

E- Distribuție Dobrogea SA

Report of the Directors

For the Financial Exercise Ended on December 31, 2021

March 2022

1. General considerations

In 2021, the Company achieved a turnover of 511,419,249 (2020: 488,424,688), of which:

- revenues related to the active energy distribution service 451,476,522 (2020: 430,426,236);
- reactive energy distribution revenues 20,441,664 (2020: 20,569,705);
- revenues from the sale of energy on the balancing market 2,885,521 (2020: 2,576,248);
- revenues from the sale of energy on the next day's market in the amount of 269,097 (2020: 262,335);
- revenues from the connection fee and the approval fee 5,120,109 (2020: 2,910,251)
- rental income 21,486,140 (2020: 23,941,576);
- income from embezzlement 473,084 (2020: 1,047,894) and other income 9,267,112 (2020: 6,690,443).

The company distributed electricity to 0.678 million consumers (2020: 0.677 million consumers), the total amount of electricity distributed to final consumers being approximately 3,756,155 Mwh (2020: 3,757,445 Mwh). The average electricity distribution rate for the entire year 2021 was 120.2 Ron / Mwh (2020: 114.6 Ron / Mwh).

The company distributed 3,525,545 Mwh (2020: 3,457,852 Mwh) to eligible consumers at an average rate of 115.9 Ron / Mwh (2020: 108.9 Ron / Mwh) and 230,569 Mwh (2020: 299,593 Mwh) to captive consumers at an average rate of 185.2 Ron / Mwh (2020: 180.0 Ron / Mwh).

The distribution rates regulated by ANRE order are the following:

January 1 – December 31, 2021 (Ron /Mwh)		
High voltage	Medium voltage	Low voltage
20.17	42.80	135.17

The distribution rate is applied according to the voltage level related to the delimitation point between the distribution operator and the user, by adding the specific rate relating the respective voltage level to the specific rate related to the higher voltage levels, in compliance with the regulations in force.

High voltage (HV) customer pays high voltage (HV) distribution rate, medium voltage (MTV) customer pays high voltage (HV) distribution rate + medium voltage (MV) distribution rate, low voltage (LV) customer pays high voltage distribution rate (HV) + medium voltage distribution rate (MV) + low voltage distribution rate (LV).

In the general context in which the purchase prices of electricity should cover the network losses had an unprecedented increase in relation to the cost recognized in the distribution rate of 2021 (the increase was 60%), the average effective purchase price being RON 494 / MWh compared to the purchase price recognized in the distribution rate of RON 308 / MWh.

2. The structure of the share capital

As of December 31, 2021, 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 2021.

The company holds 50% of the share capital of Enel Servicii Comune with a par nominal value (cost) on December 31, 2021 of RON 16,500,000 (December 31, 2020: RON 16,500,000) and exercises joint control over this company together with the other shareholder E-Distributie Dobrogea S.A., which holds 50% of the share capital.

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 2021

During 2021, the Company met its main objectives:

The most important achievements of the Company in 2021 were as follows:

- Modernization of medium voltage equipment in Slobozia Nord and Baba Novac transformer stations;
- Completion of the replacement works of circuit breakers 110kV in the Mihai Viteazu transformer station
- Replacement of the 110 / MT transformers from the Eforie Nord transformer station (2 pcs) and the Babadag transformer station (1 pcs);
- Installation of OPG W type protection conductor on three high voltage overhead power lines with a total length of 33.08 km;
- Modernization / installation of 39 transformer stations;
- Modernization / construction works of 52 km of underground medium voltage power lines;
- Modernization / construction works of 14 km of medium voltage overhead power lines;
- Modernization / construction works of 158 km of low voltage network;
- MT / LT transformer replacement / installation works (117 pcs) in 106 substations;
- Installation of 72 remote-controlled air separators;
- Continuing the implementation of the project for the installation of intelligent measurement systems, being installed a number of approximately 37,800 smart meters;
- 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 2022, the Company aims to carry out the following investment projects:

- Removal of meters at the property limit to reduce networks' 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 – 38,136 pcs
- Continuation of the works at the new transformer station Mamaia Nord and the underground power line 110kV Mamaia Nord - Năvodari.
- Completion of modernization of medium voltage equipment in the Slobozia Sud transformer station;
- Installation of OPGW protection conductor on the high voltage overhead power line Gura Ialomitei - Slobozia Sud, in total length of 42 km;
- Continuation of the modernization works of the transformer stations, of the medium and low voltage lines in order to improve the quality of the distribution service and to reduce the CPT.

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;
- Reorganization of all departments within the company in order to have more efficient, more innovative processes and to increase customer satisfaction;
- The development of new activities, as well as the revision of the processes and the continuous digitalization of the Company's operations require the adaptation and / or development of the competencies of the existing staff; as a result, staff 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, in accordance with the new strategy of People and Organization;
- Supporting colleagues through specific technical trainings in order to obtain the certifications requested by the Romanian Energy Regulatory Authority;
- Creating and applying new training programs dedicated to employees who have promoted in leadership roles of various departments, with emphasis on the values and behaviors of ENEL and 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);
- Reviewing the performance evaluation process, in order to highlight the strengths of each colleague and to evaluate the objectives set, based on the competencies defined at the organizational level.

On December 31, 2021, the Company set up provisions for restructuring (voluntary departures) in the amount of 6,302,071 (2020: 0) as a result of the agreement signed between the Company and the

union, which targets a plan for early retirement. The Company will pay compensatory salaries depending on the remaining period until retirement and seniority in the Company to the eligible persons according to the agreement

7. Environmental issues

During 2021, the Company continued to carry out programs related to waste management, monitoring environmental factors, reducing the level of pollution in all facilities, total environmental expenses amounting to approximately RON 1,157,051.

Mainly, the expenditures were made in 2021 for:

- Collection, transport and disposal of urban and assimilated waste (sanitation) in value of 73,253;
- Collection and transport of wastewater, rainwater drainage, sewerage network (canal, rainwater) in value of 49,414;
- 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 22,796;
- Prevention of soil, subsoil and groundwater pollution in value of 205,033:
 - a. Collection, transport and disposal of waste water-oil emulsions, sludges and maintenance of hydrocarbon separators of temporary storage platforms 26,621;
 - b. Analyzes of mineral oil samples from EDD transformers in value of 6,300;
 - c. Construction / Reconditioning of retention tanks from transformer stations: ST Slobozia Sud: rehabilitation of transformer 1, rehabilitation of transformer2, construction of the new GTN tank, in value of 163,844;
 - 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 the amount of 8,269;
- Expenditures for the protection of biodiversity by installing stork nests and electrically insulating sheaths to avoid birds' electrocution, in value of 50,480;
- Internal training on environmental protection, in value of 187,579;
- Expenses with the personnel dedicated to the environmental protection activity, in value of 564,960;
- ISO 14001 SRAC audit expenses, in value of 3,534.

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 2021 and 2020.

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.

9. Non-financial statement

In accordance with the legal requirements regarding 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-distribution.com>) within a legal deadline, until June 30, 2022.

10. Financial information
10.1 Main elements of Balance sheet on 31 December 2021

	Balance at the beginning of the year	Balance at the end of the year
FIXED ASSETS		
I. INTANGIBLE ASSETS	15,394,810	17,984,972
II. TANGIBLE ASSETS	1,704,152,358	1,784,420,823
III. FINANCIAL ASSETS	16,529,767	16,529,767
FIXED ASSETS - TOTAL	1,736,076,935	1,818,935,563
CURRENT ASSETS		
I. INVENTORIES	3,265,144	4,085,473
II. RECEIVABLES	86,953,689	110,066,095
III. SHORT-TERM INVESTMENTS		
IV. CASH AND BANK ACCOUNTS	124,148,749	78,180,908
CURRENT ASSETS - TOTAL	214,367,582	192,332,476
EXPENDITURE IN ADVANCE	1,245,174	1,380,987
DEBTS: AMOUNTS TO BE PAID WITHIN ONE YEAR	212,537,743	234,301,204
DEBTS: AMOUNTS TO BE PAID IN MORE THAN ONE YEAR		
PROVISIONS	38,172,226	44,331,194
DEFERRED INCOME	476,842,467	498,370,256
CAPITAL AND RESERVES		
CAPITAL		
I. CAPITAL	280,285,560	280,285,560
II. CAPITAL REWARDS		
III. RESERVES	757,888,014	755,849,547
IV. PROFIT OR LOSS CARRIED OUT	142,454,267	193,960,954
V. PROFIT OR LOSS OF THE FINANCIAL YEAR	53,732,961	11,509,117
VI. DISTRIBUTION OF PROFIT	10,223,547	5,958,806
CAPITALS - TOTAL	1,224,137,255	1,235,646,372

10.2 Main items Profit and loss account for the financial year ended December 31, 2021

Item	Financial exercise ended on 31.12.2020	Financial exercise ended on 31.12.2021
OPERATING INCOME	530,058,133	554,771,347
OPERATING EXPENSES	466,210,586	543,780,477
PROFIT OR LOSS FROM OPERATION	63,847,547	10,990,870
FINANCIAL REVENUE	2,193,448	7,785,493
FINANCIAL EXPENSES	1,930,782	7,896,938
FINANCIAL PROFIT OR LOSS	262,666	(111,445)
TOTAL INCOME	532,251,581	562,556,840
TOTAL EXPENSES	468,141,368	551,677,415
GROSS PROFIT OR LOSS	64,110,213	10,879,425
INCOME TAX	10,377,252	(629,692)
PROFIT OF THE FINANCIAL YEAR	53,732,961	11,509,117

10.3 Economic and financial indicators

	2020	2021
1 Liquidity indicators		
Current liquidity indicator	0,92	0,82
Immediate liquidity indicator	0,91	0,80
2 Activity indicators		
Turnover rate of debts -customer	89	67
Turnover rate of loans-suppliers	134	125
Turnover rate of fixed assets	0,28	0,28
Turnover rate of total assets	0,23	0,25
3 Profitability indicators		
Return on capital (%)	5,24%	0.88%
Gross sales margin (%)	13,13%	2.13%

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 bank accounts) while current debts had a more pronounced growth rate. The effect of the unprecedented increase in energy prices has generated a significant increase in debts to energy suppliers.

Report of the Directors

(all amounts are in RON unless otherwise mentioned)

The turnover rate of supplier loans registered a negative variation compared to the previous year, due to the significant increase in energy purchase prices to cover networks' losses while the average balance of suppliers increased at a slower rhythm compared to the previous year .

At the same time, there was a significant increase in investment in line with the ANRE plan set at the beginning of the regulatory cycle at a faster rhythm than the average balance of suppliers.

The turnover rate of customer debts registered a positive variation due to the reduction of the average balance of receivables and the slight increase of the turnover level.

The turnover rate of total assets increased slightly due to higher turnover and an insignificant percentage increase in the level of total assets, while the turnover rate of fixed assets remained at the same value as the growth rates of fixed assets and turnover are at relative level.

Return on working capital decreased significantly due to a very high rate of decrease in gross profit compared to an increase of only 1% in working capital.

Gross sales margin registered a negative variation compared to the previous year due to the significant 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, 2021

The company proceeded to distribute the amount of 5,958,806 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 5,550,311 to 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

At the end of February 2022, the Ministry of Energy launched for public debate the draft GEO on measures applicable to final customers in the electricity and natural gas market between April 1, 2022 - March 31, 2023. The document proposes the establishment of temporary measures so that electricity and natural gas prices paid by final customers should not aggravate the level of energy poverty.

The draft GEO provides, among other things, the maintenance at current level of regulated rates related to electricity and natural gas transmission and distribution services during the period of application of the ordinance and the recognition in regulated rates of financial expenses incurred by bank loans contracted between 2022-2023, intended to cover the expenses with the acquisition of electricity and natural gas, generated by the increase of prices on the wholesale market, in order to cover the technological consumption.

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

Financial manager:
Mr. Popescu Razvan Cristian

Directors
Ms. Guerrieri Stefania
Ms. Monica Hodor
Illegible signature
Ms. Eduardo Marcenaro
Mr. Ion Grozavu
Mr. Popescu Alexandru George
Mr. Calin Adrian Metes