

E- Distribuție Banat SA

Report of the Directors

For the Financial Exercise Ended on December 31, 2020

March 16th, 2021

1. General considerations

In 2020, the Company achieved a turnover of RON 516,875,725 (2019: 503,793,010), of which:

- revenues corresponding to the service of active electricity distribution 444,183,931 (2019: 438,735,522);
- revenues from reactive energy distribution 23,103,061 (2019: 18,025,716);
- revenues from the sale of energy on the balancing market 2,494,309 (2019: 4,228,479);
- revenues from the sale of energy on the next day's market 994,522 (2019: 410,458);
- revenues from the connection fee, the approval fee and reception of works 2,978,824 (2019: 2,751,210);
- rental income 38,507,573 (2019: 30,584,293);
- other income from theft (56,455) (2019: 2,841,813) and
- other revenues 4,669,960 (2019: 6,215,519) (sale of goods, other revenues).

The company distributed electricity to approximately 0.928 million consumers (2019: 0.916 million consumers), the total amount of electricity distributed to final consumers being approximately 4,328,223 Mwh (2019: 4,440,781 Mwh). The average electricity distribution rate for the entire year 2020 was 102.6 RON / Mwh (2019: 98.8 RON / Mwh).

The company distributed 3,842,424 Mwh (2019: 3,895,057 Mwh) to eligible consumers at an average rate of 95.7 RON / Mwh (2019: 91.0 RON / Mwh) and 485,759 Mwh (2019: 545,724 Mwh) to captive consumers at an average rate of 157.4 RON / Mwh (2019: 154.7 RON / Mwh).

2. The structure of the share capital

As of December 31, 2020, the share capital is 382,153,800, being divided into 38,215,380 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 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, 2020, 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).

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 works in 6 HT / MT transformation stations (Orastie, Chisineu Cris, Simeria, Bujac and IRUM - MT equipment); (Musicescu - HT equipment)
- Replacement of 2 HT / MT transformers in transformer stations (Cetate – HT and Gai);
- Installation of 24 analysers in transformer stations;
- Modernization of 31 existing transformer stations with introduction in remote control, installation of 15 new transformer stations, modernization of distribution boxes at 52 aerial transformer stations;
- Modernization / construction works of about 160 km of medium voltage aerial power lines, of which about 159 km of insulation replacement;
- Modernization / construction works of about 43 km of underground medium voltage power lines;
- Remote control separator assembly works on medium voltage aerial lines: 4 pcs and 5 pcs reclosers;
- Modernization / construction works of about 176 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 45,562 smart meters and 301 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 2021, the Company aims to carry out the following investment projects:

- Removal of meters at the property 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 - 47,328 pcs
- Commissioning the WEBSITE of the E-Distribution 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 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);
- 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 4,338,456 (in 2020 there were several investments works that also had a positive impact on the environment - insulation of aerial power lines against electric shock to birds and modernization of retention tanks in stations).

Mainly, the expenditures were made in 2020 for:

- Collection, transport and disposal of urban and assimilated waste (sanitation) amounting to 234,412;
- Collection and transport of wastewater, stormwater drainage, sewerage network (canal, rainwater) amounting to 119,052;
- Specific environmental taxes (Environmental fund 2% of waste recovery, tax for emissions from fixed sources - thermal power plants, approval fees) amounting to 26,299;
- Prevention of soil, subsoil and water pollution amounting to 1,699,723:
 - a. Maintenance of platform separators ST IT Fratelia, ST IT Poltura, Eurocooper Platform, taking over Giulvaz water-oil emulsions, Timiș in the amount of 7,535;
 - b. Collection, transport and disposal of ceramic insulating waste and concrete pillars amounting to 63,897;
 - 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 110,902;
 - d. Purchase of biodegradable absorbent material, absorbent cloths and carpets, amounting to 49,577;
 - e. Analyses of mineral oil samples from EDB transformers in value of 6,300;
 - f. Execution of drilling, sampling and soil analysis, amounting to 14,498;
 - g. Realization / Rehabilitation of retention tanks in the stations HT Muzicescu Trafo 1, Chisineu Cris Trafo 1 and Trafo 2, Bucovina Trafo 3 and 3 TFN / SA, IRUM 2 TFN / SA + BS, Simeria Trafo TI, Trafo T2 and 2 TFN / SA + BS, Dumbravita Trafo 3, 2 TSI and 1 TFN / SA in the amount of 1,447,014;

- Internal training on environmental protection in the amount of 180,852;
- Expenses with the personnel dedicated to the environmental protection activity amounting to 638,795;
- ISO 14001 SRAC audit expenses amounting to 3,679;
- Expenditures for biodiversity protection (installation of stork nest supports, installation of electrical insulating sheaths to avoid electric shock to birds) amounting to 1,435,644.

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 at 31 December 2020

	Balance at the beginning of the year	Balance at the end of the year
FIXED ASSETS		
I. INTANGIBLE ASSETS	21,820,084	21,905,770
II. TANGIBLE ASSETS	1,797,288,172	1,913,874,665
III. FINANCIAL ASSETS	16,529,684	16,529,684
FIXED ASSETS - TOTAL	1,835,637,940	1,952,310,119
CURRENT ASSETS		
I. INVENTORIES	1,331,402	1,658,765
II. RECEIVABLES	168,133,044	91,784,568
III. SHORT-TERM INVESTMENTS		
IV. CASH AND BANK ACCOUNTS	1,263,185,555	427,221,662
CURRENT ASSETS - TOTAL	1,432,650,001	520,664,995
EXPENDITURE IN ADVANCE	1,044,378	1,289,345
DEBTS: AMOUNTS TO BE PAID WITHIN ONE YEAR	271,420,844	256,669,823
DEBTS: AMOUNTS TO BE PAID IN MORE THAN ONE YEAR		
PROVISIONS	37,852,507	44,799,369
DEFERRED INCOME	473,235,588	533,532,421
CAPITAL AND RESERVES		
CAPITAL		
I. CAPITAL	382,153,800	382,153,800
II. CAPITAL REWARDS	9,146,618	9,146,618
III. RESERVES	985,534,813	1,000,274,342
IV. PROFIT OR LOSS CARRIED OUT	954,039,602	232,379,506
V. PROFIT OR LOSS OF THE FINANCIAL YEAR	167,678,332	38,596,886
VI. DISTRIBUTION OF PROFIT	(11,729,785)	(23,288,306)
CAPITALS - TOTAL	2,486,823,380	1,639,262,846

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

Item	Financial year ended December 31, 2019	Financial year ended December 31, 2020
OPERATING INCOME	550,834,776	556,790,430
OPERATING EXPENSES	401,684,700	518,051,407
PROFIT OR LOSS FROM OPERATION	149,150,076	38,739,023
FINANCIAL REVENUE	25,463,537	8,179,380
FINANCIAL EXPENSES	2,193,890	3,001,629
FINANCIAL PROFIT OR LOSS	23,269,647	5,177,751
TOTAL INCOME	576,298,313	564,969,810
TOTAL EXPENSES	403,878,590	521,053,036
GROSS PROFIT OR LOSS	172,419,723	43,916,774
INCOME TAX	4,741,391	5,319,888
NET PROFIT OR LOSS OF THE FINANCIAL YEAR	167,678,332	38,596,886

10.3 Economic and financial indicators

	2019	2020
1 Liquidity indicators		
Current liquidity indicator	5,28	2,03
Immediate liquidity indicator	5,27	2,02
2 Activity indicators		
Turnover rate of debts -customer	138	117
Turnover rate of loans-suppliers	172	152
Turnover rate of fixed assets	0.27	0.26
Turnover rate of total assets	0.15	0.21
3 Profitability indicators		
Return on capital (%)	6.93%	2.68%
Gross sales margin (%)	34.22%	8.50%

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 household, bank accounts and receivables) by a higher rate than current debts.

The turnover rate of loans-suppliers registered a negative variation compared to the previous year, due to the decrease of the average balance of suppliers at the same time as the increase of the cost of purchasing goods.

The turnover rate of customers' debts decreased due to the reduction of the average balance of receivables and the slight increase in the level of turnover.

The turnover rate of total assets increased due to higher turnover and the reduction in the level of total assets, while the turnover rate of fixed assets decreased slightly as the growth rate of fixed assets was higher than that of turnover.

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

Gross sales margin registered a negative variation compared to the previous year due to the decrease in gross profit while registering a slight increase in turnover.

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

At the end of the financial year 2020, the Company registered a total profit of 38,596,886.

The company proceeded to distribute the amount of 23,288,306 to reserves for the exemption of the profit reinvested in technological equipment, according to the legal provisions.

The Board of Directors proposes the distribution as dividends in the interest of the shareholders of the amount of 15,308,580, representing the net profit remaining after the distribution to reserves of the amount of 23,288,306.

The Board of Directors proposes the distribution as extraordinary dividends from the carried forward result obtained by the Company until 31.12.2019 of the amount of 62,000,000, which represents a part of the carried forward result obtained by the Company until 31.12.2019, considering a prudent approach, given the potential impact of cash flows from regulatory, legislative and business 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.

In accordance with the provisions of the Privatization Contract applicable to the Company and those of the Government Emergency Ordinance no. 88/1997 on the privatization of companies, of Law no. 137/2002 regarding some measures for accelerating the privatization and of the Methodological Norms for the application of the Government Emergency Ordinance no. 88/1997 on the privatization of the commercial companies, with the subsequent modifications and completions, and of the Law no. 137/2002 regarding measures for accelerating the privatization approved by the Government Decision no. 577/2002, the Company restarted the process of increasing the share capital with the value of the

lands for which the Certificates of Attestation of the Property Right ("CAPR") were issued, after the privatization, as well as the steps of rectification or obtaining some certificates for the lands used by the Company, in order to increase the share capital.

At this moment, 191 land positions have been identified, which could be the subject of a future incorporation in the share capital. For 103 of them, respectively those for which CAPR were obtained, issued by the Ministry of Industry and Resources on behalf of the privatized entity, namely FDFEE Electrica Banat SA, the Company launched during 2018 an operation to increase the share capital of the Subscriber. Thus, by the Resolution of the Extraordinary General Meeting of Shareholders no. 5 / 06.12.2018 it was decided to increase the share capital of the company with the equivalent value of the 103 lands. The decision of the Extraordinary General Meeting of Shareholders no. 5 / 06.12.2018 was attacked by the company's shareholder, Societatea de Administrare a Participatiilor in Energie SA, as well as by Societatea Energetica Electrica SA. The dispute is currently suspended by agreement of the parties, given the negotiations for amicable settlement of the dispute.

The relevant legislation issued by the Romanian state before the privatization of Electrica Banat allowed the registration of lands in the Company's patrimony in return for the increase of the share capital (if there is the related property documentation) or in an equity account called Other funds (account 719), with a distinct analytical "Lands not included in the share capital". Following the successive legislative accounting changes, the balance of this capital account was taken over by a reserve account (1068 "Other reserves").

Any other increases of share capital will be made following the decisions of the Extraordinary General Meeting of Shareholders which will be adopted in this regard depending on the clarification of CARP owner, as well as the entity entitled to receive shares following the respective share capital increases.

On April 4, 2019, as a result of obtaining the RECOM interrogation report no. 648344, the Company acknowledged that the structure of the Company's shareholders inexplicably includes Electrica - a private company - as shareholder of E-Distribuție Banat with a share of profit and loss of 0.00431744696016%.

The situation generated a number of 6 litigations, among which the one in which the Company challenged, before the Timiș Tribunal, the resolution of the Trade Register by which Electrica was registered as a shareholder of E-Distribuție Banat, in file no. 1994/30/2019. The first instance court rejected the request, and in the appeal phase, the case was suspended by the court in order for the parties to try to find an amicable solution to the CARP problem.

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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Mr. Eduardo Marcenaro

Mr. Robert Alexandru Andrei

Ms. Laura Cristiba Stanislav Bogdan

Mr. Catalin Niculita