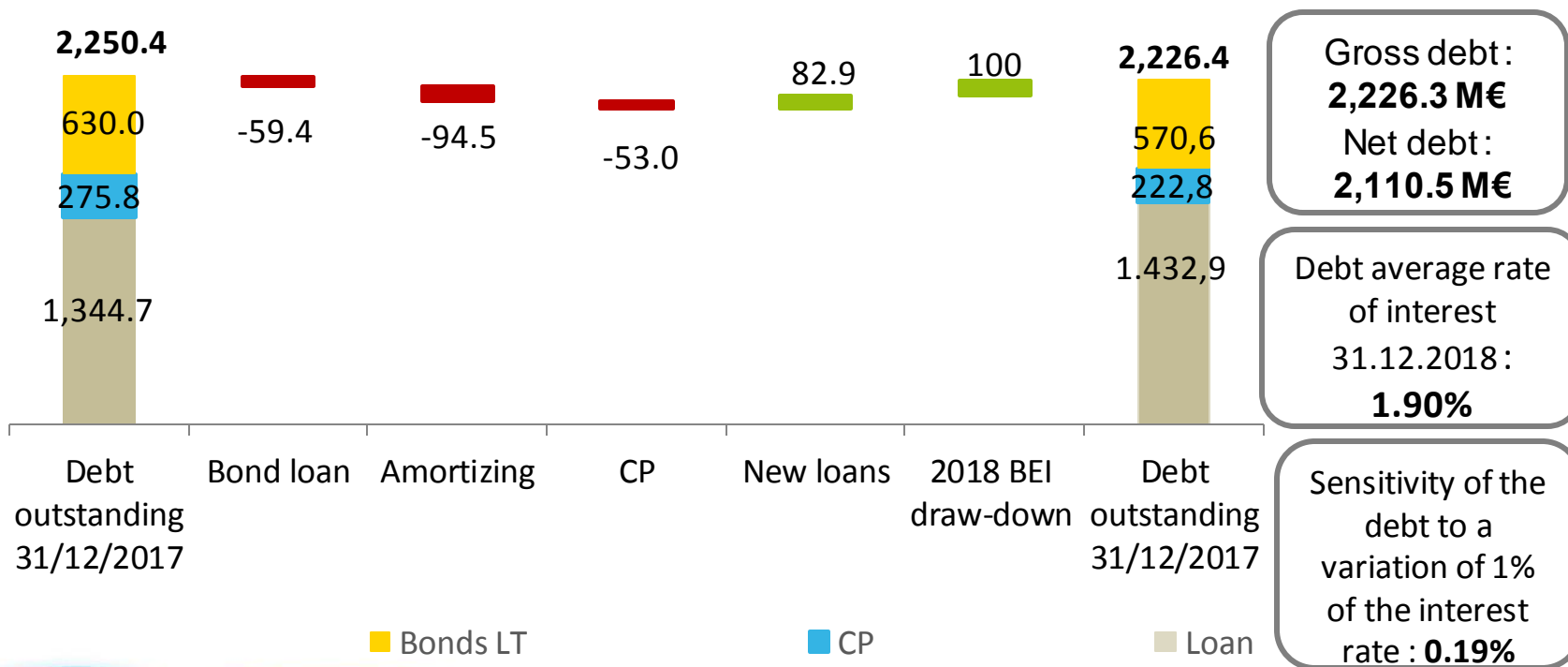
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# Debt management

(1/2)

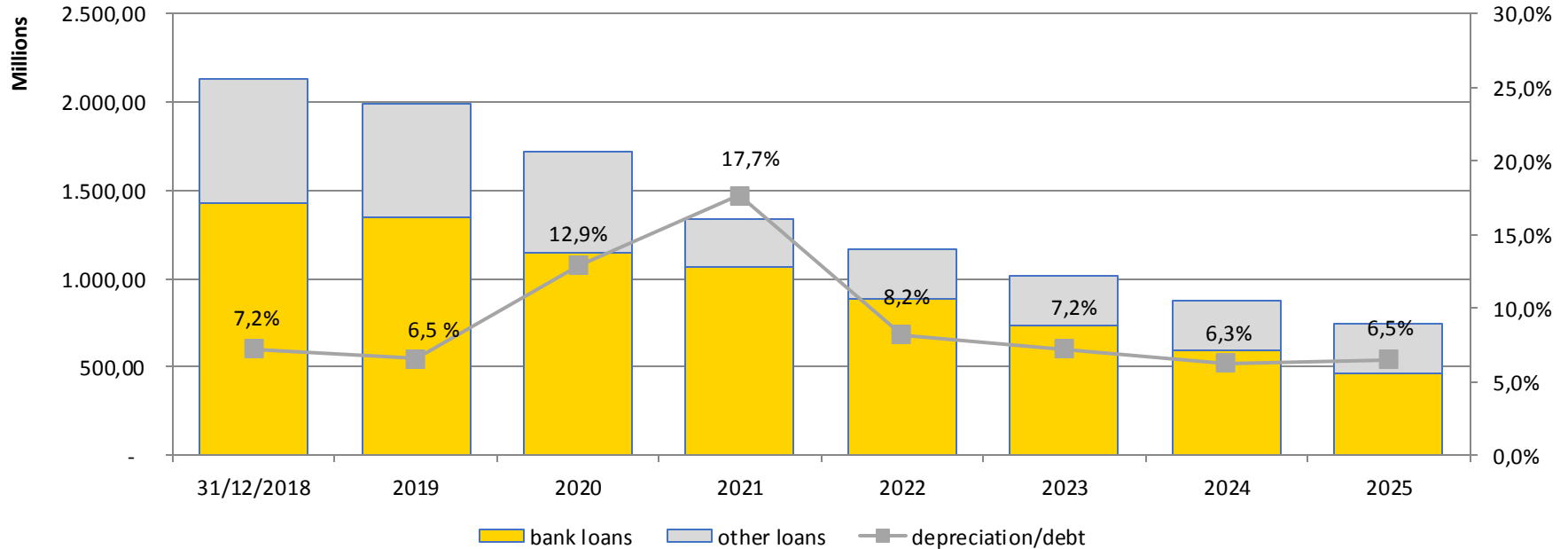
## Evolution of the gross debt



# Debt management

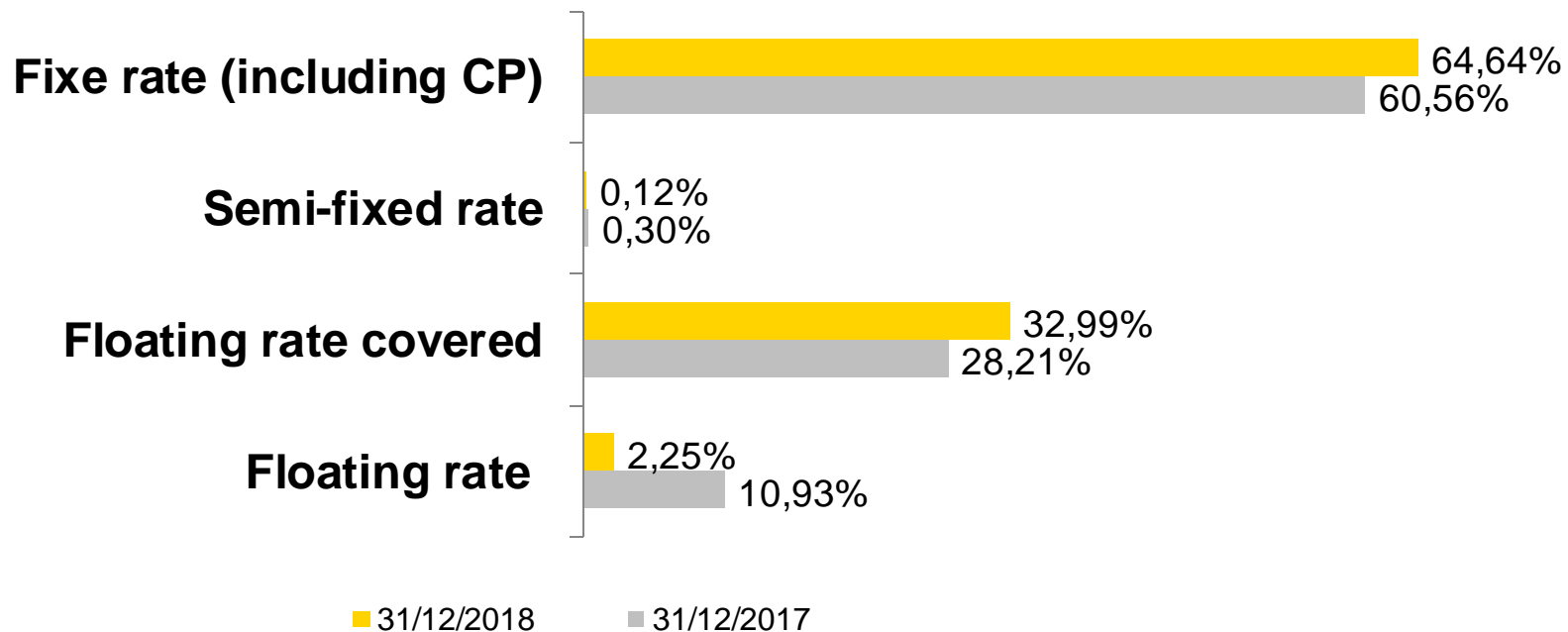
(2/2)

Debt maturity 31.12.2018



**Debt average duration : 10 years 6 month**

## Financial indebtedness with mainly fixed interest rates



## Actual funding sources

### CP Programs

Total size programs : 550 M€

- medium term outstanding :
- short term outstanding :

31/12/2018

- 130,75 M€  
(80 M€ by 30/06/2019)
- 92,00 M€  
(71 M€ by 30/06/2019)

### Undrawn Credit Lines

- Total size facilities : 50 M€
- Currently outstanding : 0 M€

# Financial policies and strategy

## DSO financial policies

- Limited dividend payout ratio (70% from 2019)
- ORES Assets guarantees the debt
- Equity ratio/total consolidated balance sheet (BGAAP) : 42%
- Optimal minimum gearing : 40% from 2019

## Funding currency

- External funding in € only

## Risk management policies

- Interest rate swap and cap agreements are used for hedging purposes only

## EMTN

- Agreement, by the board of directors, to set up an EMTN program (4 bn€) with an official rating, process in progress (expected in 2020)

## Funding policy

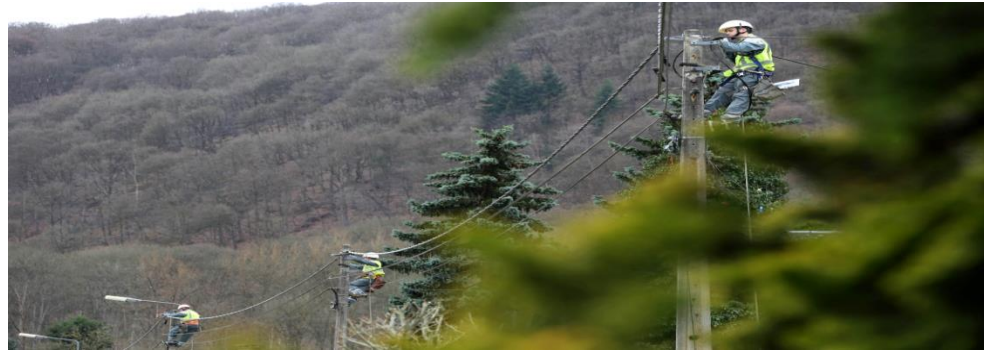
- Average maturity at least equal to the one from the Belgian State
- Floating rate debt for a maximum of 50% of the total debt
- Solely derivatives non-speculative
- As of 2019 : cost of debt in the WACC computation set at 2,74%

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## 4. Strategic plan 2019-2025

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# Stated ambitions

Our ambitions are expressed in three areas :

→ Support and facilitate  
the **ENERGY**  
**TRANSITION** in  
Wallonia



Response to  
**CUSTOMER** new  
expectations



Evolution of the  
**CORPORATE**  
**CULTURE**





# FACILITATE THE ENERGY TRANSITION

ALTERNATIVE  
MOBILITY



SMART  
INFRASTRUCTURES



FLEXIBILITY



AMBITIOUS  
PUBLIC LIGHTING



QUALITY  
NETWORKS

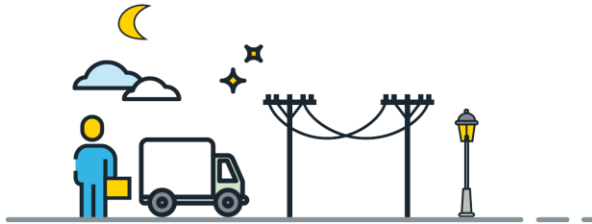


OPERATING  
EXPERTISE



# FACILITATE THE ENERGY TRANSITION (1/2)

→ Maintain **quality networks** and **leading operating know-how**



→ Make our **assets** and **infrastructures more smart** in order to :

- Better knowledge and understanding of energy flows on the networks
- Welcome securely and with reliability more decentralised productions
- Anticipate and integrate flexibility on electricity market
- Unlock the potential of data in order to propose services of quality that add value

## FACILITATE THE ENERGY TRANSITION (2/2)

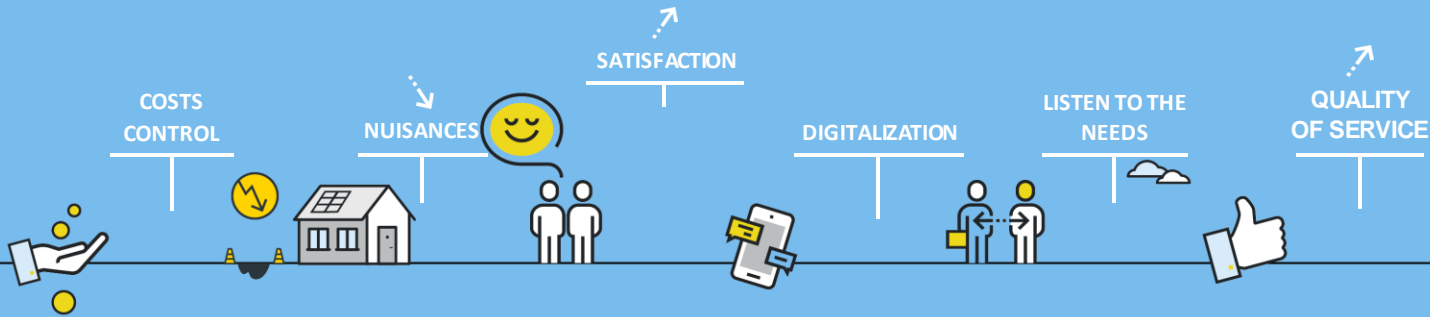
→ Develop an **ambitious municipal public lighting program** in order to “facilitate the city” and support **smart cities development**

→ Facilitate **alternative mobility development**, especially from natural gas



IMPROVE

# CUSTOMER FOCUS



# IMPROVE CUSTOMER FOCUS (1/2)

→ **Adapt the company** even more to new **customer needs in a changing world**

→ **Improve customer satisfaction** with respect to:

- Their primary energy and everyday comfort basic needs
- Network availability and information on this matter
- Digitalization of the contact
- Quality of service and witch match exactly with the needs expressed



## IMPROVE CUSTOMER FOCUS (2/2)

→ **Control our costs**

To maintain distribution tariffs affordable

→ **Reduce nuisances perceived**  
by our customers because of our activities

→ Fully play **our role** of **market facilitator**



# CHANGING CORPORATE CULTURE

TRANSVERSALITY



SKILLS  
DEVELOPMENT



MANAGEMENT  
THROUGH TRUST



OPENNESS TO  
CHANGE



AGILITY



# CHANGING CORPORATE CULTURE

→ **Staff skills development** to allow the company's transformation

→ **Make ORES more agile and reactive** in the face of an increasingly uncertain environment

→ **Develop** management through **trust, transversality and openness to change** within the organisation





# Major programs and projects

## **Atrias**

- Essential foundation to manage the market of tomorrow (Smart Metering & Smart Grid)
- Simplify and improve the communication between all energy market's actors by lining-up market process and using a computer platform
- Company including all Belgian DSO
- New computer applications in ORES

## **Smart Metering & Users**

- Equip customer with smart meters, according to the timetable defined by Walloon Parliament (starting in 2023 ; on demand ; 80% of high-electricity consumption and self producer by 2030)
- Getting ready to this deployment (processes modernization, new computer tools,...). Build on experiments conducted from pilot projects and study useful partnerships

# Major programs and projects

## **Smart grid**

Because of the increase of the renewal energy and technologies link to the energy transition, it's necessary to upgrade the IT system, adapt the organization and the processes and increase remote reading and telecontrol on the network

## **Incredible customer experience**

Put itself instead of customers to identify the possible changes to realize (processes, organization and software tools) to allow the customers to live an outstanding experience when contacting ORES

## **Modernization of the application platform of the company**

The company transformation will be supported by this modernization that concerns all operational activities, and all basic management IT system (Assets management, finances and logistic)