

## **E- Distribuție Dobrogea SA**

### **Report of the Directors**

### **For the Financial Exercise Ended on December 31, 2020**

**March 16<sup>th</sup>, 2021**

### **1. General considerations**

In 2020, the Company achieved a turnover of 488,424,688 (2019: 451,278,659), of which:

- revenues related to the active energy distribution service 430,426,236 (2019: 398,229,749);
- reactive energy distribution revenues 20,569,705 (2019: 17,528,606);
- revenues from the sale of energy on the balancing market 2,576,248 (2019: 7,543,590);
- revenues from the sale of energy on the next day market in the amount of 262,335 (2019: 152,845);
- revenues from connection fee and approval fee 2,910,251 (2019: 2,827,466)
- rental income 23,941,576 (2019: 17,706,773);
- income from theft 1,047,894 (2019: 645,670) and other income 6,690,443 (2019: 6,643,960).

The company distributed electricity to 0.677 million consumers (2019: 0.657 million consumers), the total amount of electricity distributed to final consumers being approximately 3,757,445 Mwh (2019: 3,713,163 Mwh). The average electricity distribution rate for the whole year 2020 was 114.6 Ron / Mwh (2019: 107.3 Ron / Mwh).

The company distributed 3,457,852 Mwh (2019: 3,358,205 Mwh) to eligible consumers at an average rate of 108.9 Ron / Mwh (2019: 100.5 Ron / Mwh) and 299,593 Mwh (2019: 354,958 Mwh) to captive consumers at a rate average of 180.0 Ron / Mwh (2019: 171.5 Ron / Mwh).

### **2. The structure of the share capital**

As of December 31, 2020, the share capital is 280,285,560, being divided into 28,028,556 shares with a par nominal value of RON 10.

As of December 31, 2020, the shareholding structure of the Company is as follows:

- ENEL SpA., holding 14,295,405 shares with a par nominal value of RON 10 each, representing 51.0030% of the share capital;
- Societatea de Administrare a Participațiilor in Energie (SAPE), holding 6,980,024 shares, with a par nominal value of RON 10 each, representing 24.9033% of the share capital;
- FONDUL PROPRIETATEA "S.A., holding 6,753,127 shares, with a par nominal value of RON 10 each, representing 24.0937% of the share capital.

The company did not undertake any acquisition of its own shares during the financial year 2020.

As of December 31, 2020, the Company holds 50% of the share capital of Enel Servicii Comune, with a value of 16,500,000 (December 31, 2019: 16,500,000).

### **3. Internal control**

The process of managing internal controls is structured in the following subprocesses:

- Defining the purpose;
- Mapping / updating processes / internal controls and related risks;
- Evaluation of internal controls with regard to definition and operation by the process manager;
- Monitoring the internal controls tested by the external specialized partner;
- Identifying deficiencies and implementing the remediation plan;
- Strengthen the results of the evaluation of internal controls.

#### **4. Summary of operations 2020**

During 2020, the Company met its main objectives:

The most important achievements of the Company in 2020 were as follows:

- Modernization of medium voltage equipment in Slobozia Nord and Baba Novac transformer stations;
- 110kV circuit breaker replacement works in Mihai Viteazu and Bordusani transformer stations;
- Completion of telecontrol integration works in the Dragos Vodă transformation station;
- 20 / 10kV transformer replacement in Eforie Nord transformer station;
- 20/10kV transformer replacement in Center 1 transformer station;
- 110 / 20kV transformer replacement in Baba Novac transformer station;
- Installation of 668 spacer devices on three high voltage power lines;
- Installation of OPGW type protection conductor on three high voltage overhead power lines with a total length of 63.1 km;
- Modernization / installation of 41 transformation stations;
- Modernization / construction works of 32 km of underground medium voltage power lines;
- Modernization / construction works of 20 km of medium voltage overhead power lines;
- Modernization / construction works of 120 km of low voltage network;
- MT / JT transformer replacement / installation works (105 pcs) in 91 substations;
- Installation of 18 remote-controlled air separators and 23 automatic air reclosers;
- Continuing the implementation of the project for the installation of intelligent measurement systems, being installed a number of approximately 39,000 smart meters and 800 hubs;
- Balance measuring groups installation works MT - 134 pcs. in 20 transformer stations;
- Continuation of actions related to the implementation and consolidation of processes that support safety at work, both for ENEL staff and for contractors;
- Concrete actions to facilitate the identification of the main measures meant to reduce energy losses in the distribution networks;
- Continuing the actions of developing the remote-control system in order to increase the quality of the distribution service;
- Continuing the technical unification for products and equipment in order to standardize the network and improve the distribution service;

#### **5. Predictable development of the Company**

In the coming years, the Company's management aims to maintain the company's financial stability by continuing investments in the electricity distribution network.

For 2021, the Company aims to carry out the following investment projects:

- Removal of meters at the property limit to reduce network losses;
- Continuing the actions to developing the remote-control system for improving the quality of the distribution service;
- Network's modernization / construction works in order to ensure a sizing of the network capacity in accordance with the power required for the connection of future users;
- Continuation of the implementation of the project for the installation of intelligent measurement systems - 39,228 pcs
- Continuation of the actions of installing OPGW type protective conductor on high voltage lines, modernization works of transformer stations, transformer substations, medium voltage lines and low voltage lines in order to improve the quality of the distribution service.
- Commissioning of the WEBSITE E-Distributie Private Area.

## **6. Personnel connected issues**

The Company's human resources policy focuses on the following directions:

- Continuing the Company's concerns for a culture of safety, with a focus on protecting colleagues against Covid-19 virus;
- The development of new activities, the recent legislative changes, as well as the revision of the processes of continuous digitalization of the Company's operations require the adaptation and / or development of the competencies of the existing personnel; as a result, personnel recruitment is also focused on new profiles, which were not found in the Company until now, and the development and training plan has been adapted accordingly;
- Creating and applying new training programs dedicated to employees who were promoted in the management of the various departments, with emphasis on ENEL values and behaviours as well as on the application of modern leadership principles;
- Creating and applying new training programs in order to promote the Agile methodology within the organization
- Continuing the process of alignment with the group's policies, by updating the documents (procedures, instructions);
- Negotiation the Company's Labour Agreement, which has a validity until July this year.

## **7. Environmental issues**

During 2020, the Company continued to carry out programs related to waste management, monitoring of environmental factors, reducing the level of pollution in all facilities, total environmental expenses amounting to approximately RON 1,310,081.

Mainly, the expenditures were made in 2020 for:

- Collection, transport and disposal of urban and assimilated waste (sanitation) in value of 73,704;
- Collection and transport of wastewater, rainwater drainage, sewerage network (canal, rainwater) in value of 49,468;
- Specific environmental taxes (Environmental fund 2% of waste recovery, tax for emissions from fixed sources - thermal power plants, approval fees, activity permit fees Danube Delta Biosphere Reserve, waste approval forms for waste transportation forms) in value of 27,900;
- Prevention of soil, subsoil and groundwater pollution in value of 319,200:
  - b. Analyses of mineral oil samples from EDD transformers in value of 6,300;
  - c. Realization / Reconditioning of retention tanks from transformation stations: TS Alumina: 1 pc., TS Isaccea: 1 pc., TS Eforie N: 2 pc., TS Palas Sud: 2 pc., TS Urziceni: 2 pc., S TS T Stefan cel Mare: 1 pc., in value of 268,118;
  - d. Collection, transport, destruction of waste resulting from PPE to prevent infection with COVID-19 and purchase of materials for waste storage until collection, in value of 44,782;
- Expenditures for the protection of biodiversity by installing stork nests and electrically insulating sheaths to avoid birds' electrocution, in value of 293,812;
- Internal training on environmental protection, in value of 159,633;
- Expenses with the personnel dedicated to the environmental protection activity, in value of 382,895;
- ISO 14001 SRAC audit expenses, in value of 3,468.

## **8. Risk management**

As a risk management policy, the Company considers the following:

- a. Identifying and monitoring the major categories of potential and existing risks, financial, of credit and counterparty, as well as the existing products within the company and providing support in order to reduce them;
- b. Implementation and use of risk assessment and monitoring models, defined at the level of the Enel Group, in order to assess and monitor risks at company's level, in compliance with local regulations, where applicable;
- c. Identification and implementation of periodic reporting methods (monthly and quarterly) regarding the company's activity to monitor the existing risks;
- d. Setting annual limits, monitoring and monthly reporting the situation of debtors, in order to anticipate credit risk and provide support to reduce risk;
- e. Setting annual limits and monitoring financial risk and exposure to financial institutions (commercial banks) and using financial instruments to hedge the foreign exchange market risk;
- f. Setting the annual limits and monitoring the products in order to improve the quality of the portfolio by calculating the risk indicators;
- g. Monthly monitoring and reporting on the situation of active guarantees and insurance policies active;
- h. Assessing compliance with regulations in force at the local level and implementing risk monitoring systems, by defining and implementing procedures where necessary.

The main financial risks identified by the Company are the following:

### **The interest rate risk**

At present, the Company does not have medium and long-term loans and is therefore not exposed to the risk of interest rate changes.

### **The risk of exchange rate fluctuations**

The company has transactions in a currency other than the functional currency (RON) and these are naturally diminished and offset. The company did not reduce this risk by using derivative financial instruments in 2020 and 2019.

### **The credit risk**

The company carries out commercial relations only with recognized third parties, which justifies the financing by credit. The Company's policy is that all significant customers wishing to conduct business relationships on credit terms are subject to verification procedures. Moreover, receivables balances are constantly monitored, resulting in an insignificant exposure of the Company to the risk of uncollectible receivables.

The company was not significantly affected by the COVID-19 pandemic due to the specificity of the activity.

## **9. Non-financial statement**

In accordance with the legal requirements for the presentation of non-financial information, the Company prepares and publishes a separate report on sustainability, corresponding to the same financial year, which contains the information required for the non-financial statement, and which describes the Company's sustainability initiatives. This report will be made available to the public on the Company's website (<https://www.e-distributie.com>) within a legal period, until June 30, 2021.

**10. Financial information**
**10.1 Main elements of Balance sheet on 31 December 2020**

	Balance at the beginning of the year	Balance at the end of the year
<b>FIXED ASSETS</b>		
I. INTANGIBLE ASSETS	17,327,363	15,394,810
II. TANGIBLE ASSETS	1,621,530,701	1,704,152,358
III. FINANCIAL ASSETS	16,529,767	16,529,767
<b>FIXED ASSETS - TOTAL</b>	<b>1,655,387,831</b>	<b>1,736,076,935</b>
<b>CURRENT ASSETS</b>		
I. INVENTORIES	441,559	3,265,144
II. RECEIVABLES	143,449,564	86,953,689
III. SHORT-TERM INVESTMENTS		
IV. CASH AND BANK ACCOUNTS	562,009,253	124,148,749
<b>CURRENT ASSETS - TOTAL</b>	<b>705,900,376</b>	<b>214,367,582</b>
EXPENDITURE IN ADVANCE	571,814	1,245,174
DEBTS: AMOUNTS TO BE PAID WITHIN ONE YEAR	210,438,704	212,537,743
DEBTS: AMOUNTS TO BE PAID IN MORE THAN ONE YEAR		
PROVISIONS	35,223,610	38,172,226
DEFERRED INCOME	443,044,976	476,842,467
<b>CAPITAL AND RESERVES</b>		
<b>CAPITAL</b>		
I. CAPITAL	280,285,560	280,285,560
II. CAPITAL REWARDS	-	
III. RESERVES	754,979,961	757,888,014
IV. PROFIT OR LOSS CARRIED OUT	554,614,836	142,454,267
V. PROFIT OR LOSS OF THE FINANCIAL YEAR	87,564,478	53,732,961
VI. DISTRIBUTION OF PROFIT	4,292,104	10,223,547
<b>CAPITALS - TOTAL</b>	<b>1,673,152,731</b>	<b>1,224,137,255</b>

**10.2 Main items Profit and loss account for the financial year ended December 31, 2020**

Item	Balance at the beginning of the year	Balance at the end of the year
OPERATING INCOME	506,420,768	530,058,133
OPERATING EXPENSES	424,590,135	466,210,586
PROFIT OR LOSS FROM OPERATION	81,830,633	63,847,547
FINANCIAL REVENUE	9,831,476	2,193,448
FINANCIAL EXPENSES	2,006,497	1,930,782
FINANCIAL PROFIT OR LOSS	7,824,979	262,666
TOTAL INCOME	516,252,244	532,251,581
TOTAL EXPENSES	426,596,632	468,141,368
GROSS PROFIT OR LOSS	89,655,612	64,110,213
INCOME TAX	2,091,134	10,377,252
NET PROFIT OR LOSS OF THE FINANCIAL YEAR	87,564,478	53,732,961

**10.3 Economic and financial indicators**

	2019	2020
<b>1 Liquidity indicators</b>		
Current liquidity indicator	3,35	0,92
Immediate liquidity indicator	3,35	0,91
<b>2 Activity indicators</b>		
Turnover rate of debts -customer	108	89
Turnover rate of loans-suppliers	155	134
Turnover rate of fixed assets	0.27	0.28
Turnover rate of total assets	0.19	0.23
<b>3 Profitability indicators</b>		
Return on capital (%)	5.36%	5.24%
Gross sales margin (%)	19.87%	13.30%

Both the current liquidity indicator and the immediate liquidity indicator decreased compared to the previous year, due to the decrease in current assets (mainly due to the reduction of cash, bank accounts and paying the dividends) while the current debts were rather constant.

The turnover rate of loans-suppliers was negative compared to the previous year, due to the increase in the cost of purchasing goods while the average balance of suppliers decreased compared to the previous year.

The turnover rate debts- clients has decreased due to a reduction in the average balance of receivables and a slight increase in turnover. The turnover rate of fixed assets increased slightly as the increase in turnover was higher than that of fixed assets.

Return on working capital decreased slightly due to a higher rate of decrease in gross profit than that of working capital.

Gross sales margin was negative compared to the previous year due to the decrease in gross profit at the same time as the slight increase in turnover.

### **11. Distribution of the profit related to the financial year ended on December 31, 2020**

The company proceeded to distribute the amount of 10,223,547 to reserves to exempt the profit reinvested in technological equipment, according to the legal provisions.

The Board of Directors proposes that the remaining net profit of 43,509,414 be allocated to the deferred income statement (account 117), considering a prudent, appropriate approach, taking into account the potential impact of cash flows from the business and legal constraints.

### **12. Events subsequent to the balance sheet date**

In 2021 until the date of approval of the financial statements, the Company continued to carry out its distribution activity normally, with no significant elements or outside the usual activity to be brought to the notice of users of the financial statements by presenting notes or requiring changes in financial statements.

**Chairman of the Board of Directors:**  
Mr. Pignoloni Carlo Franco Emanuele

**Financial manager:**  
Mr. Maurizio Rastelli

#### **Directors**

Ms. Mariyam Musrepova

Ms. Monica Hodor  
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Ms. Danilea Gontea

Mr. Edoardo Marcenaro

Mr. Valerica Draniceanu

Mr. Popescu Alexandru George

Mr. Calin Adrian Metes