

## **E- Distribuție Muntenia 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 858,511,382 (2019: 814,537,487) of which revenues from the distribution of active electricity 764,414,058 (2019:736,057,197), reactive energy distribution revenues 23,910,415 (2019:19,296,240), revenues from PE-CPT 10,232,861 (2019: 14,320,376), revenues from connection fee, approval fee and reception of works 6,621,123 (2019: 5,086,736), rental income 24,231,664 (2019: 21,270,003), income from the sale of energy on the next day's market 2,797,248 (2019: 830,435), income from theft 2,351,597 (2019: 2,866,118) and other income 23,952,416 (2019: 14,810,382) (sale of goods, other income).

The company distributed electricity to 1.377 million consumers in the current year (2019: 1,337), the total amount of electricity distributed to final consumers being 7,253,648 Mwh (2019: 7,486,702 Mwh). The average price of electricity distributed for the whole year 2020 was 105.4 RON / MWh (2019: 98.3 RON / MWh).

During 2020, the Company distributed 6,199,155 Mwh (2019: 6,271,032) to eligible consumers at an average rate of 97.9 / Mwh (2019: 89.7) and 1,054,493 Mwh (2019: 1,215,670) to captive consumers at an average rate of 149.4 / Mwh (2019: 142.8).

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

On 31.12.2020, the share capital of the Company is RON **271,365,250**, fully subscribed and paid-in and is divided into 27,136,525 registered shares, with a par nominal value of RON 10 each.

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

- a) Enel SpA, holding 21,166,477 shares, with a par nominal value of RON 10 each, in a total value of 211,664,770, representing 78% of the share capital;
- b) Societatea de Administrare a Participatiilor in Energie, holding 2,713,652 shares, with a par nominal value of 10 RON each, with a total value of 27,136,520, representing 10% of the share capital; and
- c) Fondul Proprietatea S.A. holding 3,256,396 shares, with a par nominal value of RON 100 each, in a total value of 32,563,960, representing 12% of the share capital.

The company has no subsidiaries or branches.

### **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 in 2020

During 2020, the Company met its main objectives:

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

- Modernization / construction of about 67 km of high voltage overhead power lines
- Modernization / construction of about 3.8 km of high voltage underground power lines;
- The modernization / equipment replacement works in 6 transformer stations were completed (Cotroceni, Pajura, Maşini Grele, Solex, Laromet, Puieni);
- Modernization works / replacement of equipment in Nord, Filaret, Duesti, Obor
- Modernization of 49 existing transformer substations / supply points;
- Replacement of 13 PTA / PTM with PTAB;
- Installation of 12 new transformers;
- Modernization / construction works of about 106.4 km of medium voltage power lines;
- Modernization / construction works about 144.2 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;
- Implementation of the pilot project for the installation of smart metering systems, with 77,757 devices of smart meters installed.

#### 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:

- Replacement works of low voltage electrical networks and place meters at the property limit in order to reduce losses in the network;
- Switching to 20 kV medium voltage electrical distribution networks (10 kV);
- Continuing the actions of developing the remote-control system in order to improve the quality of the distribution service;
- Continuing the actions of developing the smart meter system for household customers;
- Continuation of modernization works in the Nord stations;
- Continuation of modernization works in the Nord, Duesti, Filaret and Obor stations;
- Starting works at the new 110/20 kV Mircea Eliade station;
- Continuation of modernization works and introduction in remote control of supply points and transformer stations;
- Modernization / construction of high voltage overhead / underground power lines that will ensure a higher transport capacity and will ensure increased safety in terms of energy supply to customers;
- Modernization / construction of medium voltage overhead / underground power lines that will ensure the improvement of the quality of the electricity distribution service;
- Continuation of works for the amplification of transformer stations / substations in order to ensure the capacity of the network to connect new consumers to the network;

- Continuing the implementation of the project for the installation of intelligent measurement systems - 72,170 pcs
- Commissioning of the WEBSITE E-Distributie Zona Privata.

## **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 Collective Labour Agreement, which has a validity until July 2021.

## **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 1,489,870.

Mainly, the expenditures were made in 2020 for:

- Collection, transport and disposal of urban and assimilated waste (sanitation) in amount of 112,468;
- Collection and transport of wastewater, stormwater drainage, sewerage network (canal, rainwater) in amount of 148,276;
- Specific environmental taxes (Environmental fund 2% of waste recovery, tax for emissions from fixed sources - thermal power plants, approval fees, approval fees for waste transport forms, Apa Nova municipal tax) in amount of 65,964
- Prevention of soil, subsoil and water pollution in amount of 491,621:
  - a. Analyses of mineral oil samples from EDM transformers in amount of 6,300;
  - b. Performing retention tanks under IT and GTN transformers in LAROMET, FILARET stations and reconditioning of tanks in IREMOAS station in amount of 392,469;
  - c. Maintenance works in the transformer station (replacement of 2 transformers and maintenance of the ventilation system, to reduce the noise level - following a notification) in amount of 13,347;
  - d. Collection, transport and disposal of hazardous waste (collection and disposal of emulsions, sludge, soil and stones) in amount of 9,041;
  - e. Purchase biodegradable absorbent material, absorbent cloths and carpets in amount of 49,130;
  - f. Collection, transport, destruction of waste resulting from E1P for the prevention of COVID-19 infection and the purchase of materials for waste storage until collection in the amount of 21,334;

- Internal training on environmental protection in the amount of 237,957;
- Expenses with the personnel dedicated to the environmental protection activity in amount of 426,127;
- ISO 14001 SRAC audit expenses in amount of 3,216;
- Expenditures for biodiversity protection (installation of stork nest supports, installation of electrical insulating sheaths to avoid electric shock to birds) in amount of 4,240.

## **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 company was not significantly affected by the COVID-19 pandemic due to the specific nature of the activity.

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.

## 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	30,133,791	30,350,700
II. TANGIBLE ASSETS	3,448,238,957	3,692,641,134
III. FINANCIAL ASSETS		
<b>FIXED ASSETS - TOTAL</b>	<b>3,478,372,748</b>	<b>3,722,991,834</b>
<b>CURRENT ASSETS</b>		
I. INVENTORIES	2,842,744	2,738,824
II. RECEIVABLES	337,383,266	260,156,721
III. SHORT-TERM INVESTMENTS		
IV. CASH AND BANK ACCOUNTS	2,432,510,227	<b>913,920,542</b>
<b>CURRENT ASSETS - TOTAL</b>	<b>2,772,736,237</b>	<b>1,176,816,087</b>
EXPENDITURE IN ADVANCE	2,501,138	3,159,254
DEBTS: AMOUNTS TO BE PAID WITHIN ONE YEAR	<b>642,795,813</b>	<b>648,746,328</b>
DEBTS: AMOUNTS TO BE PAID IN MORE THAN ONE YEAR		
PROVISIONS	<b>79,171,632</b>	<b>87,753,159</b>
DEFERRED INCOME	<b>1,198,894,769</b>	<b>1,288,255,346</b>
<b>CAPITAL AND RESERVES</b>		
<b>CAPITAL</b>		
I. CAPITAL	271,365,250	271,365,250
II. CAPITAL REWARDS		
III. RESERVES	2,297,733,554	2,302,816,185
IV. PROFIT OR LOSS CARRIED OUT	1,691,968,270	208,047,304
V. PROFIT OR LOSS OF THE FINANCIAL YEAR	<b>96,670,617</b>	<b>111,800,491</b>
VI. DISTRIBUTION OF PROFIT	(24,989,782)	(15,816,888)
<b>CAPITALS - TOTAL</b>	<b>4,332,747,909</b>	<b>2,878,212,342</b>

**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	993,800,704	968,223,758
OPERATING EXPENSES	933,493,924	865,496,568
<b>PROFIT OR LOSS FROM OPERATION</b>	<b>60,306,780</b>	<b>102,727,190</b>
FINANCIAL REVENUE	47,452,957	<b>17,921,701</b>
FINANCIAL EXPENSES	4,808,923	<b>6,205,718</b>
<b>FINANCIAL PROFIT OR LOSS</b>	<b>42,644,034</b>	<b>11,715,983</b>
<b>TOTAL INCOME</b>	<b>1,041,253,661</b>	<b>986,145,459</b>
<b>TOTAL EXPENSES</b>	<b>938,302,847</b>	<b>871,702,286</b>
<b>GROSS PROFIT OR LOSS</b>	<b>102,950,814</b>	<b>114,443,173</b>
<b>INCOME TAX</b>	<b>6,280,197</b>	<b>2,642,682</b>
<b>NET PROFIT OR LOSS OF THE FINANCIAL YEAR</b>	<b>96,670,617</b>	<b>111,800,491</b>

**10.3 Economic and financial indicators**

	2019	2020
<b>1 Liquidity indicators</b>		
Current liquidity indicator	4.32	1.81
Immediate liquidity indicator	4.32	1.81
<b>2 Activity indicators</b>		
Turnover rate of debts -customer	104	88
Turnover rate of loans-suppliers	154	135
Turnover rate of fixed assets	0.23	0.23
Turnover rate of total assets	0.13	0.17
<b>3 Profitability indicators</b>		
Return on capital (%)	2.38%	3.98%
Gross sales margin (%)	12.64%	10.33%

Both the current liquidity indicator and the immediate liquidity indicator decreased compared to the previous year, as a result of the decrease in current assets (mainly due to the reduction of cash and bank accounts and payment of dividends) coupled with a slight increase in current debt.

The turnover rate of loans 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 customer's debts decreased due to the reduction of the average balance of receivables and a slight increase in the turnover.

The turnover rate of total assets increased due to higher turnover and a decrease in the level of total assets, while the turnover rate of fixed assets remained constant.

Return on working capital increased due to the increase in gross profit at the same time with the decrease in working capital.

Gross sales margin showed a positive change compared to the previous year due to the increase of gross profit at a higher rate than that of 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 111,800,491.

The company proceeded to distribute the amount of 15,816,888 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 95,983,603, representing the net profit remaining after the distribution to reserves of the amount of 15,816,888.

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 71,680,835.

#### **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

Ms. Daniela Gontea

Mr. Laurentiu Cazacu

Mr. Dumitru Rossita