

**INDIVIDUAL AND CONSOLIDATED
BUDGET FOR ELECTRICA S.A. FOR
THE YEAR 2021**

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1. General presentation of the Group

Electrica Group is one of the main distributors and suppliers of electricity on the Romanian market. The main business segments of the Group consist in the distribution of electricity to users and the supply of electricity to household and non-household customers.

As of 1 January 2021, the Group includes the following subsidiaries, beside the parent company of the Group, Societatea Energetica Electrica S.A. ("ELSA"):

- **Distributie Energie Electrica Romania SA („DEER”)**, resulting from the merger by absorption of the subsidiaries Societatea de Distributie a Energiei Electrice Muntenia Nord (“SDMN”), Societatea de Distributie a Energiei Electrice Transilvania Sud (“SDTS”) with Societatea de Distributie a Energiei Electrice Transilvania Nord (“SDTN”), the latter being the absorbing company. DEER is the electricity distribution operator in the regions of Transylvania North (Cluj, Maramures, Satu Mare, Salaj, Bihor and Bistrita-Nasaud counties), Transylvania South (Brasov, Alba, Sibiu, Mures, Harghita and Covasna counties) and Muntenia North (Prahova, Buzau, Dambovita, Braila, Galati and Vrancea counties), ensuring the service of network users by operating installations that function at voltages between 0.4 kV and 110 kV (power lines, substations and transformer stations). DEER holds exclusive distribution licenses for the aforementioned regions, which have a validity period until 2027, with the possibility of extension for a period of 25 years;
- **Electrica Furnizare (“EFSA”)**, the company having as main activity the supply of electricity to final customers. EFSA holds an electricity supply license covering the entire territory of Romania, valid until mid-2021, with the possibility of extension, and a license for carrying out the natural gas supply activity, valid until 2022. Starting with 31 August 2020, EFSA acquired the subsidiary Electrica Energie Verde 1 S.R.L. (“EEV1” - former Long Bridge Milenium S.R.L.) which owns and operates a photovoltaic park in Stanesti, Giurgiu county, with an installed capacity of 7.5 MW (operating capacity limited to 6.8 MW);
- **Electrica Serv (“SERV”)**, company that, starting with 30 November 2020, absorbed Servicii Energetice Muntenia SA (“SEM”), following a merger process. SERV provides repair services and other related services to third parties and various services to group companies (car rental, building rental etc.).

Table 1: ELSA subsidiaries

Subsidiary	Activity	Registration code	Headquarters	% shareholdings as of 31 December 2020
Distributie Energie Electrica Romania S.A. („DEER”)	Electricity distribution in geographical areas Transylvania North, Transylvania South and Muntenia North	14476722	Cluj-Napoca	100%
Electrica Furnizare S.A.	Electricity and natural gas supply	28909028	Bucuresti	99.9998409513906%
Electrica Serv S.A.	Services in the energy sector (maintenance, repairs, construction)	17329505	Bucuresti	100%
Electrica Energie Verde 1 S.R.L.* („EEV1” – former Long Bridge Milenium SRL)	Production of electricity	19157481	Bucharest	100%*

Sursa: Electrica

*indirect shareholding - Electrica Energie Verde 1 SRL is 100% owned by the subsidiary EFSA

2. IFRS Consolidated budget

The IFRS consolidated budget is prepared by combining the individual budgets presented below and making adjustments for applying IFRS standards and removing intra-group transactions.

Below are the main variations of the consolidated budget compared to the actual values of 2020.

2.1. Analysis budget 2021 vs. actual 2020

Table 2: Revenues and expenses B2021 vs A2020 [RON th]

Description	Actual 2020	Budget 2021	B2021 vs. A2020	B2021 vs. A2020 [%]
Revenue	6,501,100	6,890,181	389,081	6.0%
Other income	165,422	158,307	(7,115)	-4.3%
Electricity and natural gas purchased	(3,905,705)	(4,244,912)	(339,207)	8.7%
Construction costs related to concession arrangements	(675,967)	(713,087)	(37,120)	5.5%
Employee benefits	(774,501)	(823,625)	(49,124)	6.3%
Repairs, maintenance and materials	(104,577)	(107,550)	(2,973)	2.8%
Depreciation and amortization	(490,918)	(481,400)	9,518	-1.9%
Reversal of impairment/(Impairment) for trade and other receivables, net	62,167	(24,996)	(87,163)	-140.2%
Other operating expenses	(325,104)	(387,403)	(62,299)	19.2%
Operating profit	451,917	265,515	(186,402)	-41.2%
Gain from bargain purchase of subsidiaries*	7,477	-	(7,477)	-100.0%
Finance income	9,651	3,973	(5,678)	-58.8%
Finance costs	(26,736)	(34,551)	(7,815)	29.2%
Net finance cost	(17,085)	(30,578)	(13,493)	79.0%
Profit before tax	442,309	234,937	(207,372)	-46.9%
Income tax expense	(54,766)	(33,345)	21,421	-39.1%
Profit for the year	387,543	201,592	(185,951)	-48.0%

Source: Electrica

* separately for presentation purposes, the value is included in EBIT

Revenues and other operating revenues

Electrica Group estimates total revenues (including other revenues) of **RON 7,048,488 th**, compared to the actual revenues of 2020, of **RON 6,666,522 th**, representing an increase of **RON 381,966 th**, or **5.7%**, resulted from the evolution of the main Group revenues, detailed below.

- **Revenues** - an increase of revenues of **RON 389,081 th** is planned, mainly as a net effect of the most significant categories of revenues evolution, as follows:
 - it is estimated that electricity revenues will increase by **RON 353,609 th** compared to 2020, mainly due to the increase of the average sale price of the electricity supplied on the retail market by 4.4%, the increase of natural gas volumes supplied, as well as the increase of the distribution tariffs for 2021 on average by 4.9% and the increase of the volumes of electricity estimated to be distributed by approximately 1.1%;

- the revenues from network construction recognized according to IFRIC 12 which refer to the investments made by the DSO in the electricity distribution network are estimated to increase by **RON 38,234 th**, in accordance with the investment plan for 2021.
- **Electricity and natural gas purchased** - estimated increase of **RON 339,207 th**, or 8.7%, to RON 4,244,912 th, from RON 3,905,705 th in 2020. This variation is generated mainly by the supply segment, the distribution segment thus having a positive impact, as follows:
 - on the distribution segment, the *electricity expenses needed to cover NL* are planned to decrease by RON 19,621 th, compared to the 2020 value, mainly from the approx. 2% lower electricity volumes needed to cover NL;
 - *the costs with the purchased energy for the supply activity* are estimated to increase by approx. RON 331,931 th, mainly following the increase of the purchase price on average by 8.9%. Also, in 2020, the purchase cost on the regulated supply segment was favorably influenced by a non-recurring element in 2021, namely the recovery of differences in electricity purchase costs from previous periods in the amount of RON 143,597 th;
 - the *green certificates cost* will record an increase estimated to **RON 26,897 th**, or 4.8%, to RON 584,119 th from RON 557,222 th in 2020, as a net effect of the increase in the electricity supplied volumes (for which the GC purchase is necessary) by 254 GWh and implicitly of the obligation to purchase green certificates by 113 th GC (negative impact of RON 15,948 th), and of the green certificates purchase price increase by 2%, from an average price of RON 139.5/GC for 2020 to a budgeted price of RON 142.2/GC (negative impact of the GC price of RON 10,949 th).

Table 3: Green certificates purchase cost

ANRE estimated quota B2021 (GC/MWh)	Sales to consumers (MWh)	GC required for 2021	Budgeted value 2021 (RON th)	Unit cost of GC (RON/GC)	RON/MWh
0.4505	9,117,462	4,107,416	584,119	142.2	64.07
ANRE estimated quota A2020 (GC/MWh)	Sales to consumers (MWh)	GC required for 2020	Actual value 2020 (RON th)	Unit cost GC (RON/GC)	RON/MWh
0.4506	8,863,773	3,994,105	557,222	139.5	62.87

Source: Electrica

- **Construction costs related to concession arrangements** - increase of **RON 37,120 th**, or 5.5%, to the value of RON 713,087 th, from RON 675,967 th in 2020. This evolution is influenced by the investment plans in the distribution area, which additionally to the CAPEX plans approved by ANRE for the fourth regulatory period, also included supplementary investments for connections under 2.5 km of the final customers, according to the amendments brought by law no. 155/24 July 2020.
- **Employee benefits** - increase of **RON 49,124 th**, or 6.3%, to RON 823,625 th, from the value recorded in 2020, of RON 774,501 th, generated mainly by salary increases and by other benefits, as a result of the CLA alignment in distribution regions, but also the increase in the number of employees and other changes in the structure of benefits granted to employees at Group level.

Table 4: Number of employees

Period	ELSA	EFSA	DEER	SERV	Total
31 December 2020	120	793	6,519	694	8,126
31 December 2021	123	814	6,733	587	8,257
Var. %	2.5%	2.6%	3.3%	-15.4%	1.6%

Source: Electrica

- **Repairs, maintenance and materials** - a slight increase of **RON 2,973 th** or 2.8% is estimated, from the actual value of 2020 of RON 104,577 th, to RON 107,550 th, mainly from a lower level of repair and maintenance services rendered between the group companies, which has an unfavorable impact on the expenses at consolidated level.
- **Depreciation and amortization** - decrease of **RON 9,518 th**, or 1.9%, generated by analyzing the impact of the existing assets and of the assets planned to be commissioned in 2021, but also by the decrease of the IFRS 16 ,Leasing agreements' impact.
- **Reversal of impairment/(Impairment) for trade and other receivables, net** - estimated negative variation for 2021 is **RON 87,163 th**, representing the cumulative effect of:
 - recording in 2020 the income from the Oltchim receivable VAT adjustment of approx. RON 105 mn, non-recurring element, so that there is no equivalent amount in the 2021 budget;
 - including in the 2021 budget of approx. RON 18 mn lower impairment adjustments for trade and other receivables compared to those recorded in 2020, generating a positive impact.
- **Other operating expenses** - for 2021, an increase of **RON 62,299 th**, or 19.2%, is estimated, being mainly generated by the increase of consulting expenses for projects planned at Group level, and the impact of the rise in the supply segment costs following the electricity market liberalization, but also by the effect of reducing intra-group transactions, generated by certain changes in the Group companies' business models, resulting in a negative impact.
- **Operating profit** - as a result of the above mentioned factors, the operating profit is estimated to decrease by **RON 193,879 th** or 42.2%, compared to 2020, reaching the value of RON **265,515 th**.
- **Net finance cost** - unfavorable variation of **RON 13,493 th**, mainly as a result of budgeting significant interest expenses related to loans contracted by the distribution company to finance planned investments, and lower financial income due to the decrease of Group's deposits.
- **Income tax** – The corporate income tax expense is estimated to decrease by **RON 21,421 th**, in line with the gross profit evolution, the effective income tax rate being slightly higher compared to 2020.
- **Profit for the year** - considering the previously mentioned elements, it is estimated that in 2021 the Group will record a **net profit** of **RON 201,592 th**.

3. Electrica SA (ELSA)

3.1. Analysis budget 2021 vs. actual 2020

Table 5: Revenues and expenses B2021 vs A2020 [RON th]

Description	Actual 2020	Budget 2021	B2021 vs. A2020	B2021 vs. A2020 [%]
Revenues	3,251	2,530	(721)	-22%
Other operating income	14,517	274	(14,242)	-98%
Employee benefits	(31,819)	(35,574)	(3,755)	12%
Depreciation and amortization	(13,050)	(3,195)	9,855	-76%
Reversal of impairment of trade and other receivables, net	98,583	-	(98,583)	-
Impairment of property, plant and equipment, net	(9,979)	-	9,979	-
Change in provisions for legal cases and non-compete clauses, net	(2,511)	-	2,511	-
Other operating expenses	(23,871)	(40,568)	(16,697)	70%
Profit/(loss) before financing result	35,121	(76,533)	(111,654)	-
Finance income	260,305	373,541	113,236	44%
Finance costs	(124)	(155)	(31)	25%
Net finance income	260,181	373,386	113,205	44%
Profit before tax	295,302	296,853	1,551	1%
Income tax benefit/(expense)	3,077	-	(3,077)	-
Profit for the year	298,379	296,853	(1,526)	-1%

Source: Electrica

Revenues

The revenues recorded in 2020 for services of data measurement presentation, technical approval services, meter reading, related to the AMR system, based on the agreements concluded with the distribution subsidiaries, amount to RON 3,251 th, not having an equivalent amount in the 2021 budget, as a result of the AMR system related assets' transfer to the distribution subsidiaries during 2020. For 2021, revenues amounting **RON 2,530 th** were estimated, representing, mainly, revenues from the provision of services by ELSA to the companies within the Group.

Other operating income

For the year 2021, the other operating revenues were estimated at the value of **RON 274 th**, representing revenues from the partial renting of some ELSA buildings to third parties. These vary significantly compared to the revenues achieved in the previous year, **approx. RON 14,517 th**, mainly income from obtaining compensations/refunds of certain amounts as a result of favorable court sentences (**RON 12,827 th** from the dispute with ANAF), but also from subsidies related to the Integrity project (which have zero impact in the result).

Expenses

Salaries and other benefits

Salaries and other benefits expenses record an increase of RON 3,755 th in the 2021 budget, to **RON 35,574 th** from RON 31,819 th in 2020, as a result of the net impact of the personnel number evolution, of the organizational structure modification plan the by the transformation of some business structures with specialized personnel, as well as the provisions for the variable remuneration.

The remuneration of the directors and executive managers with mandate agreement is estimated at the same level as in the previous year, in terms of fixed and variable remuneration, according to the limits in force approved by the GMS.

Other operating expenses

For 2021, the company estimates an increase in operating expenses of approximately RON 16,697 th, up to **RON 40,568 th** from RON 23,871 th in 2020. The evolution is mainly determined by the following elements:

- slight increase of financial, technical, legal and other specialization advisory expenses in connection to the Group's M&A, development and strategy projects of the Group, estimated to be carried out in 2021, and additionally of the non-deductible VAT value, related to expenses with materials and services executed by third parties, in the context of the taxable operations decrease as a result of the AMR system assets transfer to the distribution subsidiary;
- legal expenses representing advisory, stamp and attorneys' fees related to the litigations in which the company is involved, register an increase of approximately RON 5,200 th compared to the level achieved in 2020, mainly as a result of including in the 2021 budget an amount related to the litigation initiated for the recovery of a prejudice identified by the RCC in the 2016 report related to the AMR system;
- the increase of the expenses with the IT & C services necessary to ensure the optimal functioning of the main IT systems used, as well as the maintenance services related to these systems, mainly due to the postponement of the implementation, in the context of the pandemic, of some projects budgeted in 2020, but also as an effect of planning new projects in 2021;
- the increase of some expenses that, in the context of the Covid 19 pandemic, could not be carried out/ realized according to the planning in 2020.

Non-cash items

The depreciation and amortization expense estimated in the 2021 budget is **RON 3,195 th** (2020: RON 13,050 th). The decrease is generated by the contribution of the AMR system assets to the share capital of the distribution companies on 30 June 2020, whose effect in the depreciation and amortization for the first 6 months of 2020 is eliminated in the 2021 budget.

The adjustments for property, plant and equipment value depreciation, recorded in 2020, in the amount of RON 9,979 th, mainly include the depreciation of RON 9,436 th recorded following the valuation of the assets related to the AMR system, not having an equivalent amount in the 2021 budget

The net adjustments for current assets (adjustments net of reversals) made in 2020 in the amount of RON 98,583 th represent mainly the reversal of the impairment adjustments for uncollected VAT related to the uncertain receivables from Oltchim, a non-recurring item, so there is no equivalent amount in the budget of 2021.

The net change in provisions (adjustments net of reversals) recorded in 2020, negative value of RON 2,511 th, mainly includes the provision related to a dispute with the Authority for State Assets Management, to which are added the provisions related to non-compete clauses, not having an equivalent amount in the budget of 2021.

EBITDA

The EBITDA value presented in the budget of 2021 is negative, of **RON 73,338 th**, compared to the positive value of EBITDA recorded in 2020, of RON 58,150 th, value influenced in 2020 by the non-recurring elements.

Operating result

The operating loss for 2021 is of **RON 76,533 th** (2020: profit of RON 35,121 th), as a result of the factors presented above.

Net finance income

Net finance income represents the difference between financial income and financial expenses, for the year 2021 it is budgeted at the level of **RON 373,386 th** (2020: RON 260,181 th).

Financial revenues mainly include estimated dividends from subsidiaries, as well as interest income related to loans granted to Group companies, from treasury surplus (term and overnight bank deposits) and revenues resulting from the implementation of cash pooling scheme at the Group level.

The most important source of financial income is represented by the estimated earnings from dividends, of RON 331,250 th (2020: RON 214,970 th).

The interest income is based on projected cash flows, also considering the estimated reimbursements of intra-group loans, as well as the interest rates values projected on the market; the average treasury surplus decreased significantly as a result of intra-group loans payments.

Thus, the interest income in 2021 is estimated at RON 42,291 th, slightly decreasing compared to the value of RON 44,852 th achieved in 2020, due to the decrease of the forecasted revenues related to term and overnight deposits.

Profit before tax

The gross profit estimated for 2021 is **RON 296,853 th** (2020: RON 295,302 th.).

Corporate income tax

Considering the fiscal loss recorded by ELSA, no profit tax was estimated for 2021.

Net profit

The budgeted net profit for 2021 is **RON 296,853 th**, compared to RON 298,379 th recorded in 2020.

4. Distribuție Energie Electrica Romania (DEER)

The budget for 2021 was built on the assumptions presented below.

Distributed quantities

- The quantities forecasted to be distributed in 2021 were estimated by taking into account the evolution of the actual quantities from 2020 compared to the budget/regulated values, but also the impact of the COVID-19 pandemic on the distributed electricity volumes. If the actual values of 2020 were significantly different from the regulated values, the revenues from distributed energy estimate was made based on a reasonable evolution of the distributed volumes recorded in previous years.
- The deviations of the actual quantities distributed in 2021 from the regulated quantities will be reflected in corrections of the distribution tariffs in 2023.

Electricity for Network losses (NL)

- The quantities of electricity needed to cover NL were determined based on the percentage NL targets approved by ANRE for each voltage level.
- The estimate for the average electricity purchase cost for NL was determined taking into account the quantities of electricity already contracted by each DSO out of the total quantity required for 2021, the weighted average purchase cost estimated to be realized, and the electricity market evolution forecasts.
- According to the methodology applicable to the distribution activity, in 2023 the difference between the actual NL electricity price of each DSO and the ex-ante price established by ANRE will be recoverable through tariffs, provided that the average actual price is less than or equal to the average actual prices in 2021 by the network operators (DSO and the transmission operator). In case of exceeding the average, the difference between the average and the ex-ante price approved by ANRE will be recovered at most.
- The difference can be recovered even earlier, in the following year, if the deviation between the average price from H2 2020 and H1 2021 and the reference price is higher than 10%; thus, it is recovered the difference between the average price calculated based on the actual prices of DSO (distribution operators) and TSO (transmission and system operator) in the mentioned period, and the reference price.

Operating and maintenance expenses

- Operating and maintenance expenses, other than personnel and OHS expenses, are subject to the efficiency factor.
- In the 2021 budget, the operating costs related to the distribution activity were planned according to the values approved by ANRE, requiring considerable efforts to reduce costs.

Personnel expenses and occupational health and safety costs (OHS)

- This category of expense is recognized in the approved distribution tariff and is not subject to the efficiency factor; any savings related to personnel expenses/OHS costs for regulated activity will be negatively corrected in the following years' tariffs.
- In the 2021 budget, the personnel and OHS costs related to the distribution activity were planned to be in line with the values approved by ANRE.

Other hypotheses

- CAPEX PIF for 2021 presents some particularities, respectively includes the value approved by ANRE for 2021, to which are added certain recoveries, as the case may be, as well as significant amounts representing additional investments for connections under 2.5 km of final customers, according to the amendments brought by law no. 155/24 July 2020.

DEER - Analysis budget 2021 vs. actual 2020

Table 6: Revenues and Expenses B2021 vs. A2020 [mii RON]

Description	3 DSO					DEER				B2021 vs. A2020	B2021 vs. A2020 %
	SDTN	SDTS	SDMN	Adjustments	Actual 2020*	Buget 2021	TN	TS	MN		
Revenues from distributed energy	629,668	614,155	647,089		1,890,912	2,006,060	646,460	673,086	686,514	115,148	6.1%
Other energy revenues	37,832	37,014	55,220		130,066	108,052	32,042	32,522	43,488	(22,014)	-16.9%
Income from CAPEX with own forces	34,856	42,883	24,976		102,715	111,429	34,285	47,736	29,408	8,714	8.5%
Other operating revenues	48,764	37,571	53,607	(1,014)	138,928	132,111	43,055	37,854	51,202	(6,817)	-4.9%
Network losses cost	(203,853)	(217,503)	(272,985)		(694,341)	(674,376)	(203,122)	(220,083)	(251,171)	19,966	-2.9%
Controllable OPEX subject to efficiency, out of which:	(103,738)	(100,133)	(104,954)	1,014	(307,811)	(323,435)	(104,384)	(113,275)	(105,775)	(15,624)	5.1%
<i>Operating costs</i>	<i>(87,842)</i>	<i>(86,743)</i>	<i>(88,166)</i>	<i>1,014</i>	<i>(261,737)</i>	<i>(270,923)</i>	<i>(87,808)</i>	<i>(98,540)</i>	<i>(84,574)</i>	<i>(9,185)</i>	<i>3.5%</i>
<i>Maintenance and repairs</i>	<i>(15,896)</i>	<i>(13,390)</i>	<i>(16,788)</i>		<i>(46,074)</i>	<i>(52,512)</i>	<i>(16,576)</i>	<i>(14,735)</i>	<i>(21,201)</i>	<i>(6,438)</i>	<i>14.0%</i>
Personnel costs	(204,638)	(208,974)	(199,821)		(613,433)	(660,112)	(227,170)	(223,587)	(209,356)	(46,679)	7.6%
Occupational health and safety costs	(4,277)	(8,291)	(3,272)		(15,840)	(16,424)	(5,007)	(7,306)	(4,110)	(584)	3.7%
Non-controllable OPEX	(6,744)	(6,958)	(9,444)		(23,146)	(21,904)	(7,381)	(6,967)	(7,555)	1,242	-5.4%
Income from subsidies	44,514	32,441	27,248		104,203	106,947	44,092	34,902	27,953	2,744	2.6%
Non-monetary elements	(178,559)	(182,241)	(152,991)		(513,791)	(539,239)	(180,157)	(174,978)	(184,105)	(25,449)	5.0%
Other expenses	(9,635)	(8,081)	(9,310)		(27,026)	(29,570)	(8,463)	(10,771)	(10,337)	(2,545)	9.4%
EBIT	84,190	31,883	55,364	0	171,436	199,539	64,250	69,133	66,156	28,103	16.4%
Financial result	(20,273)	(21,150)	(19,895)		(61,318)	(75,073)	(27,262)	(21,980)	(25,831)	(13,756)	22.4%
EBT	63,917	10,733	35,469	0	110,119	124,466	36,988	47,153	40,325	14,347	13.0%
Income tax	(7,997)	0	(366)		(8,363)	(17,092)	(5,918)	(7,545)	(3,629)	(8,729)	104.4%
Net result	55,920	10,733	35,103	0	101,756	107,374	31,070	39,609	36,696	5,618	5.5%

Source: Electrica

*The comparative values for 2020 are calculated by cumulating the realized values of the three distribution companies

The operating result (EBIT) of DEER is planned to increase by approx. **RON 28,103 th**, compared to the cumulative EBIT of the distribution companies achieved in 2020.

Next, the EBIT 2021 analysis is performed compared to the values achieved in 2020 by distribution regions, considering that for the next three years of the fourth regulatory period, the tariffs will be approved for the regions corresponding to the distribution companies from 2020 before the merger.

Financial result - a variation with an unfavorable impact of **RON 13,756 th** is estimated, resulting from the increase of interest expenses, following the contracting of the necessary loans to finance the investments.

Profit tax expense - in B2021 is included an corporate income tax expense of **RON 17,092 th**, estimated according to the gross profit for 2021 and the effective income tax rate determined following the analysis of the fiscal elements budgeted in 2021.

Net result - As a result of the factors listed above, an increase in net result of **RON 5,618 th** is estimated, from the actual 2020 profit of RON 101,756 th to a profit of **RON 107,374 th**.

Below is presented the DEER Budget, detailed for each region (TN, TS and MN), taking into account the tariff regulation methodology for the remaining of the fourth regulatory period.

4.1. TN

Below are presented the main indicators for TN from the 2021 budget, and their evolution compared to 2020.

Energy distribution

The evolution of the distributed quantities and tariffs for 2021 is the following:

Tabel 7: Distributed quantities [MWh]

Voltage level	Actual 2020	Regulated 2021	Budget 2021	B2021 vs. A2020 [%]
HV	632,324	655,238	703,229	11.2%
MV	1,989,322	2,037,044	2,033,651	2.2%
LV	2,896,863	2,902,408	2,863,247	-1.2%
Total	5,518,509	5,594,690	5,600,127	1.5%

Source: Electrica

Tabel 8: Distribution tariffs for 2021 vs. average tariffs 2020 [RON/MWh]

Voltage level	1 Jan. 2020 – 15 Jan. 2020 ¹	16 Jan. 2020 – 31 Dec. 2020 ²	Average tariff ³ 2020	Tariff 2021 ⁴	Tariff 2021 vs. average tariff 2020
HV	19.11	18.77	18.78	19.23	2.4%
MV	46.37	45.54	45.58	47.12	3.4%
LV	106.50	104.60	104.70	107.58	2.7%
Average tariff³	119.01	113.87	114.10	115.44	1.2%

Source: Electrica, ANRE

¹ ANRE Order no. 228/16 December 2019

² ANRE Order no. 8/15 January 2020

³ The average tariff is calculated as the ratio between the revenue from distributed electricity and the quantity of electricity distributed in the indicated period (on voltage levels, where appropriate, the specific average tariff is calculated)

⁴ ANRE Order no. 221/9 December 2020

In 2020, two sets of distribution tariffs were applicable, as follows: the tariffs applicable between 1 January – 15 January 2020 - transmitted by ANRE through order in December 2019, these tariffs include the contribution due to ANRE at the level of 2% applied to the turnover; the tariffs applicable in the period 16 January – 31 December 2020 - transmitted by ANRE, following the application of GEO no. 1/2020, whereby the contribution due to ANRE is reduced from 2% to 0.2%.

The average tariff in 2021 is higher compared to the average of 2020 by approx. 1.2%, recording increases on all voltage levels, as follows: 2.4% on HV, 3.4% on MV and 2.7% on LV; the evolution of tariffs is impacted both by the quantity distributed in the analyzed years, and by the analyzed voltage level (the distribution tariff used to determine the revenues is calculated by summing the specific tariffs on each voltage level).

Network losses

Table 9: NL

Network losses	Actual 2020	Regulated 2021	Budget 2021	B2021 vs. A2020 [%]
NL quantity (MWh)	618,959	653,392	621,004	0.3%
Average purchase price ⁵ (RON/MWh)	322.97	307.72	324.87	0.6%

Source: Electrica

Table 10: NL evolution [%]

Voltage level	Actual 2020	Regulated 2021	Budget 2021	B2021 vs. A2020 [%]
HV	0.96%	0.95%	0.95%	-1.0%
MV	4.23%	4.30%	4.30%	1.7%
LV	10.18%	10.17%	10.17%	0.0%
Total	9.72%	9.85%	9.74%	0.2%

Source: Electrica

The total percentage NL target included in the 2021 budget is lower than the NL target approved by ANRE, while the targets on voltage levels are the same as those approved by ANRE.

CAPEX

Table 11: Investment program [mil. RON]

Investments	Actual 2020	Budget 2021	B2021 vs. A2020 [%]
Investment program	200.0	214.7	7.3%
Commissioning value (nominal terms)	190.2	222.9	17.2%

Source: Electrica

⁵ The average purchase price is calculated as the ratio between the expense with the electricity needed to cover NL less the revenues from the sale of energy on BM/DAM and the quantity of energy needed for NL

4.1.1. Regulatory aspects

The main elements to be included in the area of regulatory analysis, and which have an impact on the budget, as well as the possible differences between the values approved by ANRE and the budgeted values for the distribution service for 2021 are detailed below.

Distributed electricity revenues

The volume of electricity estimated to be distributed in 2021 is higher than the volume approved by ANRE by 5 GWh, the deviation on voltage levels being +48 GWh on HV, -3 GWh on MV and -39 GWh on LV - where it is also recorded the highest distribution tariff. Thus, under the existing conditions, the net deviation is expected to generate a positive future correction of **RON 6,114 th**.

Reactive energy revenues

For 2021, the revenues from reactive energy were estimated to be higher by **RON 5,058 th** than the value corrected by ANRE ex-ante; under the existing conditions, this difference will negatively influence the tariffs of 2023.

Expenses with electricity needed to cover NL

The value budgeted is of RON 201,744 th, being determined based on a quantity of 621 GWh and an average purchase price of RON 324.87/MWh.

The purchase price deviation of RON 17.15/MWh compared with the ANRE approved price of RON 307.72/MWh, generates an exceeding of RON 11,207 th of the ANRE values, and the quantity deviation of -32 GWh compared to the regulated quantity of 653 GWh, generates a positive impact of RON 10,522 th, the net exceeding being thus of **RON 685 th**.

Considering the budget assumptions presented above and the methodology in force, the unfavorable impact of the price deviation can be recovered at least partially in the 2022 or 2023 tariffs, through the recognition by ANRE of the difference between the DSO actual price and the price approved by ANRE, representing an estimated favorable impact of at most RON 11,207 th.

Controllable OPEX (operating and maintenance costs)

The budgeted value for the operating and maintenance expenses related to the distribution service, which are subject to efficiency, is of RON 76,230 th, of which operating costs amounting to RON 59,654 th and maintenance costs for EDN of RON 16,576 th, being in line with the values approved by ANRE.

Non-controllable OPEX

The value budgeted for the regulated activity is RON 7,029 th; the estimated deviation of **RON 3,285 th** compared to the ANRE values, of RON 10,314 th, will negatively impact the future years' tariffs.

4.1.1. Analysis budget 2021 vs. actual 2020

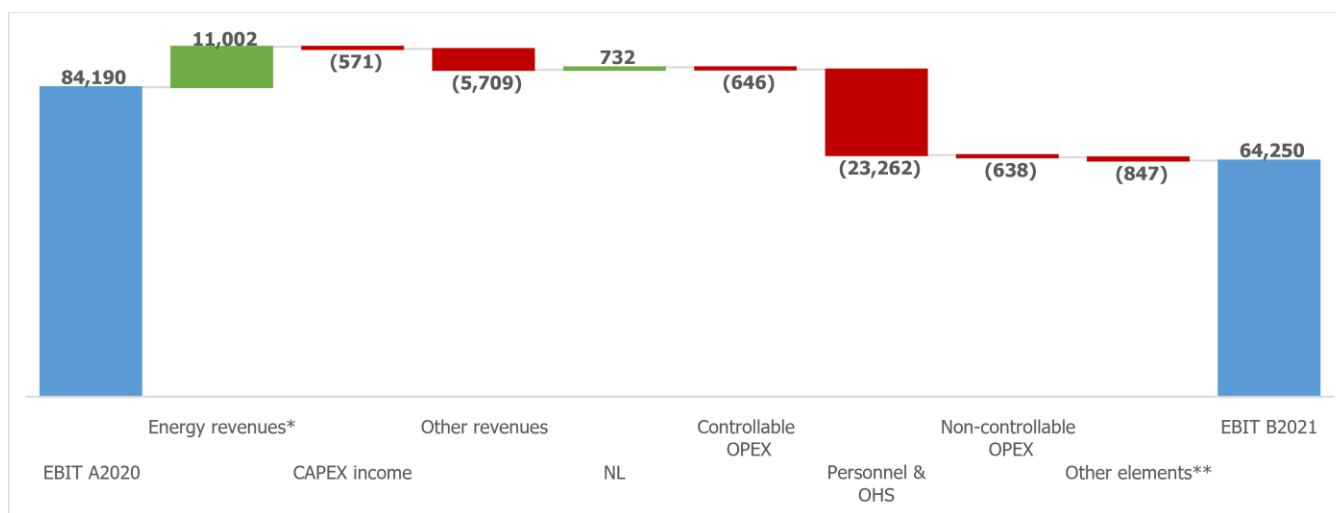
Table 12: Revenues and expenses B2021 vs. A2020 [RON th]

Description	Actual 2020	Budget 2021	B2021 vs. A2020	B2021 vs. A2020 [%]
Revenues from distributed energy	629,668	646,460	16,792	2.7%
Other energy revenues	37,832	32,042	(5,790)	-15.3%
Income from CAPEX with own forces	34,856	34,285	(571)	-1.6%

Description	Actual 2020	Budget 2021	B2021 vs. A2020	B2021 vs. A2020 [%]
Other operating revenues	48,764	43,055	(5,709)	-11.7%
Network losses cost	(203,853)	(203,122)	732	-0.4%
Controllable OPEX subject to efficiency, out of which:	(103,738)	(104,384)	(646)	0.6%
<i>Operating costs</i>	<i>(87,842)</i>	<i>(87,808)</i>	<i>34</i>	<i>0.0%</i>
<i>Maintenance and repairs</i>	<i>(15,896)</i>	<i>(16,576)</i>	<i>(680)</i>	<i>4.3%</i>
Personnel costs	(204,638)	(227,170)	(22,532)	11.0%
Occupational health and safety costs	(4,277)	(5,007)	(730)	17.1%
Non-controllable OPEX	(6,744)	(7,381)	(638)	9.5%
Income from subsidies	44,514	44,092	(422)	-0.9%
Non-monetary elements	(178,559)	(180,157)	(1,598)	0.9%
Other expenses	(9,635)	(8,463)	1,172	-12.2%
EBIT	84,190	64,250	(19,940)	-23.7%

Sursa: Electrica

Fig. 1: B2021 - A2020 EBIT analysis [RON th]



Source: Electrica

*Energy revenue includes revenues from energy distribution and other energy revenues

**Other elements include: income from subsidies, non-monetary elements and other expenses

At the EBIT level, TN estimated a decrease of **RON 19,940 th**, compared to the actual 2020 EBIT.

The most important influences come from:

- Energy revenues +11,002 th RON;
- Other revenues RON -5,709 th;
- Personnel and OHS costs RON -23,262 th.

Revenues from the distributed electricity: estimated positive variation of **RON 16,792 th**, mainly as a result of the increase in the distribution tariffs, as follows:

- distribution tariff: estimated positive impact of RON 18,290 th, from the average distribution tariff increase by 1.2%, the variation on voltage levels being the following: + 2.4% for HV, + 3.1% for MV and +2.9 % for LV;
- distributed volumes: estimated negative impact of RON 1,498 th, as a result of the increase of volumes on average by 1.5%, detailed on voltage levels as follows: + 11.2% for HV, + 2.2% for MV and -1.2% for LV; the

volume reduction refers to the voltage level where is recorded the highest tariff, generating an unfavorable effect on revenues.

The volumes estimated to be distributed in 2021 record, on average, an increase of 1.5% compared to the actual 2020 volumes, a net effect of the evolution in the recent period of the distributed volumes, influenced by the decreasing forecast of the gross domestic product; the most significant increase is estimated for the HV level, due to the migration of some important consumers from MV to HV.

Other energy revenues: a negative variation of **RON 5,790 th** is estimated, following the decrease of both reactive energy revenues (RON 3,178 th), and those from the sale of energy on BM/DAM (RON 2,571 th).

The income from CAPEX with own forces has the role to cover the expenses realized for the investment works with own forces, so that the net impact in the budget of 2021 is 0. They were decreased by **RON 571 th** as compared with the actual values of 2020, being correlated with the investment objectives set in the 2021 plan.

The other operating revenues are estimated to decrease by **RON 5,709 th**, mainly from the reduction of the poles rental revenues.

Network losses (NL) – for the electricity expenses needed to cover NL is estimated a decrease of **RON 732 th**, being the net effect of:

- the decrease of the electricity purchase price by 0.7% compared to the actual price of 2020, respectively from RON 329.3/MWh to RON 327.1/MWh - positive impact of RON 1,401 th;
- the increase in the volume of electricity needed for NL by approx. 2 GWh - having a negative impact of RON 669 th.

The purchase price of electricity was estimated according to the hypotheses presented, based on the energy already contracted and the estimate of purchase prices on the forward, spot and balancing markets for the remaining volumes to be purchased.

Controllable OPEX - estimated increase of **RON 646 th**, the main factors being presented below.

a) *Operating costs*

mii RON	A2020	B2021	VAR (RON)	VAR (%)
Distribution service	63,588	59,654	(3,934)	-6.2%
Costs related to CAPEX with own forces	19,168	15,871	(3,297)	-17.2%
Other activities*	5,087	12,283	7,196	141.5%
Total	87,842	87,808	(34)	0.0%

Source: Electrica

* *other activities (regulated and non-regulated), besides the distribution service*

Operating costs are budgeted at approximately the same level as the actual values for 2020, the variation by categories of expenses being detailed below:

- the operating costs related to the distribution service are estimated to be reduced by RON 3,934 th, mainly due to the variation of the transportation expenses;
- for the expenses related to the investment works with own forces (materials, rental and transport of the necessary equipment and car services), which do not have an impact on the result, a decrease of RON 3,297 th was planned compared to 2020;
- the operating costs related to other activities are estimated to be higher by approximately RON 7,196 th, the most significant increases being for fuel expenses, transportation expenses, as well as for those with other services provided by third parties.

b) *Maintenance and repairs costs*

The maintenance and repairs costs for the electrical distribution network are estimated to be higher by **RON 680 th** in 2021.

Personnel costs: an increase of **RON 22,532 th**, or 11.0%, is estimated, mainly as a result of the implementation of the new changes of the CLA that include salary increases, the increase of certain benefits granted to employees etc.

OHS costs are budgeted at a slightly reduced level compared to the value approved by ANRE for the distribution service, this representing 94.5% of the total expenses of **RON 5,007 th**.

Non-controllable OPEX: an increase of **RON 638 th** is estimated for the expenses related to taxes, royalties, other duties and assimilated payments, established according to the legal regulations in force or by the central and local authorities.

The non-monetary elements are expected to record a negative variation of **RON 1,598 th**, mainly due to the net effect of:

- the year-on-year variation of the net change of provisions, which generates a positive impact of RON 1,424 th;
- the positive impact of the impairment adjustments for trade receivables, of RON 1,298 th;
- the negative impact of the impairment adjustments for fixed assets, of RON 4,415 th.

Other expenses: a favorable impact of **RON 1,172 th** is estimated, mainly from the decrease of costs with the assets' disposal.

4.2. **MN**

Below are presented the main indicators for MN from the 2021 budget, and their evolution compared to 2020.

Energy distribution

The evolution of the distributed quantities and tariffs for 2021 is the following:

Table 13: Distributed quantities [MWh]

Voltage level	Actual 2020	Regulated 2021	Budget 2021	B2021 vs. A2020 [%]
HV	589,445	580,106	580,106	-1.6%
MV	2,271,909	2,280,785	2,280,785	0.4%
LV	2,914,004	2,994,899	2,955,053	1.4%
Total	5,775,359	5,855,790	5,815,944	0.7%

Source: Electrica

Table 14: Distribution tariffs for 2021 vs. average tariffs 2020 [RON/MWh]

Voltage level	1 Jan. 2020 – 15 Jan. 2020 ⁶	16 Jan. 2020 – 31 Dec. 2020 ⁷	Average tariff ⁸ 2020	Tariff 2021 ⁹	Tariff 2021 vs. average tariff 2020
HV	16.97	16.68	16.69	18.72	12.1%
MV	37.12	36.48	36.50	38.15	4.5%
LV	126.06	123.90	124.01	127.88	3.1%
Average tariff⁸	117.32	111.81	112.04	118.04	5.4%

Source: Electrica, ANRE

In 2020, two sets of distribution tariffs were applicable, as follows: the tariffs applicable between 1 January – 15 January 2020 - transmitted by ANRE through orders in December 2019, these tariffs include the contribution due to ANRE at the level of 2% applied to the turnover; the tariffs applicable in the period 16 January – 31 December 2020 - transmitted by ANRE, following the application of GEO no. 1/2020, whereby the contribution due to ANRE is reduced from 2% to 0.2%.

The average tariff in 2021 is higher compared to the average of 2020 by approx. 5.4%, recording increases on all voltage levels, as follows: 3.1% on LV, 4.5% on MV and 12.1% on HV; the evolution of tariffs is impacted both by the quantity distributed in the analyzed years, and by the analyzed voltage level (the distribution tariff used to determine the revenues is calculated by summing the specific tariffs on each voltage level).

Network losses

Table 15: NL

Network losses	Actual 2020	Regulated 2021	Budget 2021	B2021 vs. A2020 [%]
NL quantity (MWh)	788,644	792,944	766,347	-2.8%
Average purchase price ¹⁰ (RON/MWh)	328.19	307.32	325.52	-0.8%

Source: Electrica

Table 16: NL evolution [%]

Voltage level	Actual 2020	Regulated 2021	Budget 2021	B2021 vs. A2020 [%]
HV	0.96%	0.93%	0.93%	-3.5%
MV	4.84%	4.77%	4.77%	-1.4%
LV	12.77%	12.52%	12.52%	-1.9%
Total	10.84%	10.18%	10.11%	-6.7%

Source: Electrica

⁶ ANRE Order no. 227/16 December 2019

⁷ ANRE Order no. 7/15 January 2020

⁸ The average tariff is calculated as the ratio between the revenue from distributed electricity and the quantity of electricity distributed in the indicated period (on voltage levels, where appropriate, the specific average tariff is calculated)

⁹ ANRE Order no. 220/9 December 2020

¹⁰ The average purchase price is calculated as the ratio between the expense with the electricity needed to cover NL less the revenues from the sale of energy on BM/DAM and the quantity of energy needed for NL

CAPEX

Table 17: Investment program [mil. RON]

Investments	Actual 2020	Budget 2021	B2021 vs. A2020 [%]
Investment program	188.5	202.2	7.3%
Commissioning value (nominal terms)	214.7	212.1*	-1.2%

Source: Electrica

* The budgeted plan for 2021 also includes investment works of RON 8.4 mn carried forward, not realized in 2020

4.2.1. Regulatory aspects

The main elements to be included in the area of regulatory analysis, and which have an impact in the budget of the year, as well as the possible differences between the values approved by ANRE and the budgeted values for the distribution service for 2021 are detailed below.

Distributed electricity revenues

The amount of electricity estimated to be distributed in 2021 is lower than the one approved by ANRE by 40 GWh, the deviation being generated only by the LV level, where it is also recorded the highest distribution tariff. Thus, under the existing conditions, the net deviation is expected to generate a positive future correction of **RON 7,362 th**.

Reactive energy revenues

For 2021, the revenues from reactive energy were estimated to be higher by **RON 14,319 th** than the value included in the ex-ante corrections made by ANRE; under the existing conditions, this difference will negatively influence the tariffs of 2023.

Revenue from recalculations/recoveries of electricity

As significant values are estimated for the revenue from recalculations/recoveries of electricity, under the existing conditions, their value of approx. **RON 4,770 th** is possible to adversely influence the tariffs of 2023, through corrections.

Expenses with electricity needed to cover NL

The value budgeted is of RON 249,463 th, being determined based on a quantity of 766 GWh and an average purchase price of RON 325.52/MWh.

The purchase price deviation of RON 18.21/MWh compared with the ANRE approved price of RON 307.32/MWh, generates an exceeding of RON 14,437 th of the ANRE values, and the quantity deviation of 27 GWh compared to the regulated quantity of 793 GWh, generates a positive impact of RON 8,658 th, the net exceeding being thus of **RON 5,779 th**.

Considering the budget assumptions presented above and the methodology in force, the unfavorable impact of the price deviation can be recovered at least partially in the 2022 or 2023 tariffs, through the recognition by ANRE of the difference between the DSO actual price and the price approved by ANRE, representing an estimated favorable impact of at most RON 14,437 th.

Controllable OPEX (operating and maintenance costs)

The budgeted value for the operating and maintenance expenses related to the distribution service, which are subject to efficiency, is of RON 86,567 th, of which operating costs amounting to RON 65,366 th and maintenance costs for EDN of RON 21,201 th, being in line with the values approved by ANRE.

Non-controllable OPEX

The value budgeted for the regulated activity is RON 7,207 th; the estimated deviation of **RON 997 th** compared to the ANRE values, of RON 6,209 th, will negatively impact the future years' tariffs.

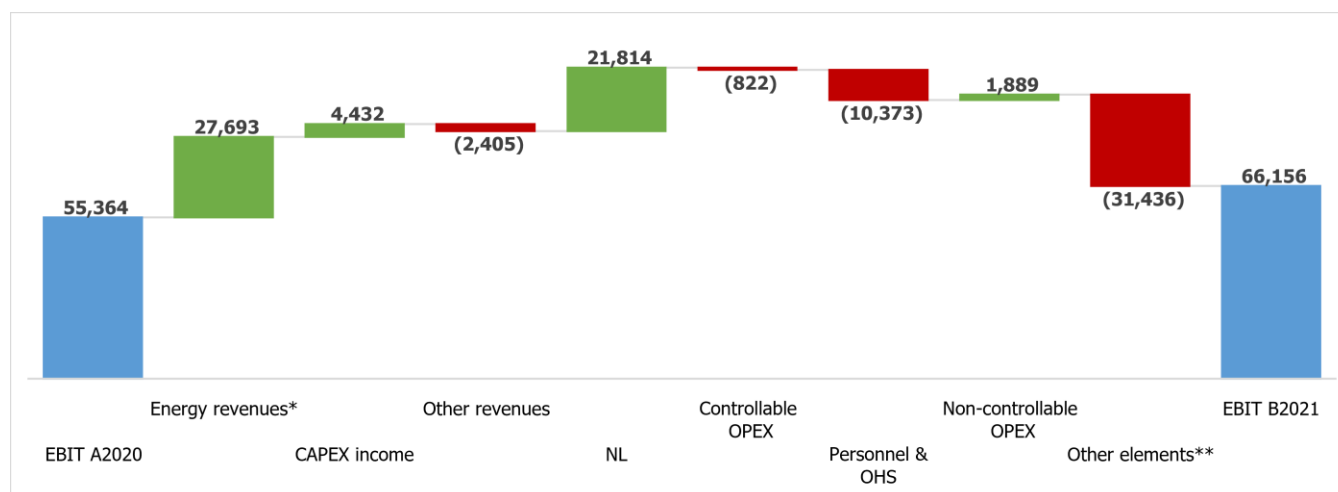
4.2.2. Analysis budget 2021 vs. actual 2020

Table 18: Revenues and expenses B2021 vs. A2020 [RON th]

Description	Actual 2020	Budget 2021	B2021 vs. A2020	B2021 vs. A2020 [%]
Revenues from distributed energy	647,089	686,514	39,425	6.1%
Other energy revenues	55,220	43,488	(11,732)	-21.2%
Income from CAPEX with own forces	24,976	29,408	4,432	17.7%
Other operating revenues	53,607	51,202	(2,405)	-4.5%
Network losses cost	(272,985)	(251,171)	21,814	-8.0%
Controllable OPEX subject to efficiency, out of which:	(104,954)	(105,775)	(822)	0.8%
<i>Operating costs</i>	<i>(88,166)</i>	<i>(84,574)</i>	<i>3,591</i>	<i>-4.1%</i>
<i>Maintenance and repairs</i>	<i>(16,788)</i>	<i>(21,201)</i>	<i>(4,413)</i>	<i>26.3%</i>
Personnel costs	(199,821)	(209,356)	(9,535)	4.8%
Occupational health and safety costs	(3,272)	(4,110)	(838)	25.6%
Non-controllable OPEX	(9,444)	(7,555)	1,889	-20.0%
Income from subsidies	27,248	27,953	705	2.6%
Non-monetary elements	(152,991)	(184,105)	(31,114)	20.3%
Other expenses	(9,310)	(10,337)	(1,028)	11.0%
EBIT	55,364	66,156	10,792	19.5%

Source: Electrica

Fig. 2: B2021 - A2020 EBIT analysis [RON th]



Source: Electrica

*Energy revenue includes revenues from energy distribution and other energy revenues

**Other elements include: income from subsidies, non-monetary elements and other expenses

At the EBIT level, MN estimated an increase of **RON 10,792 th**, compared to the actual 2020 EBIT.

The most important influences come from:

- Energy revenues RON +27.693 th;
- Expenses with energy purchased to cover NL RON +21,814 th;
- Personnel and OHS costs RON -10,373 th;
- Other elements RON -31,436 th.

Distributed electricity revenue: positive variation of **RON 39,425 th**, being the cumulative effect of the distribution tariffs increase and the increase of the estimated quantity to be distributed, as follows:

- distribution tariff: positive impact estimated at RON 31,838 th, due to the increase of the distribution tariff on average by 5.4%, significant increases were recorded on all voltage levels: HV - 12.1%, MV - 6.9% and LV - 4.3%;
- distributed volumes: estimated positive impact of RON 7,587 th, as a result of the volumes increase on average by 0.7%.

Other energy revenues: a negative variation of **RON 11,732 th** is estimated, mainly following the decrease of revenues from the sale of energy on BM/DAM.

Income from CAPEX with own forces have the role to cover the expenses realized for the investment works with own forces, so that the net impact in the budget of 2021 is 0. They were increased by **RON 4,432 th**, being correlated with the investment objectives set in the 2021 plan.

The other operating revenues are estimated to decrease by **RON 2,405 th**, mainly from the reduction of the poles rental revenues.

Network losses (NL) – for the electricity expenses needed to cover NL is estimated a decrease of **RON 21,814 th**, being the cumulated effect of the below factors:

- positive impact of RON 7,308 th, as a result of the 22.3 GWh decrease in the volume of electricity needed for NL;
- decrease of RON 14,506 th, as result of the electricity purchase price decrease by 5.3% to RON 327.8/MWh compared to the actual price of 2020, of RON 346.1/MWh;

The purchase price of electricity was estimated according to the hypotheses presented, based on the energy already contracted and the estimate of purchase prices on the forward, spot and balancing markets for the remaining volumes to be purchased.

For **controllable OPEX** an increase of **RON 822 th** was budgeted, the main factors being presented below.

a) *Operating costs*

th RON	A2020	B2021	VAR (RON)	VAR (%)
Distribution service	72,705	65,366	(7,339)	-10.1%
Costs related to CAPEX with own forces	10,897	11,909	1,012	9.3%
Other activities*	4,563	7,299	2,735	59.9%
Total	88,166	84,574	(3,591)	-4.1%

Source: Electrica

* *other activities (regulated and non-regulated), besides the distribution service*

The operating costs are expected to register an estimated decrease of **RON 3,591 th**, or 4.1%, the variation by categories of expenses being detailed below:

- the operating costs related to the distribution service are estimated to be reduced by RON 7,339 th, the most significant variations being related to the transport, security, as well as the utilities expenses;
- for the expenses related to the investment works with own forces (materials, rental and transport of the necessary equipment and auto services), which do not have an impact on the result estimated for 2021, an increase of RON 1,012 th was planned compared to 2020;
- the operating costs related to other activities are estimated to increase by approximately RON 2,735 th, mainly from the evolution of expenses with auto services.

b) Maintenance and repairs costs

The maintenance and repairs costs are estimated to increase by **RON 4,413 th**, mainly due to the increase in the level of services provided by third parties, in order to carry out the maintenance works planned for 2021.

Personnel costs: an increase of **RON 9,535 th**, or 4.8%, is estimated, mainly as a result of the implementation of the new changes of the CLA that include salary and several benefits granted to employees increase, etc.

OHS costs are budgeted at level of the value approved by ANRE for the distribution service, this representing 92% of the total expenses of **RON 4,110 th**.

Non-controllable OPEX: a decrease of **RON 1.889 th** is estimated, mainly due the force majeure costs that affected 2020.

The non-monetary elements are expected to record a negative variation of **RON 31,114 th**, mainly from:

- the effect of the amortization expense increase with approximately 8.1% or RON 11,681 th;
- the year-on-year variation of the net change of provisions, which generates a negative impact of RON 20,990 th; two significant provisions were included in the budget, for the remaining fiscal obligations to be paid (accessory amounts) in litigation with NAFA and for another litigation;
- the positive impact of RON 2,312 th, from the variation of adjustments for tangible fixed assets value and of adjustments of current assets.

Other expenses: an increase of **RON 1,028 th** is estimated, mainly due to the inclusion in the budget of some expenses generated by the merger.

4.3. TS

Below are presented the main indicators for TS from the 2021 budget, and their evolution compared to 2020.

Electricity distribution

The evolution of the distributed quantities and tariffs for 2021 is the following:

Table 19: Distributed quantities [MWh]

Voltage level	Actual 2020	Regulated 2021	Budget 2021	B2021 vs. A2020 [%]
HV	1,017,717	1,032,000	1,032,000	1.4%
MV	2,527,354	2,545,000	2,545,000	0.7%
LV	2,639,859	2,664,500	2,676,102	1.4%
Total	6,184,931	6,241,500	6,253,102	1.1%

Source: Electrica

Table 20: Distribution tariffs for 2021 vs. average tariffs 2020 [RON/MWh]

Voltage level	1 Jan. 2020 – 15 Jan. 2020 ¹¹	16 Jan. 2020 – 31 Dec. 2020 ¹²	Average tariff ¹³ 2020	Tariff 2021 ¹⁴	Tariff 2021 vs. average tariff 2020
HV	20.69	20.31	20.32	22.23	9.4%
MV	41.80	41.03	41.06	45.24	10.2%
LV	106.52	104.56	104.67	111.31	6.3%
Average tariff¹³	105.72	99.00	99.30	107.64	8.4%

Source: ANRE, Electrica

In 2020, two sets of distribution tariffs were applicable, as follows: the tariffs applicable between 1 January – 15 January 2020 - transmitted by ANRE through order in December 2019, these tariffs include the contribution due to ANRE at the level of 2% applied to the turnover; the tariffs applicable in the period 16 January – 31 December 2020 - transmitted by ANRE, following the application of GEO no. 1/2020, whereby the contribution due to ANRE is reduced from 2% to 0.2%.

The average tariff in 2021 is higher compared to the average of 2020 by 8.4%, recording increases on all voltage levels, as follows: 9.4% on HV, 10.2% on MV and 6.3% on LV; the evolution of tariffs is impacted both by the quantity distributed in the analyzed years, and by the analyzed voltage level (the distribution tariff used to determine the revenues is calculated by summing the specific tariffs on each voltage level).

Network losses (NL)

Table 21: NL

Network Losses	Actual 2020	Regulated 2021	Budget 2021	B2021 vs. A2020 [%]
NL quantity (MWh)	692,553	716,255	671,174	-3.1%

¹¹ ANRE Order no. 227/16 December 2019

¹² ANRE Order no. 9/15 January 2020

¹³ The average tariff is calculated as the ratio between the revenue from distributed electricity and the quantity of electricity distributed in the indicated period (on voltage levels, where appropriate, the specific average tariff is calculated)

¹⁴ ANRE Order no. 222/9 December 2020

Network Losses	Actual 2020	Regulated 2021	Budget 2021	B2021 vs. A2020 [%]
Average purchase price ¹⁵ (RON/MWh)	310.44	307.92	325.68	4.9%

Source: Electrica

Table 22: NL evolution [%]

Voltage Level	Actual 2020	Regulated 2021	Budget 2021	B2021 vs. A2020 [%]
HV	0.95%	0.94%	0.94%	-2.0%
MV	3.65%	3.64%	3.64%	-0.4%
LV	13.53%	13.03%	13.03%	-3.7%
Total	9.63%	8.97%	8.97%	-6.9%

Source: Electrica

The NL percentage target included in the 2021 budget is in line with the NL target approved by ANRE.

CAPEX

Table 23: Investment program [RON mn]

Investments	Actual 2020	Budget 2021	B2021 vs. A2020 [%]
Investment program	185.6	226.6	22.0%
Commissioning value (nominal terms)	204.3	227.7	11.4%

Source: Electrica

* The budgeted plan for 2021 also includes investment works of RON 1 mn carried forward, not realized in 2020

4.3.1. Regulatory aspects

The main elements to be included in the area of regulatory analysis, and which have an impact on the budget, as well as the possible differences between the values approved by ANRE and the budgeted values for the distribution service for 2021 are detailed below.

Distributed electricity revenues

The quantity of electricity estimated to be distributed in 2021 is higher than the one approved by ANRE by 12 GWh, the deviation being generated only by the LV level, where it is recorded the highest distribution tariff. Thus, under the existing conditions, the net deviation is expected to generate a negative future correction of **RON 2,074 th**.

Reactive energy revenues

Reactive energy revenues were budgeted for 2021 by RON 955 th higher than the value included in the ex-ante corrections made by ANRE; under the existing conditions, this difference will be unfavorably corrected in the 2023 tariffs.

Revenue from recalculations/recoveries of electricity

For the revenue from recalculations/recoveries of electricity, the value of RON 1,901 th is included in the budget; under the present conditions, this value is possible to adversely influence the tariffs of 2023, through corrections.

¹⁵ The average purchase price is calculated as the ratio between the expense with the electricity needed to cover NL less the revenues from the sale of energy on BM/DAM and the quantity of energy needed for NL.

Expenses with electricity needed to cover NL

The budgeted value is of RON 218,587 th, being determined based on the quantity of 671 GWh and an average purchase price of RON 325.68/MWh.

The purchase price deviation of RON 17.76/MWh, compared with the ANRE approved price of RON 307.92/MWh, generates an exceeding of RON 12,719 th of the ANRE values, and the quantity deviation of 45 GWh, compared to the regulated quantity of 716 GWh, generates a positive impact of RON 14,682 th, the net economy being thus RON **1,963 th**.

Considering the budget assumptions presented above and the methodology in force, the unfavorable impact of the price deviation can be recovered, at least partially, by the 2022 or 2023 tariffs, through the recognition by ANRE of the difference between the DSO actual price and the price approved by ANRE, representing an estimated favorable impact of at most RON 12,719 th.

Controllable OPEX (operating and maintenance costs)

The value budgeted for the operating and maintenance expenses related to the distribution service, which are subject to efficiency, is RON 66,316 th, of which operating costs amounting to RON 51,581 th and maintenance costs for EDN of RON 14,735 th, being in line with the values approved by ANRE.

Non-controllable OPEX

The budgeted value for the regulated activity is RON 6,799 th, being in line with the values approved by ANRE.

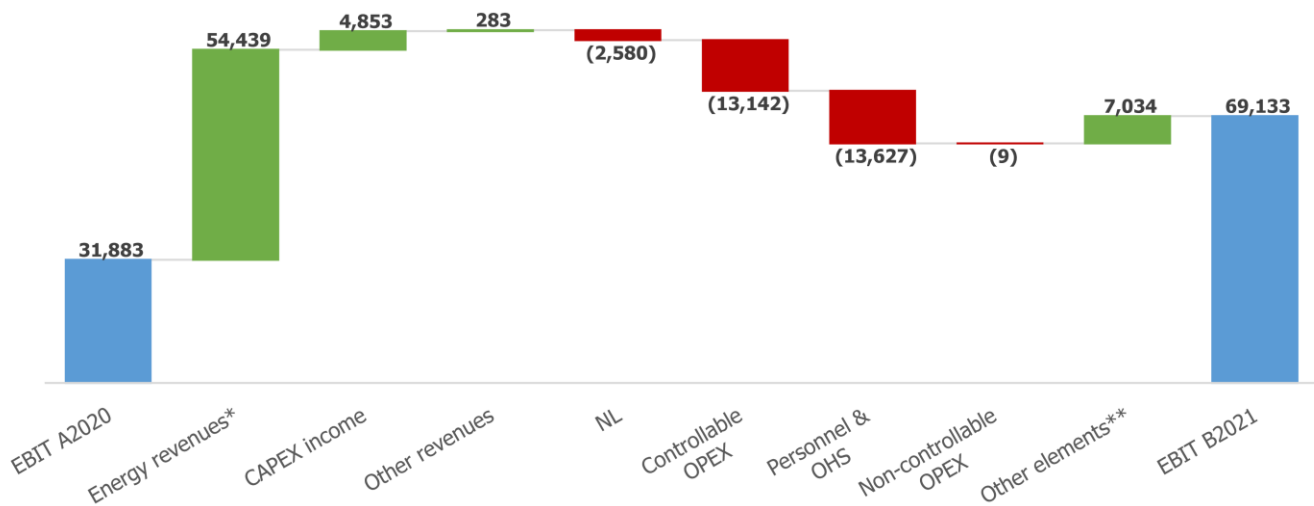
4.3.2. Analysis budget 2021 vs. actual 2020

Table 24: Revenues and expenses B2021 vs. A2020 [RON th]

Description	Actual 2020	Budget 2021	B2021 vs. A2020	B2021 vs. A2020 [%]
Revenues from distributed energy	614,155	673,086	58,931	9.6%
Other energy revenues	37,014	32,522	(4,492)	-12.1%
Income from CAPEX with own forces	42,883	47,736	4,853	11.3%
Other operating revenues	37,571	37,854	283	0.8%
Network losses cost	(217,503)	(220,083)	(2,580)	1.2%
Controllable OPEX subject to efficiency, out of which:	(100,133)	(113,275)	(13,142)	13.1%
<i>Operating costs</i>	<i>(86,743)</i>	<i>(98,540)</i>	<i>(11,797)</i>	<i>13.6%</i>
<i>Maintenance and repairs</i>	<i>(13,390)</i>	<i>(14,735)</i>	<i>(1,345)</i>	<i>10.0%</i>
Personnel costs	(208,974)	(223,587)	(14,612)	7.0%
Occupational health and safety costs	(8,291)	(7,306)	985	-11.9%
Non-controllable OPEX	(6,958)	(6,967)	(9)	0.1%
Income from subsidies	32,441	34,902	2,461	7.6%
Non-monetary elements	(182,241)	(174,978)	7,263	-4.0%
Other expenses	(8,081)	(10,771)	(2,690)	33.3%
EBIT	31,883	69,133	37,251	116.8%

Source: Electrica

Fig. 3: B2021 - A2020 analysis [RON th]



Source: Electrica

*Energy revenue includes revenues from energy distribution and other energy revenues

**Other elements include: income from subsidies, non-monetary elements and other expenses

At the EBIT level, TS estimated a increase of **RON 37,251 th**, compared to the actual 2020 EBIT.

The most important influences come from:

- Energy revenues RON +54,439 th;
- Controlable OPEX RON -13,142 th;
- Personnel and OHS costs RON -13,627 th.

Distributed electricity revenue: positive variation of **RON 58,931 th**, being the cumulative effect of the quantity estimated to be distributed and the distribution tariffs increase, as follows:

- distribution tariff: positive impact of RON 51,533 th; the distribution tariff is estimated to increase compared to the one of 2020 on average by 8.4%, recording the following variations on voltage levels: on high voltage + 9.4%, medium voltage + 9.9% and on low voltage + 7.7%;
- distributed quantity: estimated positive impact of RON 7,398 th, as a result of the increase of volumes on average by 1.1%.

The variation of the distributed quantity is generated by the increasing evolution of the gross domestic product in the central area of the country, as well as by the new consumers appearance or the completion of some ongoing works.

Other energy revenues: a negative variation of **RON 4,492 th** is estimated, mainly due to the reduction of reactive energy revenues (RON 3,641 th) and those from the sale of energy on BM/DAM (RON 1,011 th).

Income from CAPEX with own forces have the role to cover the expenses realized for the investment works with own forces, so that the net impact in the budget of 2021 is 0. These were increased by **RON 4,853 th**, considering the investment objectives set in the 2021 plan.

Network losses (NL) - estimated increase of the electricity expenses needed to cover NL of **RON 2,580 th**, being the cumulated effect of the below factors:

- decrease of RON 7,010 th, as a result of the electricity quantity needed to cover NL reduction by 21.4 GWh;

- increase of RON 9,590 th, as a result of the electricity purchase price increase by 4.4%, to RON 327.9/MWh, compared to the actual price of 2020, of 314.1 RON/MWh.

The purchase price of electricity was estimated according to the hypotheses presented, based on the energy already contracted and the estimate of purchase prices on the forward, spot and balancing markets for the remaining volumes to be purchased.

Controllable OPEX - estimated increase of **RON 13,142 th**, the main factors being presented below.

a) Operating costs

RON th	A2020	B2021	VAR (RON)	VAR (%)
Distribution service	56,586	51,581	(5,004)	-8.8%
Costs related to CAPEX with own forces	24,741	31,908	7,167	29.0%
Other activities*	5,416	15,051	9,635	177.9%
Total	86,743	98,540	11,797	13.6%

Source: Electrica

* other activities (regulated and non-regulated), besides the distribution service

The operating costs are estimated to increase with **RON 11,797 th**, the variation by categories of expenses being detailed below:

- the operating costs related to the distribution service were planned to decrease by RON 5,004 th, in order to comply with the values approved by ANRE, the most significant reductions being related to the auto services expenses;
- for the expenses related to the investment works with own forces (materials, renting and transportation of the necessary equipment and auto services), which do not have an impact on the estimated result of 2021, an increase of RON 7,167 th was planned compared to 2020;
- the operating costs related to other activities increase by approx. RON 9,635 th, increase generated especially by the projects and contracts in progress or which will be initiated in 2021 and for which there is a high probability of not being recognized by ANRE.

b) Maintenance and repairs costs

The maintenance and repairs costs are planned to increase by **RON 1,345 th** in 2021, in order to comply with the regulated values, an increase determined by the services necessary to maintain the electrical distribution network in good condition (vegetation clearing services, asphaltting, etc.).

Personnel costs: it is estimated an increase of **RON 14,612 th**, or 7%, mainly as a result of the personnel number increase and the implementation of the new changes of the CLA that include salaries and several benefits granted to employees increase, etc.

OHS costs are budgeted at the level of the value approved by ANRE for the distribution service, representing 90% of the total expenses of **RON 7,306 th**.

For non-controllable OPEX, the value of **RON 6,967 th** is budgeted, approximately at the level of 2020, being estimated only a slight increase of 0.1%.

Non-monetary elements: positive variation estimated of **RON 7,263 th**, mainly from:

- the positive impact of the depreciation and amortization of fixed assets reduction by approx. 7.3%, or RON 13,712 th;

- the negative variation of the impairment adjustments for fixed assets value, of RON 8,972 th, since in 2020 was recognized the positive impact of the fixed assets revaluation, effect that doesn't reflect in 2021;
- the positive variation of the net changes of the provisions, of RON 2,913 th.

Other expenses: an increase of **RON 2,690 th** is estimated, mainly as a result of including in the budget some expenses generated by the merger.

5. Electrica Furnizare (EFSA)

5.1 Budget 2021 assumptions

■ Electricity – Universal Service and Supplier of Last Resort segment

Context

ANRE Order no. 5/2021 regarding the amendment of *ANRE Order no. 171/2020 related to approval of Suppliers of Last Resort electricity supply conditions*, includes the following changes:

- the commercial discount, equal to the difference between the price from the Universal Service (US) offer applicable during 1 January and 30 June 2021 and the price from the competitive offer, provided in the previous regulation for the period between 1 January and at least 30 June 2021, became optional in the contractual relations between Suppliers of Last Resort (SoLR) and household clients;
- introduction of new information obligations for SoLR for own portfolio household clients, as follows:
 - a) until 30 June 2021, together with each invoice issued, an information regarding the regulated tariffs elimination, as well as an offer selection form, in the form established by ANRE, containing the competitive offer with the lowest value, an alternative competitive offer and an universal service offer, offers applicable in the first semester of 2021, as well as the value of the commercial discount granted and the application period, if case;
 - b) between 1 May and 30 June 2021, monthly, a competitive offer and an universal service offer, applicable starting with 1 July 2021;
 - c) in the second semester of 2021, together with each invoice issued, an information regarding the elimination of the regulated tariffs.

Electricity market liberalization emphasized the competition between traditional suppliers and newly entered suppliers within the market, resulting in a massive offer to household customers segment from the regulated market. In 2020 also, the number of products offered by suppliers to end customers and the option of customers for offers that combine electricity, gas and/or value-added services increased.

Currently, EFSA is SoLR for approximately 3.3 million customers, associated to approximately 3.6 million consumption places.

In October 2020, in the context of the electricity market liberalization ANRE approved a new Regulation for electricity Supplier of Last Resort designation (ANRE Order no. 188/2020), which eliminated the notions of bound SoLR and optional SoLR and new SoLR designation and selection principles have been introduced.

Thus, SoLR are designated by ANRE on the basis of availability and of eligibility conditions fulfillment, which do not refer to the capability, for an indefinite period, starting with 1 January 2021, to provide services at national level.

Designation of SoLR at a national level implies the obligation to have price offers available for all network areas.

SoLR have the obligation to provide universal service (US) to customers who benefit from this right¹⁶, respectively supply in the last resort (LR) to customers who no longer have the power supply ensured from any other source, as the current supplier is unable to operate due to various reasons (i.e. bankruptcy, license suspension etc.), as well as, upon request, to customers whose contract with the current supplier has ended and have not concluded a contract with another supplier. If the clients end up being taken over in LR, the SoLR that will take them over is selected by ANRE based on the lowest price in the respective network area.

Based on this Regulation, EFSA was designated SoLR for an indefinite period (ANRE Decision no. 2123/18), together with five other suppliers. Any other supplier may request entitlement as SoLR to ANRE, at any given moment.

EFSA records supply costs that mainly include personnel costs, billing and collection costs, electricity contracts conclusion, customer information and costs related to the development, adaptation and maintenance of customer management information systems.

Assumptions

- The sales forecasts for this segment were established based on the consumption history for the clients in the portfolio.
- 2021 sales forecast for this category is lower than actual 2020 sales, mainly due to the estimated migration degree, generated by the effects of ANRE Order no. 5/2021, in particular due to migration to competitive offers from the EFSA portfolio.
- The average selling price for US clients is already set for the first semester of 2021; for the second semester, the average price is estimated based on the forecast electricity purchase cost and the supply costs for the respective period.

■ Electricity – competitive segment

Context

- Transactions on the wholesale competitive market are transparent, public, centralized and carried out on OPCOM platforms.
- In the competitive market, retail segment is supplied based on contracts and negotiated prices or through standard offers of suppliers, addressed to well-defined categories of customers.

Assumptions

- Estimated volumes for 2021 are higher than 2020 year for the competitive segment.
- The average selling price for the eligible customers category is estimated based on the contracts already concluded with customers, as well as taking into account the estimated market outlook, correlated with the estimated purchase cost of electricity and estimated supply costs.
- In order to estimate the average gross margin, the previously presented elements correlated with the contracting degree and the selling prices to the final customers at the budget drawing up moment were taken into account, but also estimated selling prices for the additional volumes to be contracted.

For both market segments, the quantities and purchase prices for 2021 already achieved according to the procurement strategy were taken into account, to which the estimated quantities remaining to be purchased at forecast market prices were added, for the different market segments.

¹⁶ Household and non-household customers with less than 50 employees and an annual turnover or a total value of assets in the balance sheet according to annual tax reports not exceeding 10 million euros

■ Natural gas

- Sales forecast for 2021 is significantly higher than 2020, up to approximately 613 GWh.
- The average selling price for natural gas is forecast to remain approximately in line with the price applied in 2020.

■ Value-added products and services

Revenues from existing products and services in EFSA portfolio were considered (for B2B customers: energy audit, reactive energy compensation, network connection solutions, e-mobility, photovoltaic systems, efficient and intelligent industrial lighting solutions and complete energy consumption monitoring solutions, and for B2C emergency technical assistance, goods insurance, etc.) along with other value-added products and services under development, that will contribute to the gross margin in 2021.

ELECTRICA ENERGIE VERDE 1 (EEV1)

Starting with September 2020, EFSA acquired 100% of the shares of EEV1 (former Long Bridge Millennium), which operates a photovoltaic park with an installed capacity of 7.5 MW, being estimated revenues from the sale of electricity produced, as well as from green certificates: both from their use by EFSA, and from their sale by EEV1.

5.2. Financial and operational results

Table 25: Budget 2021 vs. Actual 2020 analysis [RON th]

Indicator	Actual 2020, out of which:	EFSA	EEV1	Budget 2021, out of which:	EFSA	EEV1	B2021 vs. A2020	B2021 vs. A2020 [%]
Electricity and gas revenues	4,493,499	4,491,551	1,948	4,792,592	4,789,398	3,194	299,273	6,7%
Electricity and gas purchase	(3,984,935)	(3,984,550)	(385)	(4,387,611)	(4,387,252)	(359)	(402,856)	10,1%
Electricity, gas, reactive energy and green certificates margin	508,564	507,001	1,563	404,981	402,146	2,835	(103,583)	-20,4%
Green certificates and reactive energy gross margin	(2,311)	(8,627)	6,316	5,969	0	5,969	8,280	-
Products and services margin	160	160	-	5,287	5,287	-	5,127	3.204,4%
Operating margin	506,413	498,533	7,880	416,237	407,433	8,804	(90,176)	-17,8%
Supply expenses	(245,756)	(243,988)	(1,768)	(264,412)	(262,994)	(1,418)	(18,656)	7,6%
Profit from other activities	32,789	32,734	55	4,434	4,421	13	(28,355)	-86,5%
EBITDA	293,446	287,280	6,166	156,259	148,860	7,400	(137,187)	-46,8%
Amortization and depreciation	(17,870)	(15,585)	(2,285)	(18,043)	(15,690)	(2,354)	(173)	1,0%
EBIT	275,576	271,695	3,881	138,216	133,170	5,046	(137,360)	-49,8%
Net finance result	2,826	5,000	(2,174)	3,290	4,011	(721)	464	16,4%
EBT	278,401	276,695	1,706	141,506	137,181	4,325	(136,895)	-49,2%
Income tax expense	(43,401)	(43,401)	-	(18,346)	(17,785)	(561)	25,055	-57,7%
Net Result	235,000	233,294	1,706	123,160	119,396	3,764	(111,840)	-47,6%

Source: Electrica

Compared to the results of 2020, EFSA estimated for 2021 an EBITDA decrease of **RON 137,187 th** and a decrease of **RON 111,840 th** for the **net profit**.

The main deviations are detailed below:

- Decrease in operating margin: RON -90,176 th (-17.8% yoy);
- Increase in supply costs: RON +18,656 th (7.6% yoy);
- Decrease in profit from other activities: RON -28,355 th (-86.5% yoy);
- Decrease in profit tax expense: RON +25,055 th (-57.7% yoy).

These evolutions are mainly determined by the favorable one-off effect from 2020, in the amount of RON 143,597 th, generated by the recovery of losses from the purchase of electricity from previous years, related to regulated household customers, when the tariffs approved by ANRE did not cover the actual electricity cost for the regulated segment.

Table 27: Supplied volumes variance

Indicator	Competitive market	Regulated market	Total electricity supplied	Natural gas supplied
Volumes Budget 2021 [GWh]	4,970	4,242	9,212	613
Volumes Actual 2020 [GWh]	4,232	5,056	9,288	220
B2021 vs A2020	738	-814	-76	393
B2021 vs A2020 [%]	17%	-16%	-1%	179%

Source: Electrica

Supply costs – budget assumptions

The budgeted supply costs increase by **RON 18,656 th**, respectively by 7.6% compared to the previous year, the most significant influences coming from:

- the occurrence of the costs associated with the total liberalization of the electricity market, in the amount of RON 16,369 th as a result of the ANRE order no. 5/2021 provisions, representing the cost of monthly notifications of EFSA offers for customers benefiting from the Universal Service, as well as other costs associated with them;
- increase of marketing costs by RON 6,590 th, mainly representing promotion costs, awareness campaigns etc.;
- increase of PR and Communication costs by RON 2,597 th, associated with rebranding projects and field related activities.

Profit from other activities

The profit from other activities is forecast to decrease by RON 28,355 th compared to 2020, its evolution being mainly determined by the increase of receivables impairment adjustments value (in the context of the COVID-19 pandemic) by RON 16,688 th and by the decrease of the profit from various activities by RON 11,850 th.

Other influences

The net financial result is estimated to increase by **RON 464 th** yoy.

The profit tax expense is estimated to decrease by **RON 25,055 th**, being in line with the estimated gross profit

evolution for 2021.

Net profit

As a result of the previously mentioned factors, the net profit estimated for 2021 is **RON 123,160 th**, representing a reduction of **RON 111,840 th** compared to the net profit from 2020.

6. Electrica Serv (SERV)

Budget 2021 assumptions

SERV budget for 2021 is built in the context of the merger with Servicii Energetice Muntenia on 30 November 2020. Thus, the result of 2020 includes the combined results of Electrica Serv and Servicii Energetice Muntenia for 2020.

Revenues from the main activity result from:

- car rental agreements won at group auctions with the distribution operator in the three regions, but also with EFSA;
- current contracts for the energy, measurement and control equipment repairs;
- agreements executed as general contractor;
- contracts for supplying products to companies both within and outside the Group, including delivery of operational vehicles to the distribution company;
- revenues from maintenance and repairs performed to third parties based on the existing agreements;
- revenues from the development of new activities (installation of photovoltaic power plants, reactive energy compensators, installation of electric stations, smart metering solutions, construction works assembly, design).

Revenues from other activities include income from buildings's renting, expected to be achieved during the whole of 2021, and other operating revenues mainly from the sale of assets.

6.1 Budget 2021 vs. actual 2020 analysis

Table 28: B2021 vs. A2020 analysis [RON th.]

Indicator	Actual 2020	Budget 2021	B2021 vs. A2020	B2021 vs. A2020 %
Total revenues (operating) out of which:	154,360	184,240	29,880	19.4%
Revenues from the main activity	133,190	156,108	22,918	17.2%
<i>Maintenance revenues</i>	<i>5,001</i>	<i>3,570</i>	<i>(1,431)</i>	<i>-28.6%</i>
<i>Revenues from vehicles activity</i>	<i>67,009</i>	<i>58,595</i>	<i>(8,414)</i>	<i>-12.6%</i>
<i>Revenues from services subcontracted</i>	<i>15,617</i>	<i>7,547</i>	<i>(8,070)</i>	<i>-51.7%</i>
<i>Revenues from car sales + materials</i>	<i>32,712</i>	<i>22,702</i>	<i>(10,010)</i>	<i>-30.6%</i>
<i>Revenues from new activities</i>	<i>192</i>	<i>8,844</i>	<i>8,652</i>	<i>4506.3%</i>
<i>Revenues from works</i>	<i>12,216</i>	<i>54,450</i>	<i>42,234</i>	<i>345.7%</i>
<i>Other revenues</i>	<i>443</i>	<i>400</i>	<i>(43)</i>	<i>-9.7%</i>
Revenues from other activities	21,170	28,132	6,962	32.9%
<i>Rent revenues</i>	<i>13,507</i>	<i>16,485</i>	<i>2,978</i>	<i>22.0%</i>
<i>Other revenues</i>	<i>1,375</i>	<i>122</i>	<i>(1,253)</i>	<i>-91.1%</i>
<i>Revenues from services subcontracted</i>	<i>689</i>	<i>4,290</i>	<i>3,601</i>	<i>522.6%</i>
<i>Income from the sale of assets SEM and SERV</i>	<i>5,599</i>	<i>7,235</i>	<i>1,636</i>	<i>29.2%</i>
Operating expenses	(165,622)	(180,392)	(14,770)	8.9%

Indicator	Actual 2020	Budget 2021	B2021 vs. A2020	B2021 vs. A2020 %
Expenses with salaries and other benefits, out of which:	(39,710)	(54,474)	(14,764)	37.2%
<i>Personnel expenses</i>	<i>(36,197)</i>	<i>(50,650)</i>	<i>(14,453)</i>	<i>39.9%</i>
<i>Expenses for compensatory payments related to personnel reduction</i>	<i>(3,513)</i>	<i>(3,824)</i>	<i>(311)</i>	<i>8.9%</i>
Expenses with materials and raw materials	(16,527)	(30,735)	(14,208)	86.0%
Amortization and depreciation of assets	(9,129)	(11,561)	(2,432)	26.6%
Other expenses	(100,256)	(83,622)	16,634	-16.6%
Operating profit	(11,262)	3,848	15,110	134.2%
Financial result	1,565	1,111	(454)	-29.0%
Gross profit	(9,697)	4,959	14,656	151.1%
Income tax	(263)	(827)	(564)	214.4%
Net profit	(9,960)	4,132	14,092	141.5%

Source: Electrica

Revenues

SERV expects **total revenues** amounting to **RON 184,240 th** representing a decrease of 15.5% compared to revenues obtained during 2020.

The revenues from the main activity estimated for 2021 amounting to **RON 156,108 th** are composed of:

- RON 58,595 th revenues from vehicles activity, according to the auctions won at the distribution operator within the group, and also at EFSA, decreasing by RON 8,414 th. compared to 2020;
- RON 54,450 th revenues from third parties for maintenance, investments and assembly constructions, increase of 345.7%;
- RON 22,702 th revenues from sale of equipment to the distribution company and third parties according to the existing and potential agreements;
- RON 11,517 th revenues from design, maintenance and investment works for the distribution company, subcontracted services to third parties, and also from equipments repair and other maintenance works based on existing contracts;
- RON 8,844 th revenues from development of new products in collaboration with EFSA.

The revenues from other activities foreseen for 2021 amounting to **RON 28,132 th** consist mainly of:

- RON 16,485 th revenues from renting buildings to subsidiaries within the Group and third parties;
- RON 7,235 th income from the sale of assets;
- RON 4,290 th revenues from services subcontracted to third parties – also included in costs, therefore without influence on the result of the year.

Operating expenses

Salaries and other employee benefits

The estimated value for 2021 for salaries and other employee benefits is **RON 54,474 th** representing an increase of RON 14.764 th or 37.2% compared to 2020.

This evolution is determined by the increase in the number of employees by 262, following the merger with SEM at the end of November 2020, for which there was an increase in basic salaries in order to maintain net income in the context of the previous tax facility loss applicable to construction activity.

The amount of RON 3,824 th representing compensatory payments related to a program to reduce the number of personnel is also included in the budget.

The estimated number of staff for 31 December 2021 is **587** employees, recording a decrease of 9.3%, compared to **694** employees at 31 December 2020.

Expenses with materials and raw materials

An increase of **RON 14,208 th** in the expenses with materials and raw materials is estimated in 2021, at the value of RON 30,735 th, as a result of the activity structure change and of the merger with SEM – maintenance activity, as well as the new activities having a high weight of material costs compared to the car rental services, where the cost structure was determined by operational leasing expenses, repairs and other auto services provided by third parties, being correlated with estimated revenue increase for maintenance works outside the group.

Other expenses

This category of expenses decreased with **RON 56,052 th** or **40.1%**, compared to 2020, mainly as a net effect of:

- the reduction of cost of goods by RON 10,053 th by reducing the volume of equipment deliveries to the distribution operator and third parties;
- the reduction of costs with subcontracted works by RON 4,424 th correlated with the reduction of similar revenues compared to 2020;
- the reduction of costs related to car leasing by RON 7,260 th;
- the increase of expenses related to third parties services by RON 3,132 th.

Operating profit

It is estimated the achievement of an operating profit of **RON 3,848 th** considering a reduced gross margin from the maintenance works performed by the team from SEM and Directia de Servicii Oltenia, resized for 2021 and a startup on new activities at a small volume but with implementation potential and with low gross margin for alignment on these services market.

The financial result will record a decrease by **RON 454 th**, or 29%, compared to the previous year, the decrease being generated by the reduction of the potential cash available for interest-generating investments, as well as by the reduction of interest rates on deposits.

Gross profit

The gross profit for 2021 is a profit of **RON 4,959 th** compared to the loss of RON 9,697 th for 2020, a variation in accordance with the estimated evolution of the company's business lines.

Income tax

An income tax of **RON 827 th** is estimated for the 2021 year.

Net profit

Considering the elements presented above, a net profit of **RON 4,132 th** is estimated for the year 2021.

7. Annexes

7.1. Methodology for budget preparation

The annual Revenue and Expenses Budget is the main forecasting and planning tool for ELSA and its subsidiaries.

The principles set forth in ELSA's Forecasting Policy, available on company's website, apply for the 2021 budget proposal.

ELSA prepares the individual financial statements in accordance with the Order of the Ministry of Public Finances no. 2844/2016 for the approval of the Accounting Regulations in compliance with the International Financial Reporting Standards ("OMFP nr. 2844/2016"), and the consolidated financial statements in accordance with the International Financial Reporting Standards as approved by the European Union ("IFRS-EU"). All other Group companies prepare the individual financial statements in accordance with Romanian accounting standards as established through Order of the Ministry of Finance no. 1802/2014 ("OMFP" or "RAS").

Thus, the individual budget of ELSA for the year 2021 is prepared and presented in accordance with OMFP 2844/2016, whilst the individual budgets of Group's subsidiaries for the year 2021 are prepared in accordance with RAS.

The consolidated budget and ELSA budget are prepared using the presentation structure of the statement of profit and loss from the Group's financial statements prepared in accordance with IFRS-EU and OMFP no. 2844/2016, respectively, whereas the subsidiaries' budgets are presented in a manner that reflects best the specific of each company.

The comparative information for the year 2020 is excerpt as follows:

- ELSA individual budget: audited separate financial statements prepared in accordance with OMFP no. 2844/2016 for 2020;
- Electrica Group consolidated budget: audited consolidated financial statements prepared in accordance with IFRS-EU for 2020;
- group subsidiaries: audited statutory financial information prepared in accordance with RAS for 2020.

The consolidated budget of Electrica Group for the year 2021 is prepared by using the individual budgets for the year 2021 of each Group companies and by applying the following procedures:

- identifiable IFRS adjustments made for the individual 2021 budgets of Group's subsidiaries in order to ensure the transition from statutory figures to IFRS, similar with the procedures used for the preparation of annual financial statements;
- budgets' aggregation of and identifiable adjustments for consolidation such as: elimination of intra-group transactions and of any unrealized profits arising from intra-group transactions.

The individual budget of each company of the Group is prepared by the management of the respective company.

7.2. Significant key factors, directions and market trends that may affect the results of Electrica's operations

The 2021 year will be under the influence of public health events (COVID-19 pandemic declared by WHO on 11 March 2020) and the impact of these events on the business and social environment.

Electrica Group activates in a key economic sector and therefore is closely monitoring both the national and the international context, in order to be able to make the best decisions in the future and to respond to short and medium term challenges.

Globally, the budgets of countries where the number of pandemic infestations is high and economic sectors such as services, production, transportation, as well as commerce and international trade are affected, all these elements influencing the energy demand, consumer behavior, as well as the measures taken by the authorities, both for the energy sector and for the economic environment in general.

The current strategy of the Electrica Group is built on a set of trends and hypotheses, and the acceleration of digitalization is one of its objectives. This aspect is even more important as during the following period it is necessary to support the measures of social distancing, the need for remote intervention and back-up, very relevant aspects for the Group's activities. Thus, the efforts already started to support the investments in IT tools and automations will continue, both for the efficiency of the processes, and for the increase of the Group's operations performance.

In the distribution segment, the focus is still on operational efficiency during the following period, by reducing technological and commercial losses and by optimizing internal processes. An important part of the Group's business strategy is represented by the implementation of an investment plan, mainly in this segment. Electrica's operations from this area require significant capital investments. Any significant delays in the implementation of the assumed investment plans may produce material effects on the Group's operations and profitability. The capital expenditure from the distribution segment will have the anticipated positive effect on the operational results to the extent that these are recognized by ANRE in the RAB and considering also the regulatory rate of return approved by ANRE. Investments will continue in order to modernize the networks (including by automation and by implementing smart grid and smart metering technologies), aiming to improve the quality of services.

In the supply segment, risk management has been extended in the electricity procurement activity in order to optimize the market position and the prices offered to customers. Process optimization is continued, especially by using automation/digitization, along with the expansion of the product and services portfolio and the modernization of sales and customer relations channels.

Considering energy policies developed both at EU and national level, as well as the international context of the energy markets, the following trends are expected to characterize on medium and long term the local electricity market:

- Increased competition between the players in the electricity supply market at national level, especially in terms of diversifying the portfolio of products offered to customers (offers for natural gas, insurance, home appliances etc.) and digital services offered (mobile applications, invoices and online payments, extending the customer service through chat solutions);
- Customers who, in accordance with the legal provisions, have the right to benefit from universal service and do not want to migrate to the eligible segment, will continue to be provided with electricity in the universal service regime;
- A regulatory trend in electricity distribution area is to provide remuneration of the distribution operators considering both the quality of service provided and the operational costs and efficiency based on comparative analyzes between DSOs;
- Electricity distributed generation technologies will determine the distribution operators to adapt their processes and strategies regarding the upgrade and development of the network and to offer solutions to the independent producers, considering the appearance of prosumers, which are active participants in the energy market; in this context, significant investments are necessary in order to improve both the transmission and the distribution infrastructure;
- On the long term, full electric vehicles, light commercial vehicles and electrification of railways are expected to

increase the consumption of electricity in the transportation sector.

- Future technological developments will support energy efficiency policies such as:
 - Development of transport and distribution networks, including smart grid and smart metering;
 - End-use energy efficiency (thermal integrity of buildings, lighting, electric appliances, motor drives, heat pumps etc.);
- The smart metering implementation will offer complex tariffs options to the users, detailed information regarding the consumption profile, which might lead to increased flexibility and demand reduction during peak periods. Thus, the users shall be better informed and involved in decision-making process, as active participants. The smart metering implementation pace depends on the implementation calendar to be adopted at national level;
- The significant reduction in the cost of photovoltaic technologies is an opportunity for the development of small-scale generation projects, especially in the household area;
- The development of the transport and distribution infrastructure and long-distance interconnection will become a necessity. The electricity market target model, which implies the development of Europe's internal electricity market, will continue to evolve and be in line with future trends and challenges in the energy industry.

Changes in the regulatory framework on the energy market and the potential impact on the Group's results

The energy regulatory framework has experienced major changes in the past decade, including market liberalization, unbundling and implementation of the support scheme for renewable energy.

The main elements that will produce an impact in 2021 for **the distribution segment**:

- the changes brought by the new distribution tariffs setting methodology and the RRR level, that will generate a negative impact on the operational and financial performances of the DSO, as a result of the approval by ANRE of values of the operating costs and maintenance lower than the necessary costs requested by the DSO, as well as of ANRE carrying out the annual corrections of the costs and of the forecast investments.
- after the merger of Electrica DSO, zonal distribution tariffs are maintained until the end of RP4, calculated based on the forecasted costs and revenues approved at the beginning of RP4; the gross benefits realized as efficiency gains will be shared between the operator and the network users according to the methodology, and the expenses generated by the merger will not be recognized.

The changes in the legislation with an impact **on the supply segment**, mainly refer to:

- the amendments to the Law on electricity and natural gas no. 123/2012, with subsequent amendments and completions, by GEO no. 1/2020, GEO no.74/14 May 2020, GEO no. 106/2020 and Law no. 155/2020, having as main result the elimination of the regulated tariffs for natural gas starting with 1 July 2020 and for electricity starting with 1 January 2021;
- EFSA is designated by ANRE as a supplier of last resort, both for electricity and natural gas at national level, regardless of the network area. Thus, depending on the price offer and respecting the "lowest cost" principle, EFSA can take over in its portfolio the customers left without a supplier from all over Romania;
- the elimination of the price limits from the balancing market, corroborated with the settlement at 15 minutes and a unique imbalance price following the establishment of a guideline regarding the balancing of the electricity system can determine significant variations of EFSA's purchase price, with direct impact on offers. from the retail market;
- starting with 1 January 2021, simultaneously with the elimination of regulated tariffs, ANRE no longer approves/endorse prices for household customers benefiting from universal service. Thus, the prices applicable to this category of clients will be formed according to demand and supply, under the same conditions applicable to eligible clients.

As an exception, at least in the first half of 2021, EFSA will apply a commercial discount to domestic customers receiving universal service, equal to the price difference between the universal service offer and the competitive offer with the lowest value valid on the date of entry into force of the ANRE Order. no. 5/2021.

The main risk and uncertainty factors that may affect the 2021 budget for the main areas of activity of the Group are presented below:

Risk	Impact on REB 2021	Alleviating factor/Recovery method
Supply area		
Elimination of any measures with the effect of limiting the offer price on BM (eliminating the price difference between DAM and BM); The unique imbalance price corroborated with the settlement at an interval of 15 minutes	Recording additional costs with the purchase of electricity	Corrections/recoveries in/through the prices practiced on the relevant segments and in the application periods in which it is possible, when elaborating the price offers.
The regulated tariffs elimination can lead to a massive migration of domestic final customers from EFSA's eligible portfolio, but also to a decrease in revenues due to granting a commercial reduction to domestic customers benefiting from universal service.	Negative impact on profitability and the possibility of the market share decreasing	Corrections/recoveries in/through the prices practiced on the relevant segments and in the application periods in which it is possible, when elaborating the price offers.
Termination at the customers' initiative of sale of electricity contracts already concluded with prices significantly higher than current ones	Lower revenues and volumes and failure to accomplish budgeted indicators	Increased retention efforts correlated with actions to attract new clients into the portfolio
EFSA has approximately 100,000 inactive non-household customers in its portfolio. This category of customers will continue to exist, according to the legislation in force, until 31 December 2021. If supply contracts are not concluded, they can switch on regime of supply of last resort to another supplier starting with 1 January 2022.	Lower revenues and volumes and failure to accomplish budgeted indicators	Concluding supply contracts in a competitive manner with these customers until 31 December 2021, including the elaboration of a price offer.
Distribution area		
Recording significant deviations of the quantities actually distributed compared to the estimated ones	Recording of distributed electricity revenue deviations (positive or negative) that will be corrected in the coming years	The corrections will be recorded in the next years of RP4
Exceeding the quantities budgeted for NL	Recording additional costs with electricity needed to cover NL which will be borne by the DSO, without being able to be recovered in the future	Plan of measures for respecting the assumed NL targets
Exceeding the approved controllable costs	Recording additional costs to those approved, which will be borne by the DSO, without being able to be recovered in the future	Plan of measures for respecting the assumed controllable costs targets

Risk	Impact on REB 2021	Alleviating factor/Recovery method
Termination of agreements for the purchase of electricity already concluded by DSOs at significantly lower prices than current ones, at the sellers' initiative	The need to purchase electricity at current market prices, with a negative impact on the average cost of purchasing electricity	Diversification of purchases on OPCOM trading platforms that allow the selection of counterparties
Not accomplishing the plan of investment works with own forces	Exceeding the approved personnel expenses and OPEX level, with an impact on non-recovery of differences through distribution tariffs. Unrealized annual investment plan.	Plan of measures to ensure the realization of the investment plan for CAPEX with own forces
Decrease in the revenues from non-regulated activities	Recording negative deviations of the profit from other activities that will determine positive corrections in the following years of PR4	Contracts will be concluded with some of the communication operators at the tariffs established by decisions of the relevant authorities.
Failure to record the personnel and OHS costs approved by ANRE for the distribution service	Recording some positive deviations of the profit that will determine negative corrections in the following years of RP4	Actual costs at the level approved by ANRE in order to avoid negative corrections
Failure to accomplish the investment and maintenance plans assumed	Payment of fines from turnover, which will negatively impact the profit, not being recognized in tariffs	Plan of measures for accomplishing the investment plans approved by ANRE
Non-recognition of the investments made	Recording investment costs that, subsequently, can be considered unjustified by ANRE (motivated by incomplete documentation, not accomplishing some benefits or incorrect recording of fixed assets)	Correct recording and documentation of investments made, to avoid any non-recognition.
Non-recognition of the investments made	Recording some OPEX values which, subsequently, can be considered unjustified by ANRE	Strict observance of the way of recording and reporting the actual costs, maintaining the inclusion in the categories sent to ANRE to substantiate RP4.

Source: Electrica

Glosary

AFEER	The Romanian Energy Suppliers Association
ANRE	Romanian Energy Regulatory Authority
AMR	Automatic Meters Reading
BM	Balancing Market
BRP	Balance Responsible Party
CAPEX	Capitalized expenses
CLA	Collective Labor Agreement
CSR	Corporate social responsibility
CMBC	Centralized Market for Bilateral Contracts
CMUS	Centralized Market for Universal Service
CMC	Competitive Market Component
DAM	Day Ahead Market
DSO	Distribution Operator
EBITDA	Earnings Before Interest, Tax, Depreciation and Amortization
EBIT	Earnings Before Interest and Tax
EBT	Earnings Before Tax
EDN	Electricity Distribution Network
EFET	European Federation of Energy Traders
EU	European Union
GC	Green Certificates
GEO	Government Emergency Ordinance
GWh	Gigawatt/hour
HV	High Voltage
IFRS	International Financial Reporting Standards
ILA	Individual Labour Agreement
LV	Low Voltage
MRM	Market Risk Management
MKP	Management Key Position
MV	Medium Voltage
MWh	Megawatt/hour

NL	Network losses
OGMS	Ordinary General Meeting of Shareholders
OMPF	Order of the Ministry of Public Finances
OPCOM	Romanian gas and electricity market operator
OTC	Over The Counter
RAB	Regulated Assets Base
REB	Revenue and Expenses Budget
RRR	Regulated Rate of Return
RP	Regulatory Period
SoLR	Supplier of Last Resort
VLP	Voluntary Leave Program