

E- Distribuție Banat 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 547,395,837 (2020: 516,875,725):

- revenues from which related to the active energy distribution's service 473,300,716 (2020: 444,183,931)
- revenues from reactive energy distribution 22,169,225 (2020: 23,103,061);
- revenues from the sale of energy on the balancing market 6,301,489 (2020: 2,494,309);
- revenues from the sale of energy on the next-day market 638,689 (2020: 994,522);
- income from the connection fee, approval fee and reception of works 4,569,286 (2020: 2,978,824);
- rental income 32,157,706 (2020: 38,507,573);
- income from embezzlement 513,433 (2020: - 56,455) and
- other income 7,745,293 (2020: 4,669,960) (sale of goods, other income).

The company distributed electricity to approximately 0.940 million consumers (2020: 0.928 million consumers), the total amount of electricity distributed to final consumers being approximately 4,579,255 Mwh (2020: 4,328,223 Mwh). The average electricity distribution rate for 2021 was 103.4 RON/Mwh (2020: 102.6 RON/Mwh).

The company distributed 4,204,811 Mwh (2020: 3,842,424 Mwh) to eligible consumers at an average rate of 98.4 RON/Mwh (2020: 95.7 RON/Mwh) and 374,444 Mwh (2020: 485,799 Mwh) to captive consumers at an average rate of 159.1 RON/Mwh (2019: 154.7 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
15.51	38.27	107.84

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 (MV) 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 electricity purchase prices should cover the network losses had an unprecedented increase in relation to the cost recognized in the distribution rate of 2021 (the increase was 55%), the

average purchase price being RON 478 / 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 382,153,800, divided into 38,215,380 shares with a par nominal value of RON 10.

As of December 31, 2021, the shareholding structure of the Company is as follows:

- ENEL SpA., holding 19,491,234 shares with a par nominal value of RON 10 each, representing 51.0036% of the share capital;
- Societatea de Administrare a Participațiilor in Energie (SAPE), holding 9,503,502 shares, with a par nominal value of RON 10 each, representing 24.8683% of the share capital;
- FONDUL PROPRIETATEA "S.A., holding 9,220,644 shares, with a par nominal value of RON 10 each, representing 24.1281% of the share capital.

As of December 31, 2021, the Company holds 50% of the share capital of Enel Servicii Comune, having a value of 16,500,000 (December 31, 2019: 16,500,000) and exercises joint control over this company together with the other shareholder E-Distribuție Dobrogea S.A., which owns 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:

Company's most important achievements in 2021 were as follows:

- Modernization works in 3 HT / MT transformer stations - Orastie, Chisineu Cris, Simeria, and IRUM
- Replacement of 2 HT / MT transformers in transformer stations (Cetate – T2 and Caprisoara – T1);
- Creation of optical fibre connections OPGW 95 with 24 FO on LEA 1 lOkV - 30.76 km
- Creation of CPT compensation system from renewable solar energy sources in the 110/20 kV Otelu Roșu station
- Modernization of 76 existing transformer stations with introduction of remote control, installation of 16 new transformer stations, modernization of distribution boxes at 118 aerial transformer stations;
- Modernization / construction works of about 133 km of medium voltage aerial power lines;
- Modernization / construction works of about 61.5 km of underground medium voltage power lines;
- Remote control separator assembly works on medium voltage aerial lines: 15 pcs and 9 pcs reclosers;
- Modernization / construction works of about 275 km of low voltage network;
- 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;
- Continuation of the project implementation for the installation of intelligent measurement systems, being installed a number of 44,439 smart meters and 340 hubs.

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's limit to reduce network losses;
- Switching to 20 kV medium voltage electrical distribution networks (10 kV);
- Continuing the actions to developing the remote-control system for improving the quality of the distribution service;
- Continuing the actions for the development of the smart meter system for household customers;
- 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;
- Modernization of transformer stations, transformer substations, medium voltage, and low voltage lines, in order to improve the quality of the distribution service.
- Continuation of the implementation project for the installation of intelligent measurement systems – 45,591 pcs

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 according to the new strategy of People and Organizations;
- 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 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);
- Revising the performance evaluation process, with the aim of highlighting the strengths of each colleague and evaluating the set of objectives, based on the competencies defined at the organization level.

On December 31, 2021, the Company established provisions for restructuring in the amount of 8,713,015 (2020: 0) as a result of the agreement signed between the Company and the Union, which targets a withdrawal plan from the Company before early retirement. The Company will pay compensatory salaries depending on the remaining period until retirement and seniority in the Company to eligible persons according to the agreement.

7. Environmental issues

During 2021, 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 1,823,484.

Mainly, the expenditures were made in 2021 for:

- Collection, transport and disposal of urban and assimilated waste (sanitation) amounting to 240,722;
- Collection and transport of wastewater, stormwater drainage, sewerage network (canal, rainwater) amounting to 77,218;
- Specific environmental taxes (Environmental fund 2% of waste recovery, tax for emissions from fixed sources - thermal power plants, approval fees) amounting to 33,471;
- Prevention of soil, subsoil and water pollution amounting to 445,342:
 - a. Maintenance of separators in the amount of 56,290;
 - b. Collection, transport and disposal of ceramic insulating waste and concrete pillars amounting to 68,840;
 - c. Collection, transport and disposal of hazardous waste (collection, transport, destruction of waste resulting from PPE to prevent infection with COVID-19 and purchase of materials for storage of waste until collection) amounting to 55,852;
 - d. Analyses of mineral oil samples from EDB transformers in value of 6,300;
 - e. Rehabilitation/construction of 2 tanks TFN/SA + BS, in the IRUM Station, rehabilitation of the retention tank TRAF0 2 in the Orastie Station in the amount of 258,060;
- Internal training on environmental protection in the amount of 206,587;
- Expenses with the personnel dedicated to the environmental protection activity amounting to 742,662;
- ISO 14001 SRAC audit expenses amounting to 3,748;
- Expenditures for biodiversity protection (installation of stork nest supports, installation of electrical insulating sheaths to avoid electric shock to birds) amounting to 73,734.

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 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, 2022.

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

	Balance at the beginning of the year	Balance at the end of the year
FIXED ASSETS		
I. INTANGIBLE ASSETS	21,905,770	22,790,381
II. TANGIBLE ASSETS	1,913,874,665	2,057,933,235
III. FINANCIAL ASSETS	16,529,684	16,529,684
FIXED ASSETS - TOTAL	1,952,310,119	2,097,253,300
CURRENT ASSETS		
I. INVENTORIES	1,658,765	2,588,970
II. RECEIVABLES	91,784,568	117,484,647
III. SHORT-TERM INVESTMENTS		
IV. CASH AND BANK ACCOUNTS	427,221,662	235,963,722
CURRENT ASSETS - TOTAL	520,664,995	356,037,339
EXPENDITURE IN ADVANCE	1,289,345	1,625,397
DEBTS: AMOUNTS TO BE PAID WITHIN ONE YEAR	256,669,823	300,454,198
DEBTS: AMOUNTS TO BE PAID IN MORE THAN ONE YEAR		
PROVISIONS	44,799,369	53,280,631
DEFERRED INCOME	533,532,421	572,472,653
CAPITAL AND RESERVES		
CAPITAL		
I. CAPITAL	382,153,800	382,153,800
II. CAPITAL REWARDS	9,146,618	9,146,618
III. RESERVES	1,000,274,342	987,988,287
IV. PROFIT OR LOSS CARRIED OUT	232,379,506	182,665,561
V. PROFIT OR LOSS OF THE FINANCIAL YEAR	38,596,886	(33,245,712)
VI. DISTRIBUTION OF PROFIT	(23,288,306)	-
CAPITALS - TOTAL	1,639,262,846	1,528,708,554

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

Item	Financial year ended December 31, 2020	Financial year ended December 31, 2021
OPERATING INCOME	556,790,430	593,525,865
OPERATING EXPENSES	518,051,407	629,831,779
PROFIT OR LOSS FROM OPERATION	38,739,023	(36,305,914)
FINANCIAL REVENUE	8,179,380	4,803,187
FINANCIAL EXPENSES	3,001,629	2,163,116
FINANCIAL PROFIT OR LOSS	5,177,751	2,640,071
TOTAL INCOME	564,969,810	598,329,052
TOTAL EXPENSES	521,053,036	631,994,895
GROSS PROFIT OR LOSS	43,916,774	(33,665,843)
INCOME TAX	5,319,888	(420,131)
NET PROFIT OR LOSS OF THE FINANCIAL YEAR	38,596,886	(33,245,712)

10.3 Economic and financial indicators

	2020	2010
1 Liquidity indicators		
Current liquidity indicator	2.03	1.18
Immediate liquidity indicator	2.02	1.18
2 Activity indicators		
Turnover rate of debts -customer	117	97
Turnover rate of loans-suppliers	152	136
Turnover rate of fixed assets	0.26	0.26
Turnover rate of total assets	0.21	0.22
3 Profitability indicators		
Return on capital (%)	2.68%	n/a
Gross sales margin (%)	8.50%	n/a

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) by a higher rate than current debts together with a significant increase in debts to suppliers. The effect of the unprecedented increase in energy prices has generated a significant increase in debts to energy suppliers.

The rotation speed of the credits-suppliers has registered a negative variation compared to the previous year, due to the increase in the average balance of the suppliers at the same time as a significant increase in the purchase prices of energy to cover network's losses. At the same time, there was a significant increase in investments in accordance with the ANRE plan established at the beginning of the regulatory cycle at a faster rate than the increase in the average balance of suppliers.

The rotation speed of customer debts registered a slight increase due to the increase in the average balance of receivables and the slight increase in the level of turnover. During the year, one of the important customers had problems regarding the payment of outstanding debts.

The rotation speed of total assets registered a slight increase due to the higher turnover and the reduction in the level of total assets, while the turnover rate of fixed assets remains at the same value as the growth rates of fixed assets and turnover are relatively at the same level.

11. Distribution of the profit related to the financial year ended on December 31, 2021

At the end of the financial year 2021, the Company registered a total loss in the amount of 33,245,712. The Management of the Company will propose covering the loss by allocating it to the retained earnings account (account 117).

12. Events subsequent to the balance sheet date

At the end of February 2022, the Ministry of Energy launched into public debate the draft GEO regarding the measures applicable to final customers in the electricity and natural gas market between April 1, 2022 and 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 the current level of the regulated rates related to the transport and distribution services of electricity and natural gas during the period of applying the provisions of the ordinance and the recognition in the regulated rate of the financial expenses caused by bank loans contracted between 2022-2023, intended to cover expenses for the purchase of electricity and natural gas, generated by the increase in prices on the wholesale market, in order to cover 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

Mr. Eduardo Marcenaro

Mrs. Voda Monica

Ms. Laura Cristina Stanislav Bogdan

Mr. Catalin Niculita