



HIDROELECTRICA

ANNUAL REPORT 2017



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The year 2017 found Hidroelectrica ready to break away from the problems of the past. Now we have every reason to look at the future with confidence. We have taken very important steps and we aim to strengthen our position: Hidroelectrica ended the year 2017 with exceptional results: the best net profit since the establishment of the company - of LEI 1.36 billion, with a turnover of 3.25 billion and an EBITDA of 69%. The company has written yet another page of history, especially since these achievements happened under the conditions of a lower annual production than the average hydrological year production.

But what we have envisaged for Hidroelectrica is to maintain a long-term performance and even reach new records. And this means that, along with profit, which remains also a very important goal for us, we are particularly focused on implementing investment, development and maintenance plans.

It is vital that we take all the necessary steps, smaller or larger, in the direction we have set for ourselves and in accordance with our vision. To give concrete examples, during 2017, we took the necessary steps to update the documentation and resume the Vidraru auction, an extremely important asset in the Hidroelectrica portfolio, we are continuing the refurbishment works at Stejaru to give a new life cycle to this hydropower plant, we have signed the agreement for the upgrade of the Călimănești hydropower plant, we have started the procurement procedures for the upgrade of Slatina HPP etc.

Moreover, the recent financial performance encourages us to aim at extending our business on regional level. We are very seriously considering the possibility of widening the range of electricity production sources being particularly interested in the opportunities that might appear in the energy industry (both in our country and in the region).

Nomatter the direction we choose, we understand very clearly that Hidroelectrica's current and future success means to be able to rely on two things: the people and the production facilities in the portfolio. We are looking forward to secure the state of affairs we are currently enjoying. First and foremost we want to motivate the staff in order to maintain the pace and performance. This is the



reason why we decided, in agreement with the trade unions, to increase wages at the end of 2017. We also took measures to eliminate wage inequalities, the financial gap between the management and operating positions.

Regarding the status of Hidroelectrica's production facilities, it is vital to know that at peak and overloaded times everything works and that the turbines can be turned to the maximum. I insist on the role and importance of proper and timely maintenance. Hidroelectrica had and has moments in which it supports, all by itself, more than half of Romania's electricity consumption. Practically, in difficult times, our company assumes with responsibility and firmness the role of central pillar for the safety of the national energy system.

I am convinced that the financial performance of the company, as well as that achieved production in 2017, is primarily due to the strategies implemented at all the levels of the company. Among the measures taken we only list a few: optimizing the long-term contracting strategy, optimizing the activities



carried on the energy trading platforms, rethinking the maintenance program so that the company does not have withdrawn facilities at peak production times, careful resource management, optimizing the cost of purchasing goods and services, reducing work execution times, closely following compliance with the investment program, etc.

The effort of all those who work every day for this company it is recognized as it deserves to be. We were glad that, at the end of 2017, others have acknowledged our results as well. I would like to mention that Hidroelectrica ranked 1st in the 2017 National Top Companies (Chamber of Commerce and Industry of Romania), 1st in the Bucharest Top Companies (Chamber of Commerce and Industry of Bucharest) and was awarded the prize for the "Highest profit achieved among the Eastern European companies" (Seenews).

The results we achieved make us more ambitious and motivate us to continue to perform and to aim higher. I would like to mention just a few of the goals we set for the near future: for the period

2018-2020, we expect to put into operation the Bretea Hydropower Plant with an installed capacity of 12.3 MW, Racovița HPP - 29.9 MW installed power and Răstolița HPP - 35.2 MW installed power. We also want to unlock the legal situation and continue the hydropower development on the Jiu River, on the Livezeni-Bumbești section, where we have two plants at a very advanced stage of completion, approximately 98%, Dumitra HPP with 24.5 MW installed power, Bumbești HPP with 40.5 MW installed power.

I assure you that we will invest all our energy to consolidate Hidroelectrica's successes, our main objective being the sustainable development of the company.

Bogdan Badea

President of the Management Board

1



IDENTIFICATION DATA

Company name: S.P.E.E.H. HIDROELECTRICA S.A.

Registered seat: 15-17 Ion Mihalache Blvd, 11-14th floor, District 1, code 011171, Bucharest

Telephone / fax number: 0213032500; 0213032578

Trade Register Unique Registration Code: 13267213

Fiscal code: RO13267213

Trade Register registration number: J40/7426/2000

Subscribed and paid-up share capital: LEI 4,482,393,310

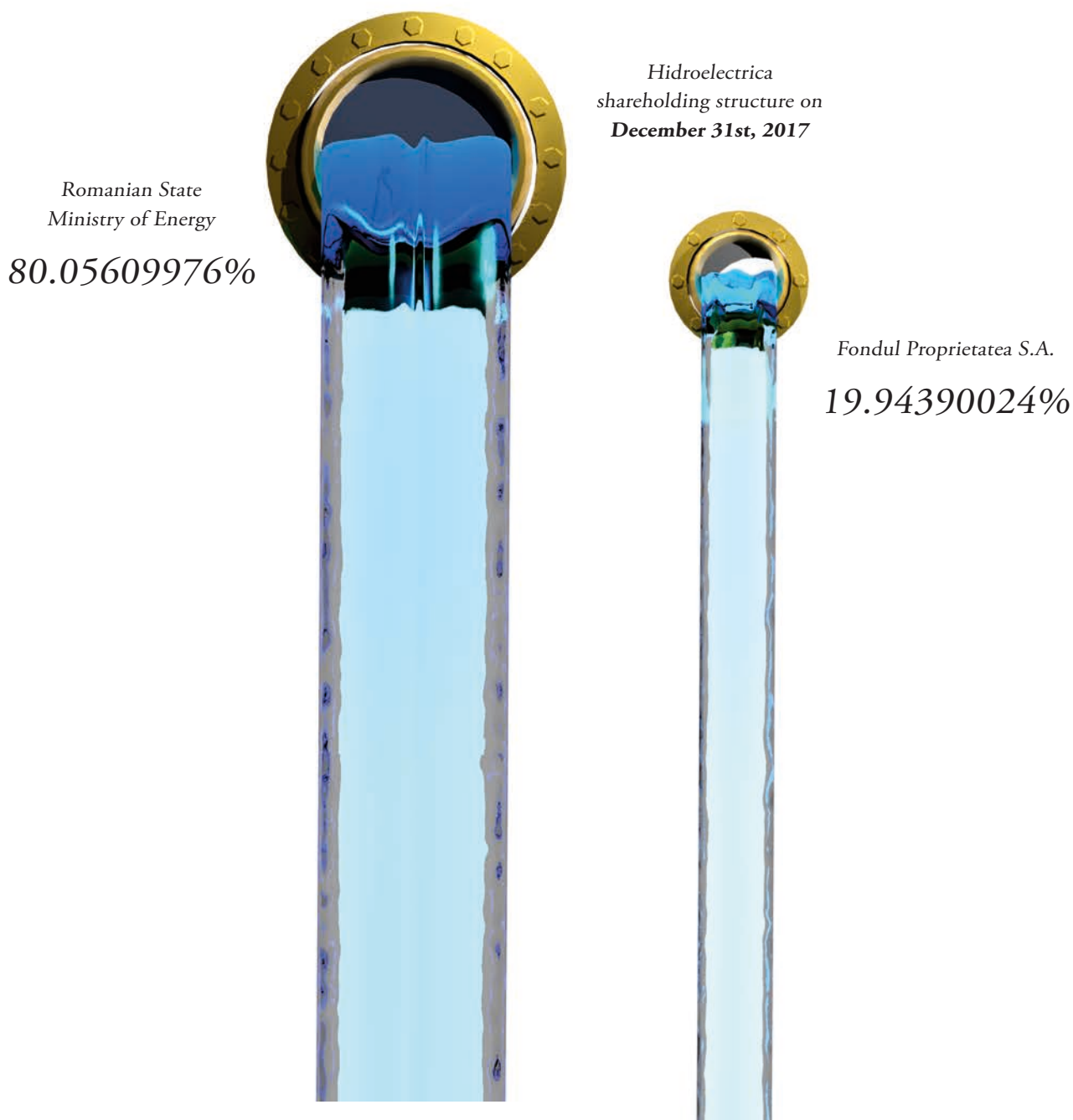
GENERAL DATA

S.P.E.E.H. Hidroelectrica S.A. is a joint stock company, established under the Romanian Government Decision no. 627/July 13, 2000, having its registered seat in Bucharest, district 1, 15-17 Ion Mihalache Blvd, 11-14th floor, Fiscal Identification code RO13267213 and registered with the Trade Register attached to the Bucharest Court under no. J40/7426/2000. By the mentioned Government Decision, the energy sector is being restructured through the establishment of 5 independent companies with 100% state ownership, detached from the former CONEL holding company created in 1998: Transelectrica, Electrica, Termoelectrica, Nuclearelectrica and Hidroelectrica.

The share capital of S.P.E.E.H. Hidroelectrica S.A. on December 31st, 2017 was LEI 4,482,393,310

consisting of 448,239,331 ordinary shares, issued in dematerialized form, by registration in the account, with a face value of LEI 10, having the following shareholding structure:

- The Romanian State through the Ministry of Energy, holding 358,842,926 shares, having a total face value of LEI 3,588,429,260, representing 80.05609976% of the share capital of the company;
- Fondul Proprietatea S.A., holding 89,396,405 shares, having a total face value of LEI 893,964,050, representing 19.94390024% of the share capital of the company.



HIDROELECTRICA - NATIONAL ENERGETICAL TREASURY IN FIGURES

THE DEVELOPMENT OF THE MAIN KEY INDICATORS over the past 6 years is shown in the table below:

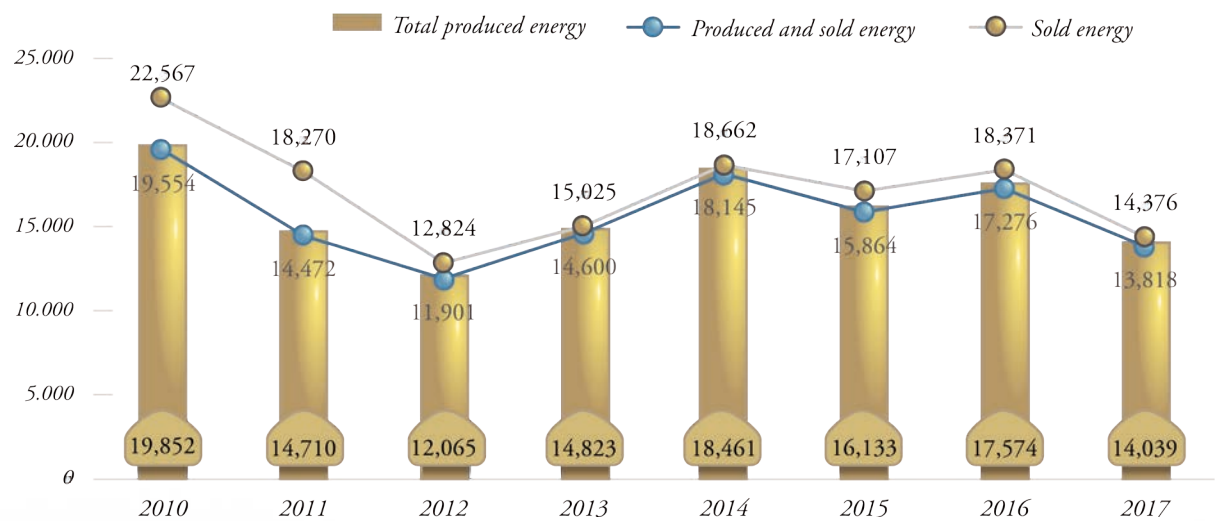
	2012	2013	2014	2015	2016	2017
Installed power (MW)	6,470	6,464	6,443	6,435	6,432	6,444
Total electricity production (GWh), of which:	12,065	14,823	18,461	16,133	17,573	14,039
Produced and delivered energy (GWh)	11,901	14,600	18,145	15,864	17,276	13,818
Delivered electricity (GWh)	12,824	15,025	18,662	17,107	18,376	14,376



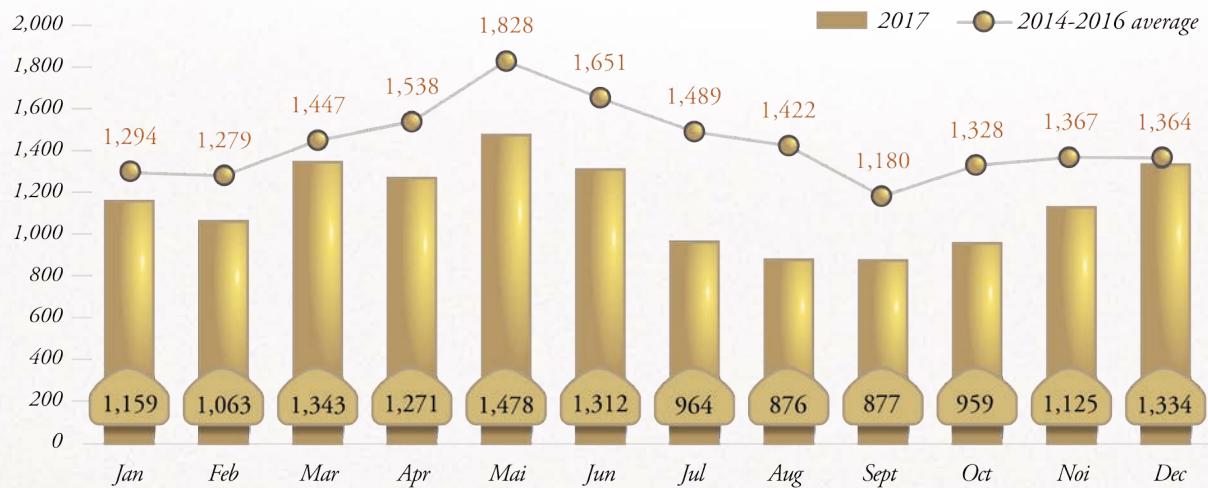
	2012	2013	2014	2015	2016	2017
Production capacities:						
No. of plants, total, of which:	275	261	219	212	207	208
HPP + SHPP ($P_i \leq 10\text{MW}$)	163	149	107	100	95	95
HPP ($P_i > 10\text{MW}$)	107	107	107	107	107	108
Pumping stations	5	5	5	5	5	5
No. of groups, total, of which:	593	557	483	470	462	464
HPP + SHPP ($P_i \leq 10\text{MW}$)	333	297	223	210	202	202
HPP ($P_i > 10\text{MW}$)	249	249	249	249	249	251
Pumping stations	11	11	11	11	11	11
Number of employees at the end of the period	5,115	4,172	3,711	3,448	3,272	3,297



TOTAL PRODUCTION of electricity and the produced and delivered electricity (GWh)



AVERAGE MONTHLY ENERGY PRODUCTION (GWh)



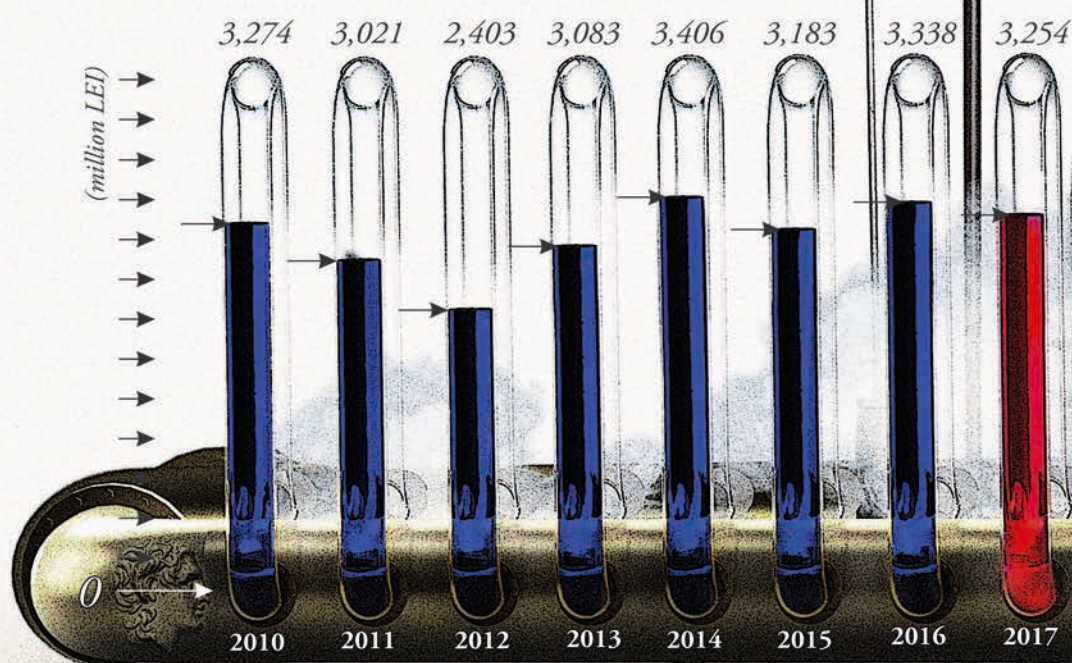
THE DEVELOPMENT OF FINANCIAL RESULTS for the period 2012-2017 is shown below:

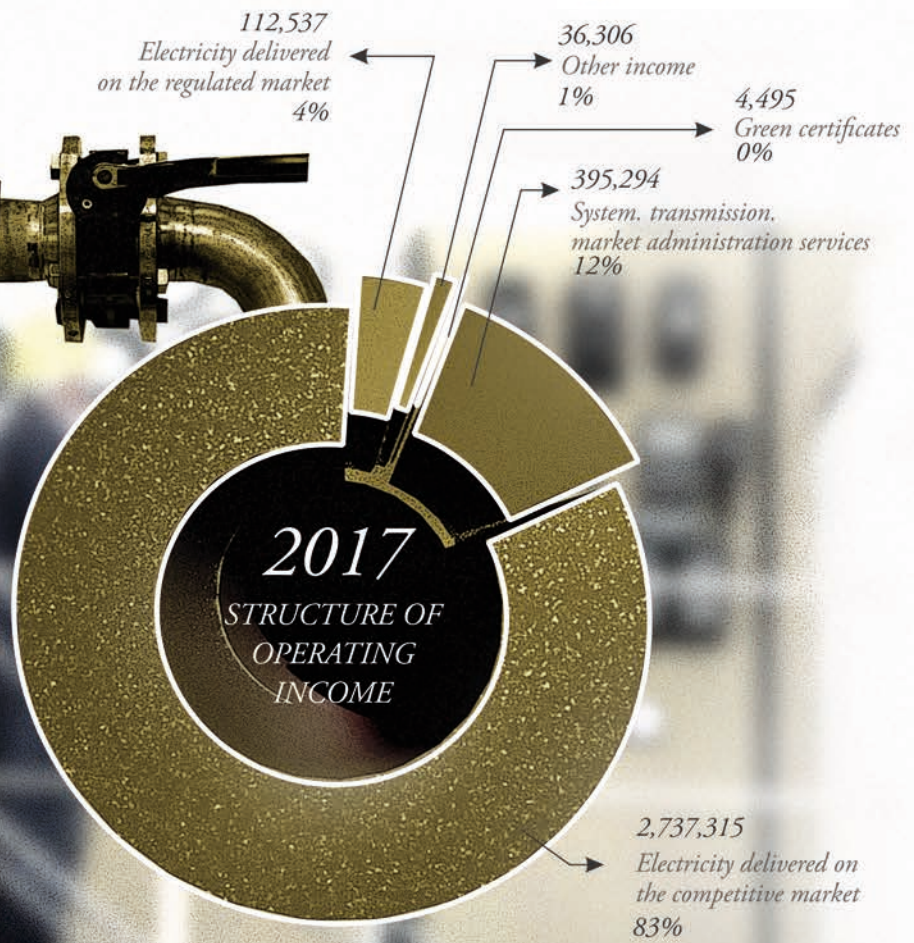
	2012	2013	2014	2015	2016	2017
Total assets (M LEI)	20,326	19,532	19,292	19,132	18,849	18,350
Equity (M LEI)	16,040	16,697	17,640	17,993	17,845	17,515
Total income (M LEI)	2,562	3,260	3,497	3,329	3,396	3,322
Operating income (M LEI)	2,418	3,150	3,451	3,293	3,366	3,286
Operating expenditure (M LEI)	2,740	2,134	2,243	2,166	1,826	1,704
Net profit (M LEI)	-508	719	942	899	1,228	1,360
EBITDA* (M LEI)	924	1,987	2,172	2,092	2,243	2,259
EBITDA margin (%)	38	64	64	66	67	69
Investments (M LEI)	760	260	193	172	182	405
Debt / Equity (%)	24	15	7	4	3	2

*calculated based on the operating result

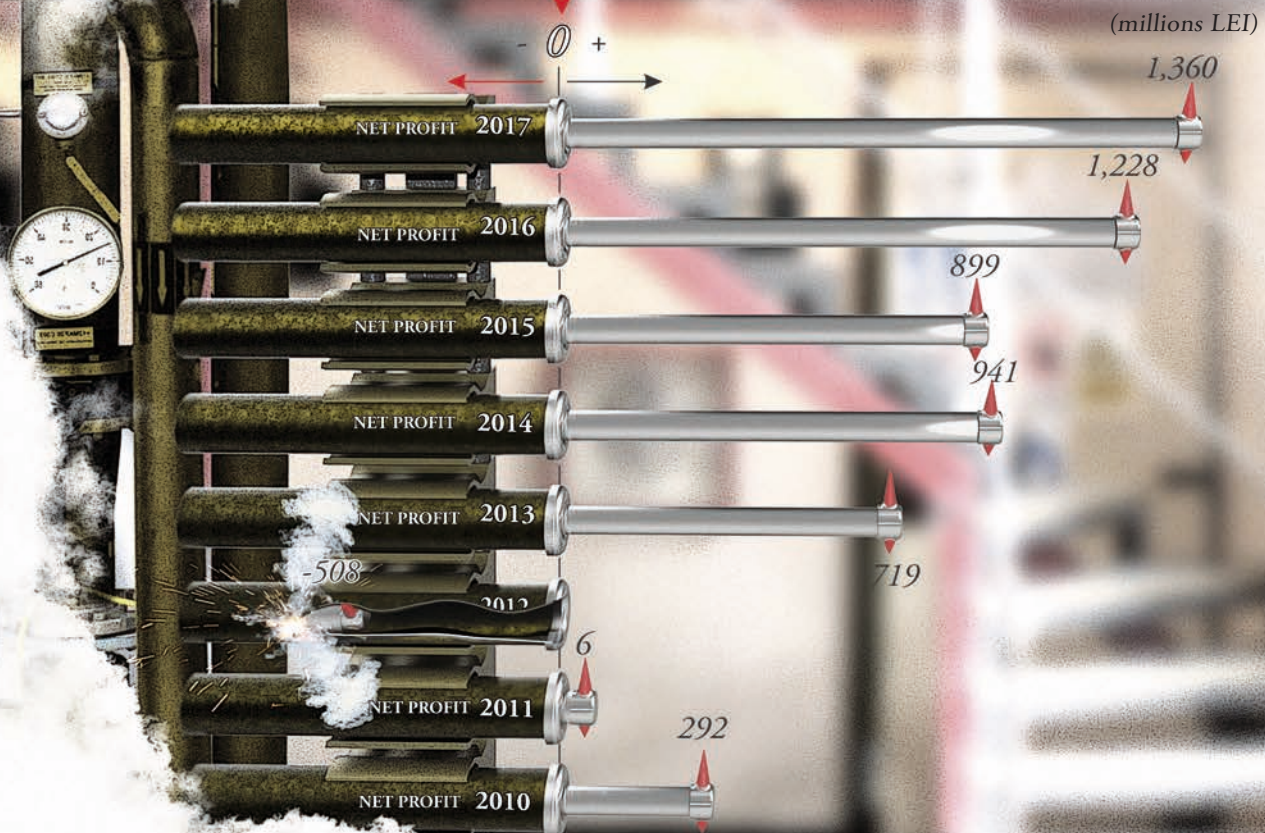
TURNOVER

The net turnover is the income from the main business, called "Operating income", to which income from other activities is added (e.g.: income related to green certificates).

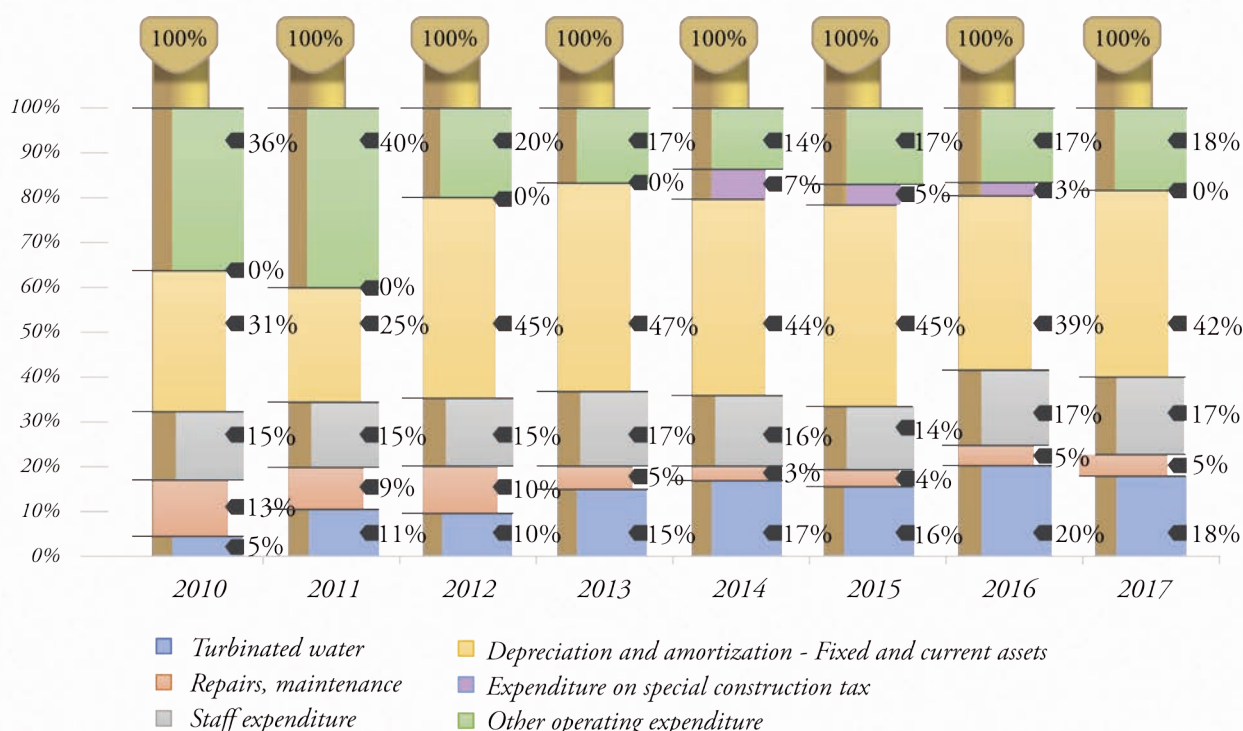




NET PROFIT



STRUCTURE OF OPERATING EXPENDITURE



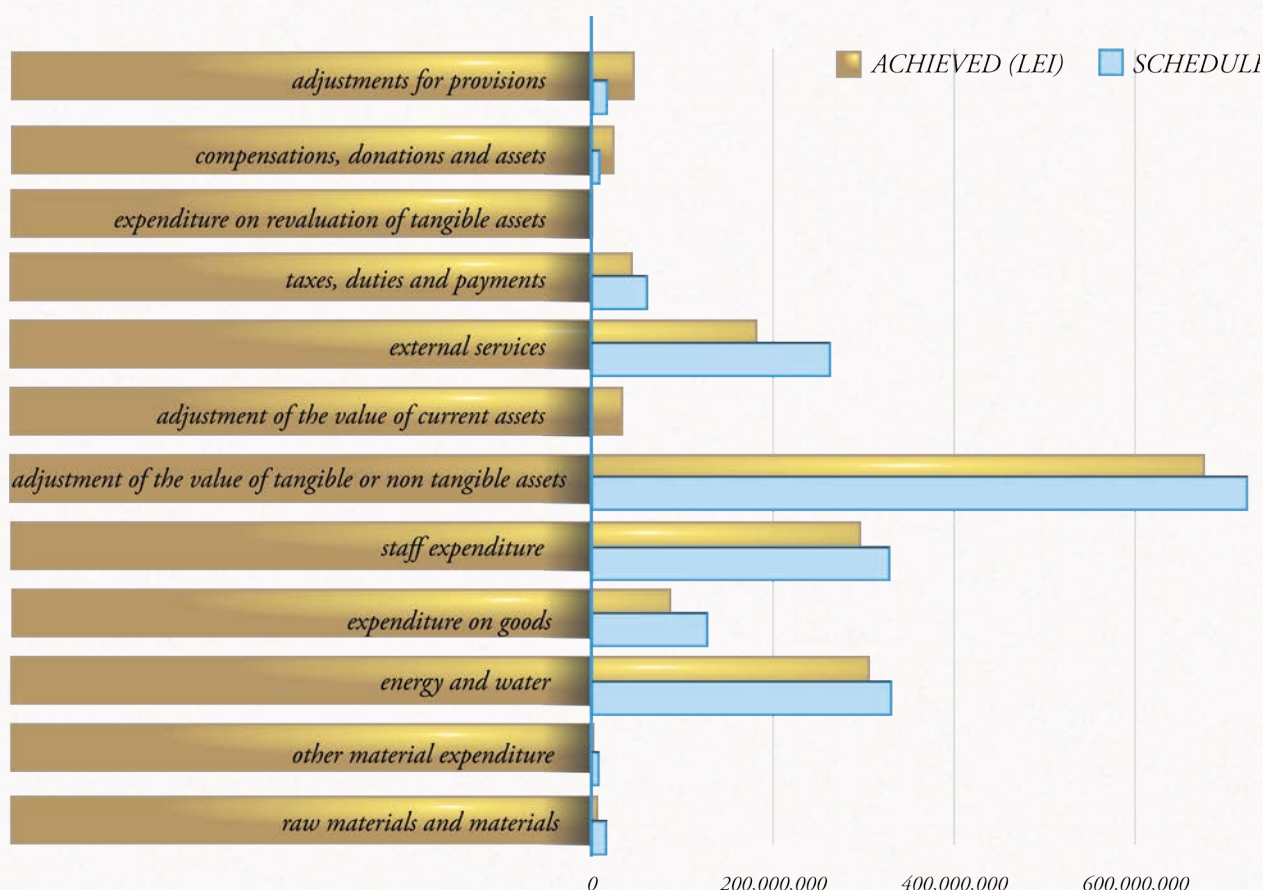
OPERATING INCOME

INDICATORS	M.U.	SCHEDULE	ACHIEVED	DIFFERENCE
1. Total electricity delivered	MWh	15,681,000	14,671,857	-1,009,143
(A+B), of which:	LEI	2,803,472,419	2,849,852,210	46,379,791
A. Electricity delivered on the Regulated Market	MWh	1,127,000	1,131,851	4,851
	LEI	112,610,419	112,537,231	-73,188
B. Electricity delivered to Other Markets	MWh	14,554,000	13,540,005	-1,013,995
	LEI	2,690,862,000	2,737,314,979	46,452,979
2. System services, transmission, market administration services, of which:	LEI	288,000,000	393,283,516	105,283,516
Delivered to Transelectrica S.A. (secondary frequency / power setting, power back-up, reactive power supply and voltage adjustment)	LEI	288,000,000	361,773,579	73,773,579
Transmission services for electricity sold on the regulated market	LEI	0	875,085	875,085
System services, transmission, and market administration services on the competitive market	LEI	0	30,634,852	30,634,852
3. Green certificates	LEI	12,378,549	4,495,010	-7,883,539
4. Industrial water services	LEI	1,996,697	2,010,645	13,948
5. Other services	LEI	4,285,176	4,016,102	-269,074
6. Other operating income		10,512,968	32,289,907	21,776,939
TOTAL OPERATING INCOME (1+2+3+4+5+6)	LEI	3,120,645,809	3,285,947,389	165,301,580

THE OPERATING EXPENDITURE in the amount of LEI 1,704,118,459 have the following structure:

INDICATORS	ACHIEVED 2016 (LEI)	SCHEDULE 2017 (LEI)	ACHIEVED 2017 (LEI)	DIFFERENCE 2017-2016	DIFFERENCE from schedule 2017
Expenditure on raw materials and consumables	5,151,787	15,974,549	5,998,467	846,680	-9,976,082
Other material expenditure	893,729	3,948,513	1,509,393	615,664	-2,439,120
Other external expenditure (energy and water)	373,352,881	329,833,969	306,849,178	-66,503,703	-22,984,791
Expenditure on goods	101,408,201	127,729,771	86,788,725	-14,619,476	-40,941,046
Staff expenditure	305,985,439	327,988,216	296,474,298	-9,511,141	-31,513,918
Adjustment of the value of tangible and intangible assets	709,678,061	724,185,230	676,566,299	-33,111,762	-47,618,931
Adjustment of the value of current assets	15,461,880	0	32,720,470	17,258,590	32,720,470
Expenditure on external services	191,265,982	261,901,501	182,022,933	-9,243,049	-79,878,568
Expenditure on other taxes, duties and related payments	100,447,522	61,343,612	44,871,193	-55,576,329	-16,472,419
Expenditure on the revaluation of tangible assets	0	0	0	0	0
Expenditure on compensation, donations and assigned assets	40,468,418	7,482,721	24,562,338	-15,906,080	17,079,617
Adjustments for provisions	-18,449,267	16,803,275	45,755,165	64,204,432	28,951,890
Operating expenditure - Total	1,825,664,634	1,877,191,357	1,704,118,459	-121,546,175	-173,072,898





PURCHASED ENERGY

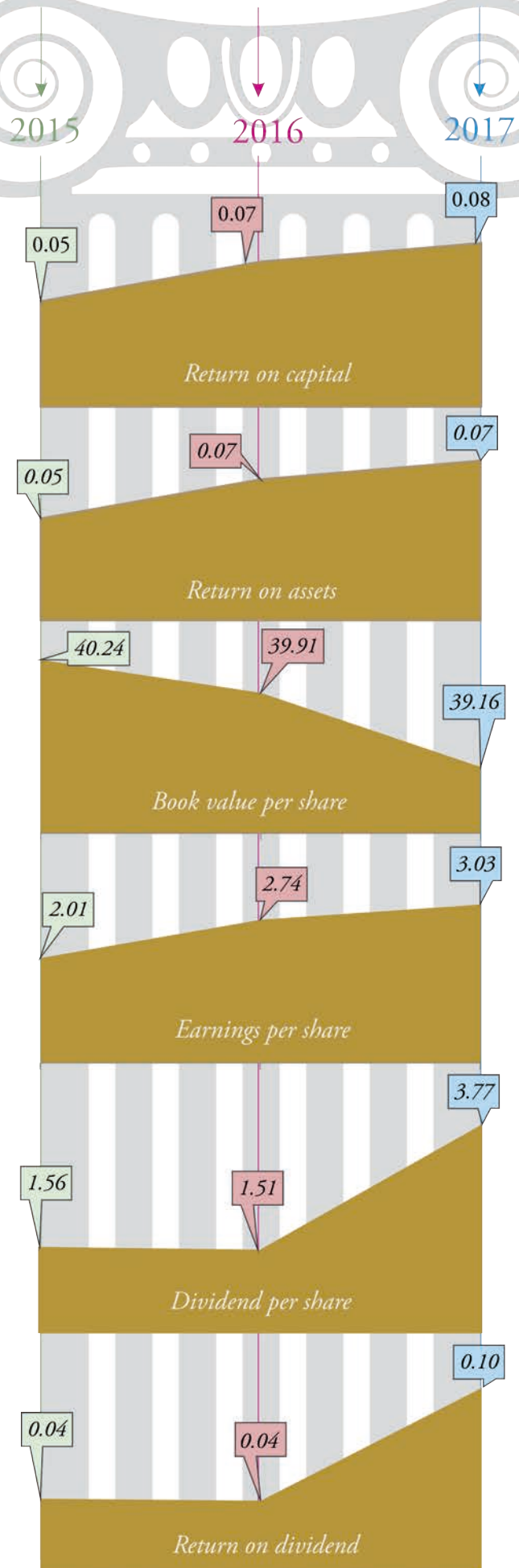
Expenditure on the purchased energy amounting to LEI 86,788,725 was made in accordance with the rules of the Day Ahead Energy Market, the Balancing Market, OTC and INTRADAY.

ENERGY MARKET NAME	Total quantity (MWh)	Total value (LEI)
DAM	330,884	35,300,474
OTC	36,240	6,510,780
BALANCING MARKET	633,072	44,974,551
INTRADAY	20	2,920
TOTAL	1,000,216	86,788,725

During 2017, Hidroelectrica purchased from the platforms managed by OPCOM in a transparent and competitive manner, in accordance with the energy market rules (DAM, Balancing Market, PCCB NC, OTC, Intraday) to optimize its own production. These operations, carried out in accordance with the contracting strategy, allowed Hidroelectrica: to maximize the income by capitalizing on opportunities on all OPCOM platforms (tape purchase, lake storage and top selling); to meet the contractual obligations assumed by selling at competitive prices on the OPCOM platforms, Hidroelectrica recording in 2017 an average selling price above the average selling price recorded on the electricity market, according to the monthly OPCOM reports; to contribute to the safe operation of the National Energy System throughout the year 2017, and throughout this entire time the availability of the hydro units has been correlated with an optimal program for their maintenance.



PROFITABILITY INDICATORS



	2015	2016	2017
Return on capital (LEI)	0.05	0.07	0.08
Net profit	899,413,095	1,227,666,599	1,359,687,719
Equity	18,032,256,147	17,884,535,586	17,554,279,847

	2015	2016	2017
Return on assets (LEI)	0.05	0.07	0.07
Net profit	899,413,095	1,227,666,599	1,359,687,719
Total assets	19,113,426,819	18,830,077,601	18,411,888,505

	2015	2016	2017
Book value per share (LEI)	40.24	39.91	39.16
Equity	18,032,256,147	17,884,535,586	17,554,279,847
No. of shares	448,148,224	448,165,063	448,239,331

	2015	2016	2017
Face value	10	10	10
Share face value	10	10	10
Total number of shares	448,148,224	448,165,063	448,239,331
Earnings per share	2.01	2.74	3.03
Net profit	899,413,095	1,227,666,599	1,359,687,719

	2015	2016	2017
Dividend per share	1.56	1.51	3.77
Paid dividends	697,929,194	675,115,016	1,690,686,137*
No. of shares	448,148,224	448,165,063	448,239,331

* The amount of LEI 1,690,686,137 also includes the distribution of LEI 655 million related to the result carried forward from the surplus achieved from revaluation reserves

	2015	2016	2017
Return on dividend	0.04	0.04	0.10
Dividend per share	1.56	1.51	3.77
Book value per share	40.24	39.91	39.16

MILESTONES IN THE ACTIVITY OF HIDROELECTRICA

WITH REGARD TO THE ELECTRICITY MARKET IN 2017, IT CAN BE CHARACTERIZED AS FOLLOWS:

INDICATOR (GWH)	2014	2015	2016	2017	2017/2016(%)
Net power installed in the NES (MW)	24,500	24,631	24,726	24,738	1.003
Produced energy	64,863	64,579	63,566	63,748	0.984
Internal consumption	57,740	57,729	58,505	60,852	1.013

Source: National Energy Dispatcher

In 2017, Hidroelectrica's obligations on the regulated market accounted for 1.13 TWh delivered, 58% less than in 2016.

In January 2017, the energy market was marked by an unprecedented crisis created as a result of very low temperatures compared to the mean temperature of the period, which led to increases in the average trading prices on the Day Ahead Market, reaching all-time highs: LEI 338/MWh in January 2017, and LEI 249/MWh in February 2017. Hidroelectrica was the main stability factor of the National Energy System during January 2017, being used on the Balancing Market and with an hourly power of 1,750 MW, operating in peak periods with a power above 3,300 MW, its hydro units also having an availability of above 90%.

The second part of 2017 was marked by low flows of the Danube (monthly averages between 2,800 m³/s - July and 4,000 m³/s in November, slightly excessive in December 2017 - 6,700 m³/s) so the whole of 2017 saw all-time high trading prices for the Day Ahead Market, with the 2017 spot market level being LEI 227/MWh, above the LEI 154/MWh value recorded in 2016.

In the shown context, Hidroelectrica achieved its goal of strengthening its market leader position, its position as the main producer - contributing with 21.03% to the total production of Romania, as well as its position as the main factor contributing to the stability of the NES. Hidroelectrica provided in 2017: 61.8% of the secondary adjustment reserve, 79% of the fast tertiary reserve and the reactive energy in full and 100% of the service for assuring the reactive



energy debited or absorbed from the network in the secondary voltage adjustment band).

PARTICULARITIES IN THE OPERATING REGIME OF HYDROPOWER FACILITIES OF HIDROELECTRICA IN 2017

In 2017, Hidroelectrica produced in its own installations an amount of electricity of 14,039 GWh, 3.534 GWh less than in 2016. The total amount of sold energy, from its own production and purchases from third parties, was 14,671 GWh.

As a result of the recorded hydrological conditions (82% of the Danube hydrology and 70% of the total hydrology of the inland waters in the arranged sections), the volume of contractual obligations and the conditions on the energy markets, the value of the energy produced at the terminals was 80.59% of the value of an average hydrological year, which is approximately 17,419 GWh.

The production of energy in hydropower plants in 2017 was 100% obtained from natural affluence, and in addition there was an accumulation of approx. 162.3 GWh in the reserves of large facilities (the energy reserve of the major reservoirs increased from 1,579.29 GWh on December 31st, 2016 to 1,741.59 GWh on December 31st, 2017).

In 2017, at the level of Hidroelectrica, 59 dispatchable units (DUs) were operational, on the structure of which the daily operating programs were developed.

The hydrological status was generally deficient (compared to the previous year 2016) - it is worth noting the hydraulicity at the lower limit, under the normal limit for the Danube and the poor hydraulicity of the inland waters.

The water reserve recorded during the year in large facilities was used to fully cover the water needs of downstream utilities, the amount of system services required for the safe operation of the NES, and the necessary stock for the smooth transition through winter periods of the year 2017 (January - March and October - December).

The legislation on the new support scheme for producers of renewable sources (the green certificates market) (Law 220/2008) saw its sixth year of full implementation in 2017.



ADMINISTRATION AND MANAGEMENT OF THE COMPANY. CORPORATE GOVERNANCE.

In 2017, the company was managed in a dual system by a Management Board under the supervision of a Supervisory Board.

The company was managed in a dual system by a Management Board formed of three members under the supervision of a Supervisory Board, operating in accordance with the applicable Romanian law, the provisions of the company's Articles of Incorporation and internal regulations.

The members of the Supervisory Board are appointed by the Ordinary General Meeting of Shareholders and the Management Board is appointed by the Supervisory Board, exercising its functions under the supervision of the Supervisory Board (consisting of 7 members).

Supervisory Board

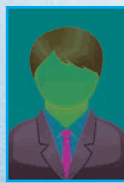
During the period between **January 1st, 2017 - April 19th, 2017**, the Supervisory Board of the company had the following structure:



Crăița Ana
Bucheru
(Chairwoman)



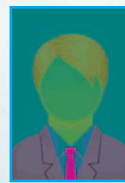
Oana
Valentina
Truța



Nicu
Romeo
Susanu



Elena
Voicu



Ionuț
Purica



Robert
Cosmin
Pană



Mihai -
Daniel Aniței

The provisional members of the Board mentioned above were appointed by the decision of the GMS no. 23/20.12.2016 for a period of 4 months.

On April 19th, 2017, by the decision of the GMS no. 5/19.04.2017 the following provisional members of the Supervisory Board were appointed with a mandate of 4 months:

						
Ioana Andreea Lambru (Chairwoman)	Andreea Negru Ciobanu	Dorin Liviu Nistoran (Chairman)	Gheorghe Gabriel Gheorghe	Laurențiu Dan Tudor	Horia Marian Gambuțeanu	Oana Valentina Truța

On May 5th, 2017, Mr. Dorin Liviu Nistoran resigned from the position of member of the Hidroelectrica Supervisory Board. On May 25th, 2017, Mr. Gabriel Gheorghe resigned and on June 26th, 2017, Mrs. Oana Truța resigned from her office.

During June 26th, 2017 - July 3rd, 2017, the Supervisory Board of the company could not make any valid decisions because the legal and statutory conditions for holding the meetings of the Supervisory Board (due to lack of quorum) could not be met.







On July 3rd, 2017 the number of members of the Supervisory Board was supplemented by the decision no. 8/03.07.2017, with the following members, with a mandate until August 19th, 2017:

Radu Spiridon Cojocaru, Karoly Borbely, Oana Valentina Truța.

Mr. Radu Spiridon Cojocaru did not take office.



Starting with **August 20, 2017**, the Supervisory Board had the following composition until January 18th, 2018:

						
Ioana Andreea Lambru (Chairwoman)	Andreea Negru Ciobanu	Radu Spiridon Cojocaru	Karoly Borbely	Laurențiu Dan Tudor	Horia Marian Gambuțeanu	Oana Valentina Truța

On October 15th, 2017, Mr. Radu Spiridon Cojocaru resigned from the position of member of the Hidroelectrica Supervisory Board, the Supervisory Board functioning until the end of 2017 with 6 members.

During the year 2017, the following consultative committees were set up at the level of the Supervisory Board:

- 1. Nomination and Remuneration Committee
- 2. Audit Committee
- 3. Strategy and IPO Committee



Management Board

During 2017, the company's Management Board, consisting of 3 members, was appointed by the Supervisory Board's decisions and the signatories to the mandate agreements are as follows:

Surname and name	SB Decision for appointment	Term of office
Ovidiu Agliceru	74/23.12.2016	29.10.2016-28.04.2017
	3/26.04.2017	29.04.2017-26.05.2017
	17/26.05.2017	27.05.2017-25.06.2017
Petronel Chiriac	75/23.12.2016	29.10.2016-28.04.2017
	3/26.04.2017	29.04.2017-26.05.2017
	17/26.05.2017	27.05.2017-25.06.2017
Iulian Tudor	76/23.12.2016	29.10.2016-28.04.2017
	3/26.04.2017	29.04.2017-26.05.2017
	17/26.05.2017	27.05.2017-25.06.2017

Surname and name	SB Decision for appointment	Term of office
Bogdan Nicolae Badea	20/05.07.2017	05.07.2017-05.11.2017
	59/02.11.2017	06.11.2017-06.01.2018
Marian Bratu	19/05.07.2017	05.07.2017-05.11.2017
	59/02.11.2017	06.11.2017-06.01.2018
Mihai Zdru	21/05.07.2017	05.07.2017-05.11.2017
	59/02.11.2017	06.11.2017-06.01.2018

During this period, the Management Board adopted, under the provisions of Chapter VI of the Hidroelectrica Articles of Incorporation, a number of 1830 Decisions for the fulfillment of its mandate.

Both the mandates of the members of the Supervisory Board and the mandates of the members of the Management Board are provisional mandates until the appointment of a Management Board in accordance with the provisions of GEO no. 109/2011 on corporate governance of public enterprises in force.

In accordance with Article 51 of GEO no. 109/2011, as subsequently amended and supplemented, the company published on its own website the following: the resumes of the members of the Supervisory Board and the Management Board, their remuneration, the Code of Ethics updated and implemented in this form, the Statutory Financial Statements as of June 30, 2017, the resolutions of the General Meeting of Shareholders, etc.



ECONOMIC-FINANCIAL ACTIVITY

In 2017, the company continued its very good development registered in the last years, thus reaching an all-time high of the gross profit, amounting to LEI 1,602,480,833, an increase by 4.18% compared to the result of the year 2016.

6.1. Profit and loss account

The main figures for the profit and loss account are as follows:

LEI	31-Dec-2016	31-Dec-2017
Net turnover	3,338,028,782	3,253,651,389
Sold production	3,084,353,469	3,047,318,319
Income from sale of goods	241,296,764	203,740,963
Income from operating grants related to the net turnover	12,378,549	2,592,107
Income from the production of intangible and tangible assets	10,892	6,093
Income from the revaluation of tangible assets	4	-
Other operating income	27,886,455	32,289,907
- of which, income from investment grants	6,736,987	5,561,725
OPERATING INCOME - TOTAL	3,365,926,133	3,285,947,389
Expenditure on raw materials and consumables	5,151,787	5,998,467
Other material expenditure	893,729	1,509,393
Other external expenditure (energy and water)	373,352,881	306,849,177
Expenditure on goods	101,408,311	86,788,725
Commercial discounts received	-110	-105
Expenditure on staff	306,841,680	296,464,220
Salaries and allowances	249,577,361	240,700,745
Expenditure on insurance and social care	57,264,319	55,763,475
Value adjustments for tangible and intangible assets	709,678,060	676,566,299
Value adjustments for current assets	15,461,880	32,720,469
Other operating expenditure	331,325,682	251,466,543
Expenditure on external services	190,409,741	182,033,012
Expenditure on other taxes, duties and related payments	100,447,523	44,871,193
Expenditure on environmental protection	8,480,346	11,890,474
Other expenditure	31,988,072	12,671,864
Adjustments for provisions	(18,449,267)	45,755,165
OPERATING EXPENDITURE - TOTAL	1,825,664,633	1,704,118,353
OPERATING PROFIT OR LOSS	1,540,261,500	1,581,829,036
FINANCIAL INCOME - TOTAL	30,507,904	35,792,989
FINANCIAL EXPENDITURE - TOTAL	32,688,114	15,141,192
FINANCIAL PROFIT OR LOSS	-2,180,210	20,651,797
TOTAL INCOME	3,396,434,037	3,321,740,378
TOTAL EXPENDITURE	1,858,352,747	1,719,259,545
GROSS PROFIT OR LOSS	1,538,081,290	1,602,480,833
INCOME TAX	310,414,852	242,793,115
NET PROFIT OR LOSS FOR THE REPORTING PERIOD	1,227,666,438	1,359,687,718

OPTIMIZATION OF THE LOAN PORTFOLIO AND CASH MANAGEMENT

The financial activity saw a significant improvement compared to the previous years, and due to the cash management measures, measures for the reduction of financing costs and the judicious capitalization of bank placements, in 2017 there was a profit from the financial activity in terms of the net result from interest and exchange rate differences: LEI 4,689,123.

The overall result of the financial activity in 2016 is negatively influenced by the value adjustments on financial assets that reflect the accounting of the loss for the year 2016 registered by the daughter company, S.S.H. HIDROSERV S.A.

LEI	2016	2017	Difference (LEI)	Difference (%)
Income from exchange rate differences	14,735,964	6,951,916	-7,784,048	47%
Income from interest	15,681,474	12,878,399	-2,803,075	82%
Other financial income (green certificates of 2017)	90,466	15,962,674	15,872,208	
Total Financial Income	30,507,904	35,792,989	5,285,085	117%
Expenditure on exchange rate differences	14,718,657	12,697,571	-2,021,086	86%
Expenditure on interest	4,132,871	2,443,621	-1,689,250	59%
Value adjustments on financial assets and financial investments held as current assets	12,884,771	0	-12,884,771	0%
Expenditure on ceded financial investments	10	0	-10	0%
Other financial expenditure	951,806	0	-951,806	0%
Total Financial Expenditure	32,688,114	15,141,192	-17,546,922	46%
Financial activity result	-2,180,210	20,651,797	22,832,007	



The increase in income from interest was supported by both the steady growth of available monetary funds and an efficient bank placement policy.

The development of the income from and expenditure on bank interest, of the expenditure on bank fees and of the income from and expenditure on exchange rate differences during the period 2013-2017 is as follows:

LEI	2013	2014	2015	2016	2017
Expenditure on bank fees	12,370,071	8,536,407	2,537,156	1,528,402	566,143
Income from exchange rate differences	104,631,601	36,122,284	23,321,557	14,735,964	6,951,916
Expenditure on exchange rate differences	123,335,009	40,892,765	35,819,832	14,718,657	12,697,571
Profit/- Loss Exchange rate differences	-18,703,408	-4,770,481	-12,498,275	17,307	-5,745,655
Income from bank interest	1,492,742	7,498,198	10,654,530	15,681,474	12,878,399
Expenditure on bank interest	63,171,811	29,964,746	7,240,192	4,132,871	2,443,621
Profit/- Loss Interest	-61,679,069	-22,466,548	3,414,338	11,548,603	10,434,778
Result from interest and exchange rate differences	-80,382,477	-27,237,029	-9,083,937	11,565,910	4,689,123

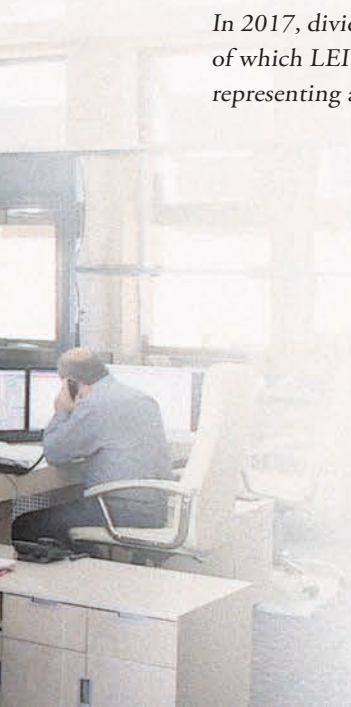
The extension for another year, namely for the period September 30th, 2016 - September 30th, 2017 of the loan agreement no. 83/29.09.2009 signed with BRD Groupe Societe Generale S.A. and the reduction of its amount from LEI 300 million to the maximum amount of LEI 100 million, and the approval of the guarantee of this loan with a debt assignment in the maximum amount of LEI 125 million.

In 2016, the loan agreement signed with BRD was extended for another year, until September 30th, 2017. With this extension, the loan structure changed as follows:

1. The reduction of the loan amount from LEI 300 million to the maximum amount of LEI 100 million, the guarantee of this loan with a debt assignment in the maximum amount of LEI 125 million.
2. In order to reduce expenditure on bank interest and fees, the company renegotiated the costs, reducing interest rates by 45%, and the related fees by 25%.

DIVIDEND PAYMENT

In 2017, dividends were paid in accordance with the GMS decisions, amounting to a total of LEI 1,690,687,137, of which LEI 1,035,686,137 from the net profit for 2016 and LEI 655,000,000 from the result carried forward, representing a surplus achieved from revaluation reserves.



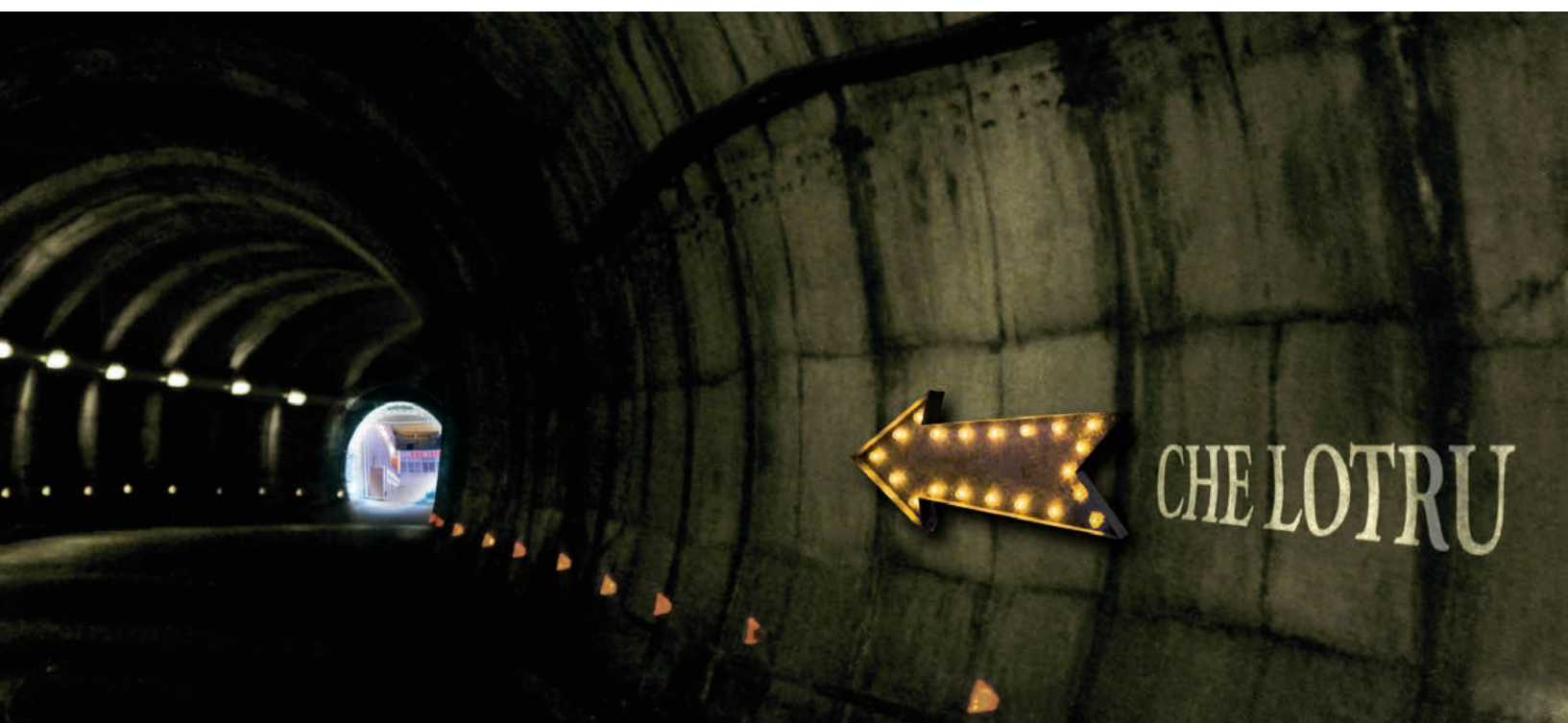
UP-TO-DATE PAYMENT OF CONTRIBUTIONS, TAXES AND DUTIES

Hidroelectrica is one of the largest tax payers in Romania. During the period 2012-2017, Hidroelectrica declared and fully paid contributions, taxes and duties amounting to almost LEI 3.4 billion.

Taxes, contributions and payments with regard to salaries (LEI)	2012	2013
Contributions related to granted salaries	140,471,852	122,669,473
Payroll taxes	44,147,626	38,434,210
Withholding tax	121,001	154,772
Total	184,740,479	161,258,455
Other taxes and duties to the state budget		
Income tax	20,389,175	182,757,104
Payable VAT	236,467,844	388,802,270
Dues	1,072,956	3,007,939
Excise duty	708,947	116,396
Tax on special construction	0	0
Other taxes (contribution to high efficiency cogeneration)	1,180,302	1,343,160
Total	259,819,224	576,026,869
Local taxes		
Tax on buildings and land	2,906,292	3,137,269
Other taxes	301,472	316,506
Total	3,207,764	3,453,775
To the above, the turbinated water tax of more than LEI 1.98 billion is added:		
Expenditure on turbinated water and related items	263,790,690	319,908,720



2014	2015	2016	2017	Total
113,744,532	91,804,497	94,089,548	94,670,657	657,450,559
37,761,068	32,409,904	33,177,587	32,544,526	218,474,921
198,348	263,481	267,894	237,616	1,243,112
151,703,948	124,477,882	127,535,029	127,452,799	877,168,592
216,416,760	210,973,353	325,280,320	242,793,115	1,198,609,827
63,923,279	40,327,743	32,719,254	125,910,565	888,150,955
2,985,051	2,806,593	3,042,654	3,046,142	15,961,335
33,533	33,912	331,588	355,956	1,580,332
150,087,011	99,993,943	54,550,037	0	304,630,991
727,030	848,636	1,900,409	3,568,753	9,568,290
434,172,664	354,984,180	417,824,262	375,674,531	2,418,501,730
2,980,962	2,907,951	41,740,597	40,847,237	94,520,308
301,968	265,319	250,474	385,220	1,820,959
3,282,930	3,173,270	41,991,071	41,232,457	96,341,267
TOTAL:				3,392,011,589
379,728,997	341,432,531	370,277,404	305,416,449	1,980,554,791



6.2. Asset activity

The financial and asset status is a certain state of the capital in terms of existence, material structure and achieved financial results.

BALANCE SHEET ITEMS

The balance sheet items of the financial year 2017 as compared to 2016 are as follows:

Indicator name (LEI)	31.12.2016	31.12.2017	% 2017/2016
Intangible assets	3,733,942	5,312,746	142%
Tangible assets	16,418,532,610	15,956,731,076	97%
Financial assets	27,794,121	2,654,295	10%
Fixed assets - Total	16,450,060,673	15,964,698,117	97%
Stocks	56,562,588	68,239,687	121%
Receivables	639,083,762	515,854,946	81%
Short-term financial investments	1,483,773,064	1,687,725,848	114%
Cash on hand and bank accounts	217,778,307	105,370,452	48%
Current assets - Total	2,397,197,722	2,377,190,933	99%
Accrued expenses	2,033,330	2,339,907	115%
Debts to be paid within a one-year period	393,620,730	353,542,166	90%
Debts to be paid within a period of > one year	230,013,073	129,683,254	56%
Provisions	139,367,513	183,493,648	132%
Accrued income	201,754,822	190,889,588	95%
Capital and reserves	11,688,109,676	11,566,364,568	99%
Subscribed and paid-up capital	4,481,650,630	4,482,393,310	100%
Subscribed capital not paid	0	0	0%
Revaluation reserves	6,815,621,282	6,478,826,302	95%
Reserves	390,837,764	605,144,956	155%
Result carried forward	4,929,412,823	4,588,880,913	93%
Financial year result	1,227,666,438	1,359,687,718	111%
Distribution of profit	76,904,064	99,230,955	129%
Equity	17,845,188,937	17,514,933,198	98%
Public assets	39,346,649	39,346,649	100%
Total capital	17,884,535,586	17,554,279,847	98%

The tangible assets of the company consist mainly of special constructions, namely hydropower plants, energy pumping stations, micro-hydropower plants, locks, and hydro units, equipment and installations. The company manages a number of 208 hydropower plants with an installed power of 6,444 MW and 5 pumping stations with an installed power of 91.5 MW.

The financial assets consist mainly of equity securities held at affiliated entities amounting to LEI 73,000,495, namely:

- Shares amounting to LEI 70,576,810 held by the company at the Hidroserv S.A. subsidiary;
- Shares amounting to LEI 2,423,685 held by the company at Hidroelectrica Trading D.O.O.

Other assets amounting to LEI 5,555,173 on December 31st, 2017 represent guarantees paid by the company for the fulfillment of contractual obligations, with a liquidity term longer than 1 year.

Equity securities of Hidroelectrica at the branch of the company, Hidroserv S.A.

As of August 5th, 2013, Hidroelectrica is the sole shareholder of Hidroserv S.A. registered with the Trade Register under no. J40/9762/05.08.2013, with its registered seat in Constantin Nacu Street, no. 3, 3-5th floor, District 2, Bucharest, a company formed by the merger of the 8 former Branches for Hidroserv repairs and services.

Hidroelectrica holds, on December 31st, 2017, as sole shareholder, equity securities in Hidroserv S.A., totalling LEI 70,576,810, of which:

- The amount of LEI 27,200,370 represents equity securities held by Hidroelectrica as shareholder in the share capital of the trade companies set up under RGD no. 857/2002, in accordance with Article 1;
- The amount of LEI 43,376,440 represents the contribution in kind / cash made by the company to the share capital of the subsidiary.

On December 31st, 2016 the company had an adjustment in place for the loss of value of the shares held in its subsidiary in proportion of 100% due to the registered loss and thus the decrease in equity of the subsidiary Hidroserv S.A. This adjustment was maintained in 2017.

Equity securities of Hidroelectrica at the subsidiary of the company, Hidroelectrica Trading D.O.O.

Starting October 31st, 2014, Hidroelectrica is the sole shareholder of Hidroelectrica Trading D.O.O. registered with the Trade Register in Belgrade, Serbia under no. 21058050/31.10.2014.

Hidroelectrica holds, on December 31st, 2017, as sole shareholder, equity securities in Hidroelectrica Trading D.O.O., totalling LEI 2,423,685, of which:

- The amount of LEI 242,369 represents the payments made;
- The amount of LEI 2,181,317 represents the payments to be made.

The Balance of Receivables registered a decrease on December 31st, 2017 as compared to December 31st, 2016 by LEI 123.2 million. As of December 31st, 2017, the short-term commercial receivables amounted to LEI 577,959,322 and were mainly represented by customers for the electricity delivered in the year 2017.

The balance of uncertain customers amounts to LEI 76,754,328 (of which the amount of LEI 35,378,006 is constituted in the year 2017), for which depreciation adjustments were made.

The amount of LEI 223,548,901, representing "Various debtors and other receivables", includes mainly the amount of LEI 214,385,212 related to the ANAF foreclosure of the bank letter of guarantee submitted for the Taxation Decision no. F-MC851/21.01.2014.

Short-term financial investments on December 31st, 2017 consist of the granted green certificates and bank deposits and related interest.

The total debt as of December 31st, 2017 is LEI 483.2 million, recording a decrease by LEI 140 million compared to debt registered on December 31st, 2016.

Share capital

On December 31st, 2017, the share capital is as follows:

LEI	01.01.2017	31.12.2017
1. Subscribed and paid-up share capital, out of which:	4,481,650,630	4,482,393,310
The Romanian State by Ministry of Energy	3,587,834,700	3,588,429,260
S.C. "Fondul Proprietatea" S.A.	893,815,930	893,964,050
2. Total number of shares, out of which:	448,165,063	448,239,331
The Romanian State by the Ministry of Energy	358,783,470	358,842,926
S.C "Fondul Proprietatea" S.A.	89,381,593	89,396,405
3. Face value	LEI 10 / share	LEI 10 / share

All shares are ordinary, and were subscribed and paid in full on December 31st, 2017. All shares have the same voting rights and have a face value of LEI 10/share.

During the year 2017, the surpluses achieved from the revaluation reserve were also transferred to the "Result carried forward representing the surplus achieved from the revaluation reserves - ct.1175" in the course of the amortization of fixed assets and assets which were decommissioned, sold or ceded free of charge.

On December 31st, 2017, the revaluation reserves are in the amount of LEI 6,478,826,302, distributed as follows:

- ⊗ Reserves related to fixed assets amounting to LEI 6,168,370,145;
- ⊗ Reserves related to land amounting to LEI 310,456,157.

Legal reserves

For the financial year 2017, the company constituted, by distribution from the net book profit, the legal reserve amounting to LEI 80,124,042, the balance of the legal reserve at on December 31st, 2017 amounting to LEI 372,422,376.

The balance of account 1068 "Other reserves" as of December 31st, 2017 is LEI 232,722,580 and consists of the following items:

- ⊗ LEI 97,000,000, representing "Other reserves within the limit of 6% of the achieved income in accordance with the G.O. no.89/2004" recorded until December 31st, 2005;
- ⊗ LEI 1,539,430, representing the value added resulting from the revaluation of land constituted as a contribution in kind to the share capital of the Hidroserv companies;
- ⊗ LEI 115,076,237, representing the distribution as own sources of financing from the profit of the year 2016 in accordance with the decision of the GMS no. 7/25.05.2017 on profit distribution;
- ⊗ LEI 19,106,913, representing the tax facility for the reinvested profit.

Financial year result

At the close of the financial year 2017, the company records a net book profit of LEI 1,359,687,718.

The unconsolidated financial position and the unconsolidated operating result of the company are partly dependent on the decisions of the National Energy Regulatory Authority regarding the tariffs for the electricity delivered on the regulated market to the supply and distribution companies, on the changes in the tariffs and/or the decisions of the Romanian State, not being influenced solely by company's management decisions, these aspects diminishing its influence on the unconsolidated operating result of the company as well as on the recoverability of the net book value of the tangible assets used in the production of electricity. At the same time, the energy sector undergoes permanent restructuring, which could have a significant impact on the company, on its future activity, as well as on the predictability of the future income of the company. The abolition of the energy quotas on the regulated market will take place on December 31st, 2017.

On December 31st, 2017, the balance of the "Public assets" account amounted to LEI 39,346,649, without any movements during the year and was structured as follows:

Branch name	Facility name	Value (LEI)
HB SIBIU	Cornetu Avrig - Robești HPP Dam(from FS)	73,671
	Cornetu Avrig - Left bank Robești HPP (from FS 2001 - 2002)	48,831
	Cornetu Avrig - Left bank Robești HPP (from FS 2003 - 2004)	205,588
	Cornetu Avrig - Right bank Robești HPP (from FS)	2,191,916
	Public domain current assets	13,928,089
HB BISTRITA	Pașcani hydropower development, taken over from ANAR (dam, dike)	22,760,281
HB HATEG	Dike segment 10X10,5 from Subcetate HPP	138,273
GENERAL TOTAL		39,346,649

The balance of the public assets represents investments not yet in operation on December 31st, 2017, namely investments completed but not yet included in the state public property inventory achieved from subsidies and special funds.

The company has in concession goods from the public domain of the state amounting to LEI 3,474,417,708, registered in the extra-record books, structured as follows:

- dams amounting to LEI 1,632,007,375;
- dikes amounting to LEI 1,585,917,716;
- locks amounting to LEI 256,492,617.

Budget execution

As can be seen in the table below, all income indicators have been exceeded (total income was 106% compared to the budget) and all expenditure indicators - including those related to payroll - were observed (total expenditure was to 91% of the budget)

The table below lists the main budget items and their execution:

INDICATORS (M LEI)	2015			2016			2017			2018
	I.E.B.	Achieved	%	I.E.B.	Achieved	%	I.E.B.	Achieved	%	Proposed I.E.B.
Operating income	3,052	3,293	107.9	3,082	3,366	109.2	3,121	3,286	105%	3,181
Financial income	2	36	1,800.00	12	31	264.10	6	36	575%	18
TOTAL INCOME	3,054	3,329	109	3,093	3,396	109.8	3,127	3,322	106%	3,199
Operating expenditure	2,398	2,166	90.3	2,199	1,826	83	1,877	1,704	91%	2,257
Financial expenditure	32	53	165.6	26	33	126.5	6	15	250%	5
TOTAL EXPENDITURE	2,430	2,219	91.3	2,225	1,858	83.5	1,883	1,719	91%	2,262
GROSS RESULT (profit/loss)	623	1,110	178.2	869	1,538	177.1	1,244	1,602	129%	937
INVESTMENT EXPENDITURE, out of which:	806	347	43.1	818	338	41.3	626	405	65%	578
Reimbursement of rates related to investment loans	238	107	45	175	155	88.7	134	132	98%	87

ACTIVITY SEGMENTS

7.1. *Production and operation*

PARTICIPATION OF HYDROPOWER PLANTS IN THE ENERGY AND POWER BALANCE OF THE NATIONAL ENERGY SYSTEM IN THE YEAR 2017

7.1.1. DEVELOPMENT OF ELECTRICITY CONSUMPTION AND PRODUCTION IN 2017

The total power installed in the NES in 2017 was 24,738.26 MW out of which 6,240.27 MW in coal power plants, 5,788.94 MW in hydrocarbon power plants, 6,761.19 MW in hydropower plants, 1,413 MW in the nuclear power plant, 3,029.73 MW in wind power plants, 128.44 MW in biomass power plants, 1,374.64 MW in photovoltaic power plants and 0.05 MW in geothermal power plants.

Romania's domestic electricity consumption in 2017 was 60,852 GWh, having a value of 2.35% higher than the value recorded in 2016 (59,454 GWh).

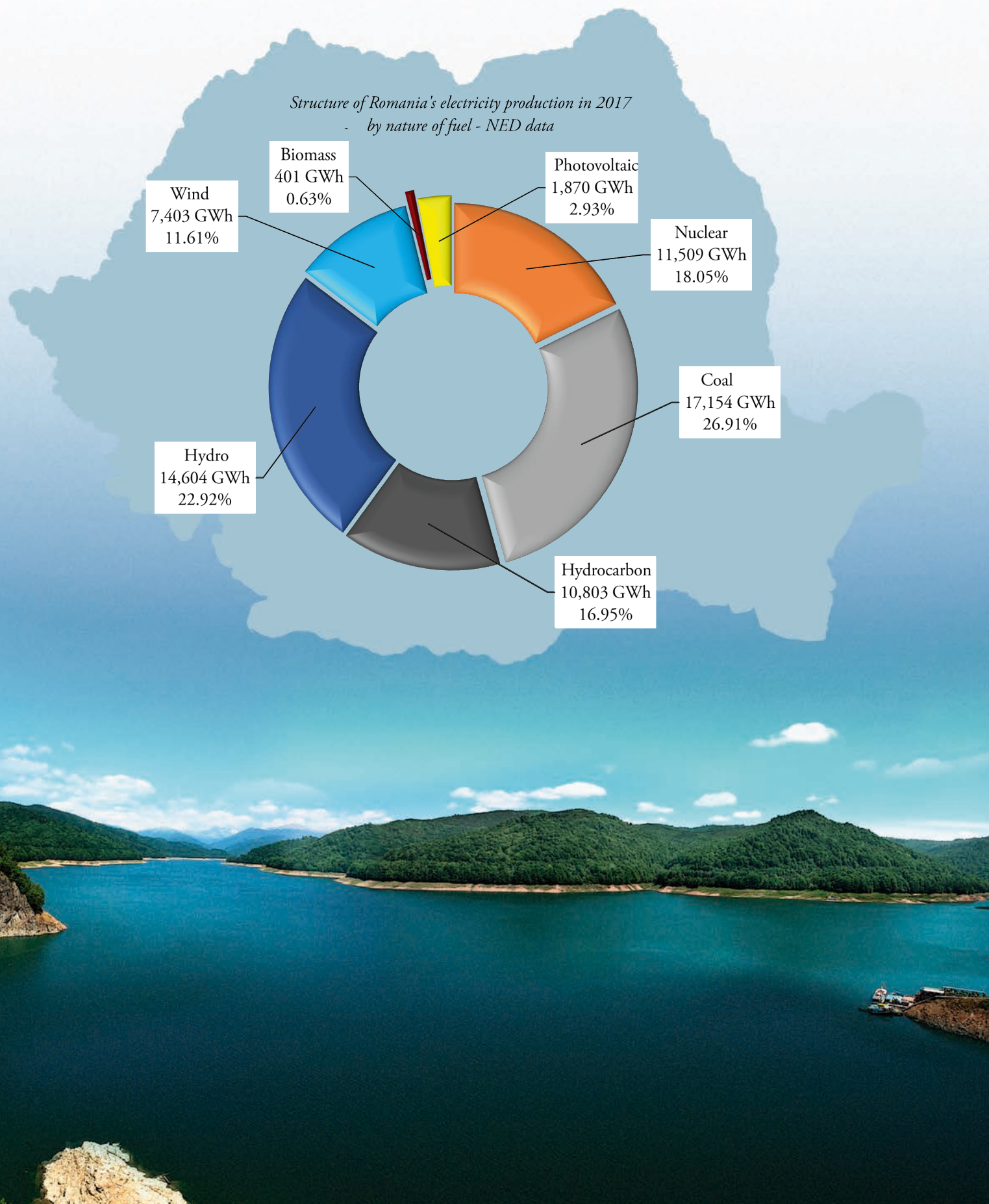
Electricity production in the year 2017 was 66,748 GWh, out of which 17,154 GWh produced in coal power plants, 10,803 GWh in hydrocarbon power plants, 11,509 GWh in the nuclear power plant, 14,608 GWh in hydropower plants (out of which 14,039 GWh in hydropower plants managed by Hidroelectrica), 7,403 GWh in wind power plants, 401 GWh in biomass power plants and 1.870 GWh in photovoltaic power plants.

Electricity produced in Hidroelectrica accounted for 21.03 % of the country's total production. The share of production achieved in the Hidroelectrica plants compared to the total production of the NES was between 30.76% (June) and 19.83% (October).

The 2017 production achieved in the hydropower plants managed was 20.05% (3,664 GWh) less than that achieved in the previous reporting year 2016. The next table shows the participation in the monthly coverage of the NES load schedule of the Romanian producers (depending on the type of fuel).



The structure of electricity by the type of primary energy used is shown in the graph below:



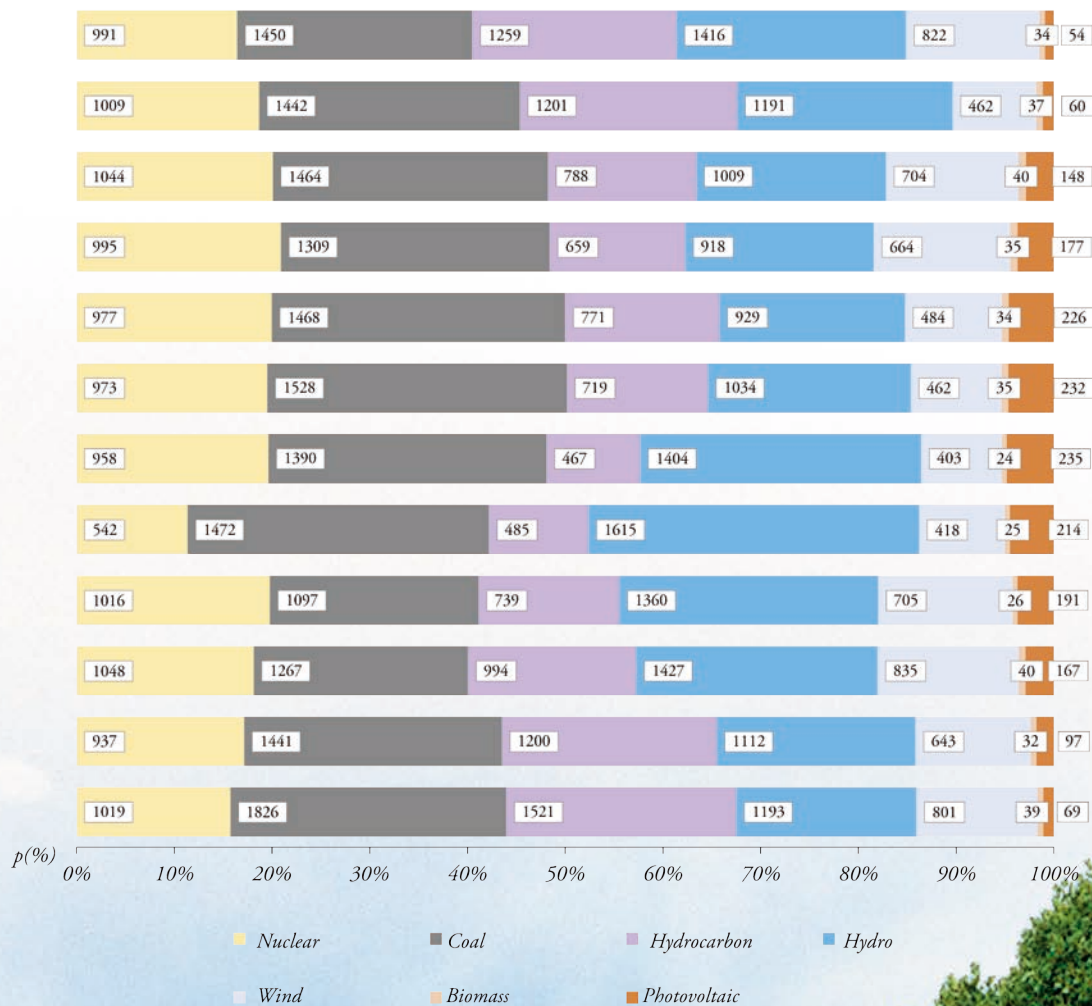
**Participation in the monthly coverage of the NES load schedule of the Romanian producers
(depending on the type of fuel) [GWh]**

Month	Cons total	Prod nuclear	Prod coal	Prod hydrocar	Prod hydro	Prod wind	Prod biom	Prod phvolt	Prod total	Exp (-)	Imp (+)
Jan	5896	1019	1826	1521	1193	801	39	69	6468	-825	253
Feb	5177	937	1441	1200	1112	643	32	97	5462	-514	229
Mar	5204	1048	1267	994	1427	835	40	167	5778	-703	129
Apr	4771	1016	1097	739	1360	705	26	191	5134	-578	215
May	4736	542	1472	485	1615	418	25	214	4771	-373	338
Jun	4659	958	1390	467	1404	403	24	235	4881	-458	236
Jul	4914	973	1528	719	1034	462	35	232	4983	-361	292
Aug	4938	977	1468	771	929	484	34	226	4889	-293	342
Sep	4677	995	1309	659	918	664	35	177	4757	-384	304
Oct	5101	1044	1464	788	1009	704	40	148	5197	-420	324
Nov	5277	1009	1442	1201	1191	462	37	60	5402	-469	344
Dec	5502	991	1450	1259	1416	822	34	54	6026	-710	186
Total 2017	60852	11509	17154	10803	14608	7403	401	1870	63748	-6088	3192

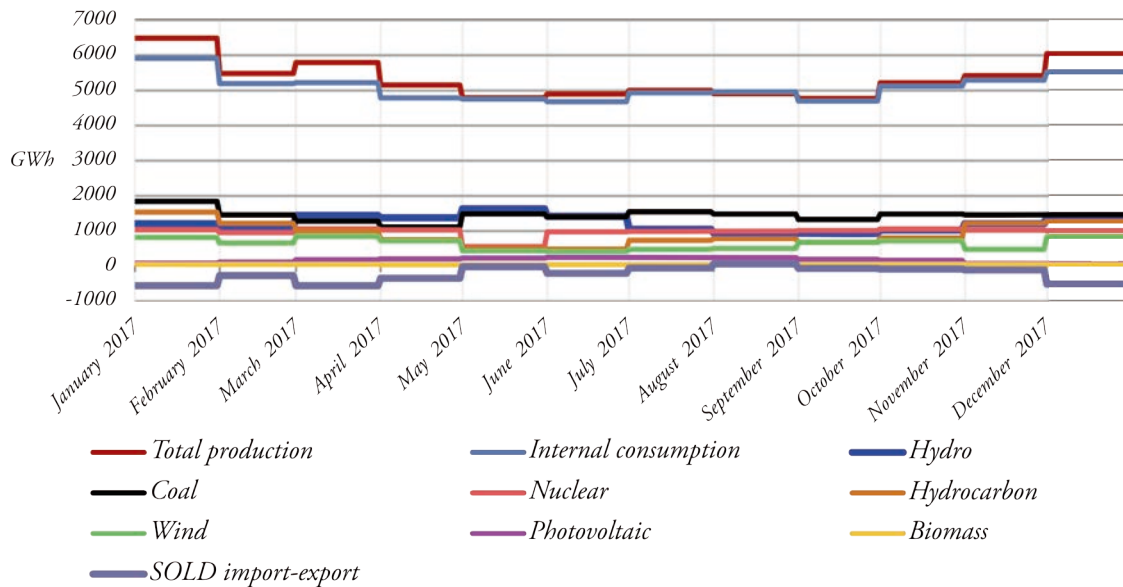


The graph below shows the share of the total production of the monthly quantities of energy obtained by the nature of the fuels.

*Monthly share of Romania's electricity production in 2017
(by nature of fuel - NED data)*



Structure of Romania's energy production by fuel type
and (+)import (-)export balance (NED data)



7.1.2 ENERGY PRODUCTION OF HIDROELECTRICA

The gross energy production of Hidroelectrica was 14,039 GWh.

The production of energy in hydropower plants in 2017 was 100% obtained from natural affluence, and in addition there was an accumulation of 110.13 million m³ (162.3 GWh) and the energy reserve of the major reservoirs increased from 1,579.29 GWh on December 31st, 2016 (1,324.14 million m³ of stock) to 1,741.59 GWh on December 31st, 2017 (1,434.27 million m³ of stock).

7.1.3 PROVISION OF ANCILLARY SERVICES

Hidroelectrica, through the volume and quality of the provided ancillary services, is one of the main factors contributing to ensuring the operational stability of the NES.

The volume of ancillary services provided by Hidroelectrica in the national energy system is shown in the following table:

Service name	MU	Bid	Assigned	Agreement	Achieved
Secondary adjustment reserve	hMW	2,311,860	61,608	2,373,468	2,373,068
Fast tertiary reserve	hMW	4,818,910	14,052	4,832,962	5,232,962
Reactive power discharged or absorbed from the network in the secondary voltage adjustment band	Hours X group	-	-	16,073	16,073

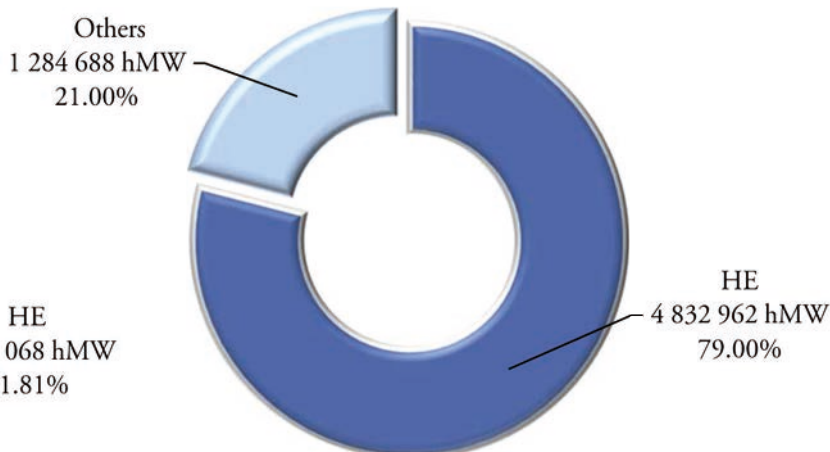
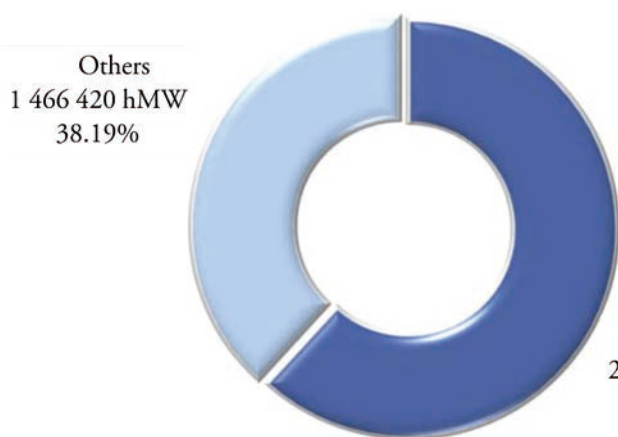
The following table and charts show the amount of ancillary services achieved in 2017 by Hidroelectrica compared to the total at the level of the NES.

Service name	MU	Necessary NES	Achieved Hidroelectrica	*Achieved HE (%)
Secondary adjustment reserve	hMW	3,960,300	2,373,068	61.80%
Fast tertiary reserve	hMW	6,117,650	5,232,962	79.00%
Reactive power discharged or absorbed from the network in the secondary voltage adjustment band	Hours X group	16,073	16,073	

*(%) of achieved NES values

Secondary adjustment reserve at the level of NES in the year 2017

Fast tertiary reserve at the level of NES in the year 2017



Following the regulations on the qualification of domestic producers as ancillary service providers (Transelectrica procedure PO TEL-07 V OS-DN/154/2001), Hidroelectrica continued the qualification program of its units in 2017 as well.

Compared to the previous reporting year, the status is unchanged. At present, Hidroelectrica has been qualified for the following system services::

1. Secondary frequency-power adjustment - 28 hydro units;
2. Fast tertiary reserve - 95 hydro units;
3. Adjustment of reactive power in the secondary voltage adjustment band - 28 hydro units;
4. NES restoration - 5 hydro units;

7.1.4 DYNAMICS OF INSTALLED POWER IN HIDROELECTRICA IN 2017. PARTICIPATION OF THE HPP IN THE POWER BALANCE

The Hidroelectrica facilities operated, on December 31st, 2017, a number of 208 capacities with a power of 6,394,006 MW. The value does not include 50 MW HA6- Dimitrie Leonida HPP, which is retired for refurbishment works.

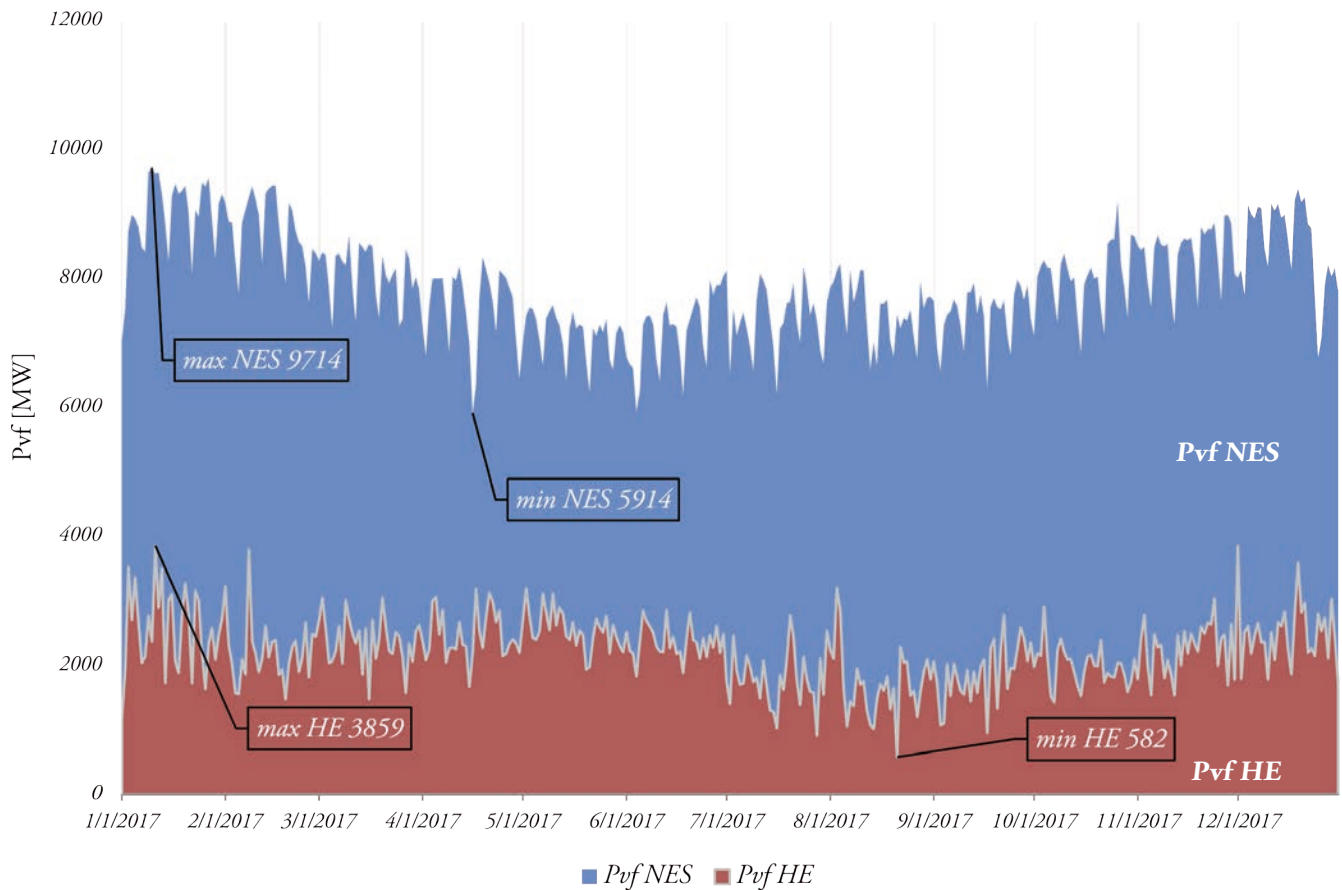
Compared to 2016, the operating power installed in the hydropower plants of Hidroelectrica recorded a decrease by the removal from the commercial operation license of HA6-Dimitrie Leonida HPP and an increase of 12 MW with the commissioning of Bretea HPP.

The 6,394,006 MW in operation were installed in 208 plants and pumping stations (of which MHPP and SHPP with powers of ≤ 4 MW were 72, HPP > 4 MW but ≤ 10 MW were 23, HPP > 10 MW were 108). The number of operating groups is 463 (out of which 156 groups in plants with an installed power of ≤ 4 MW, 46 groups in plants of > 4 MW but ≤ 10 MW, 250 groups in HPP > 10 MW) and 11 pumping groups.

For plants with an installed power of more than 4 MW, out of the total of 6,269.92 MW of power installed in 2017 (for which the PO-HE-DE-06 procedure was applied) there was a permanent average power reduction of 270.02 MW. This was due to the constructive deficiencies of the turbines or generators, the operating restrictions of the reservoirs, the load losses on the pipes, etc. This situation made the power available in the plants above 4 MW to be of 5,999.90 MW.

The average temporary power reductions available were 662.17 MW, for the following reasons:

- technical reasons 32.55 MW;
- hydrological reasons 82.00 MW;
- planned repairs 328.92 MW;
- occasional repairs 164.37 MW;
- other reasons 54.33 MW.

Participation of Hidroelectrica in covering the load peak of the NES in the year 2017

The internal consumption for production and conversion at the level of Hidroelectrica was 161,189 MWh, representing 1.15% of the gross production.

Accredited units for obtaining green certificates

In 2017 there were 17 plants (including those deferred from accreditation) accredited to receive green certificates.

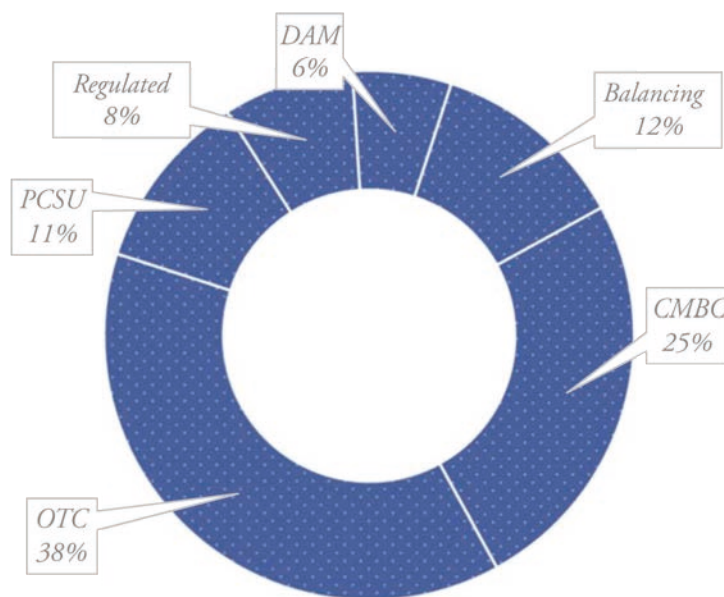
In the reporting year 2017, Hidroelectrica received a number of 95,718 green certificates, out of which 90,406 green certificates for trading and 5,312 deferred for trading. A power of 33,984.487 MWh benefited from green certificates.

7.2. Electricity trading/supplying activity

7.2.1. SALE OF ELECTRICITY ON OPCOM PLATFORMS

Structure of sales on the electricity markets in 2017	Income [LEI] 2017	Delivery quantities [MWh] 2017
Sold energy, out of which:	2,814,348,136.48	14,391,265.453
1. Competitive Market	2,700,935,820.40	13,259,413.964
2. Regulated Market	113,412,316.08	1,131,851.489
3. Ancillary services	361,773,579.21	7,222,500.000

During the year 2017, Hidroelectrica traded the amount of energy produced on the OPCOM markets in a transparent and competitive manner, with the following delivery structure:



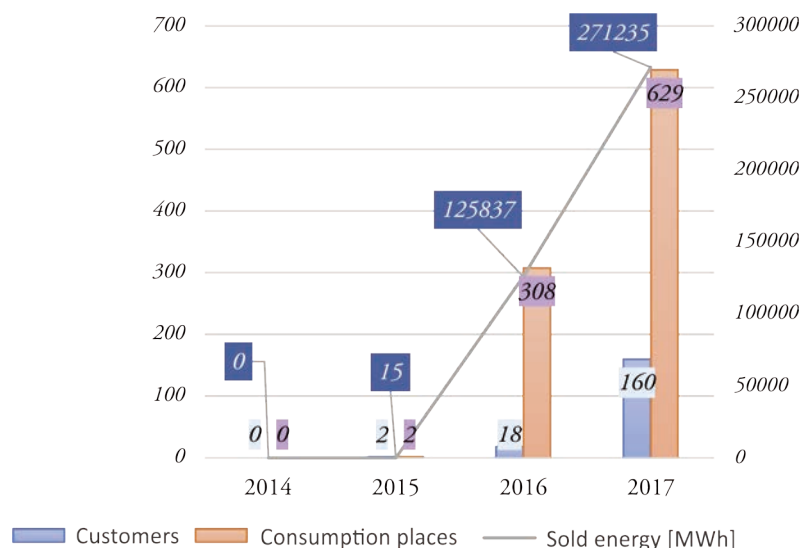
Market structure of energy sold by Hidroelectrica in 2017 (quantities)

7.2.2. SUPPLY SERVICE ACTIVITY

In 2017, green certificates were used to cover the obligation to the final customer amounting to LEI 8,378,315.

During this period, electricity supply agreements were concluded through the e-Auction electronic procurement system (SEAP) with the following contracting authorities:

- Metrorex S.A. – with the estimated contract value of LEI 49,783,313 excluding VAT;
- Regia Autonomă de Transport București - with the estimated contract value of LEI 33,934,873 excluding VAT;
- Compania de Transport Public Iași – with the estimated contract value of LEI 5,611,935 excluding VAT.



Also in 2017, the company started the procedure of registration with the General Customs Directorate for the exemption from excise duty, Hidroelectrica being registered in the special register at the level of the Authorization Office starting on June 6th, 2017.



7.3. Investment Activity

7.3.1 IMPLEMENTATION OF THE INVESTMENT BUDGET

Amounts budgeted and achieved in 2016 and 2017 on each major project are shown in the table below:

INDICATORS (thousand LEI)	Approved 2016	Achieved 2016
INVESTMENT EXPENDITURE, out of which:	642,473	182,113
execution of works	642,473	182,113
advance payments for newly concluded agreements	0	0
Investments in progress, out of which:	337,801	144,733
Hydropower Development of Siret river, on the Cosmesti-Movileni section	3,112	138
Hydropower Development Pascani on the Siret river	50	0
Hydropower Development Surduc-Siriu #	70,000	34,533
Hydropower Development Rastolita #	38,372	3,549
Hydropower Development Runcu Firiza	5,400	700
Development of the river Crisul Repede on the Alesd -Fughiu section	1,550	-4
Dambovita Clabucet HPP.	0	0
Hydropower Development of Strei river, on the Subcetate-Simeria section HPP Bretea #	44,156	16,302
Hydropower Development of the Olt river gorge on the Cornetu-Avrig # section	40,762	11,745
Complex Hydropower Development of the Olt river on the Fagaras-Hoghiz section	45	45
Hydro-technical and energetic complex Cerna-Motru-Tismana stage II.	150	14
Hydropower Development of the Jiu river on the Valea Sadului - Vădeni section	0	2
Hydropower Development of the Jiu river on the Livezeni - Bumbești #section	110,520	73,831
Hydro-technical and energetic complex Cerna-Motru-Tismana stage I.	150	0
New investments, out of which:	39,730	1,099
Implementation of the discharge channel over the sterile pit located in the Galceag river bed for safe passage of the flood flows	3,900	1,095
Investments in existing tangible assets (upgrades), out of which:	249,393	32,465
execution of works	249,393	32,465
advance payments for newly concluded agreements	0	0
Stejaru HPP Refurbishment	17,481	466
Beresti HPP HA 2 Upgrade	13,400	130
Refurbishment of Vidraru Hydropower Development	65,000	1,252
Upgrade of 20kV Nehoiasu HPP connection station	0	0
Upgrade of 110 kV station - Jidoaia Pumping Station	20	5
Upgrade of 110/20/6/0,4 kV station - Lotru downstream pumping station	20	5
Upgrade of 110/6/0,4 kV station - Petrimanu pumping station. Automation and monitoring	20	5
Upgrade of hydro unit no. 1 Călimănești HPP	10,000	0
advance		
Upgrade of 110 kV electrical stations HPP Olt Superior section	1,952	0
Slatina HPP. Upgrade of hydro unit no. 1	6,304	75
advance		
Rehabilitation works for existing HPP equipment	96,582	26,763
Equipment (other acquisitions of property, plant and equipment)	15,549	3,816

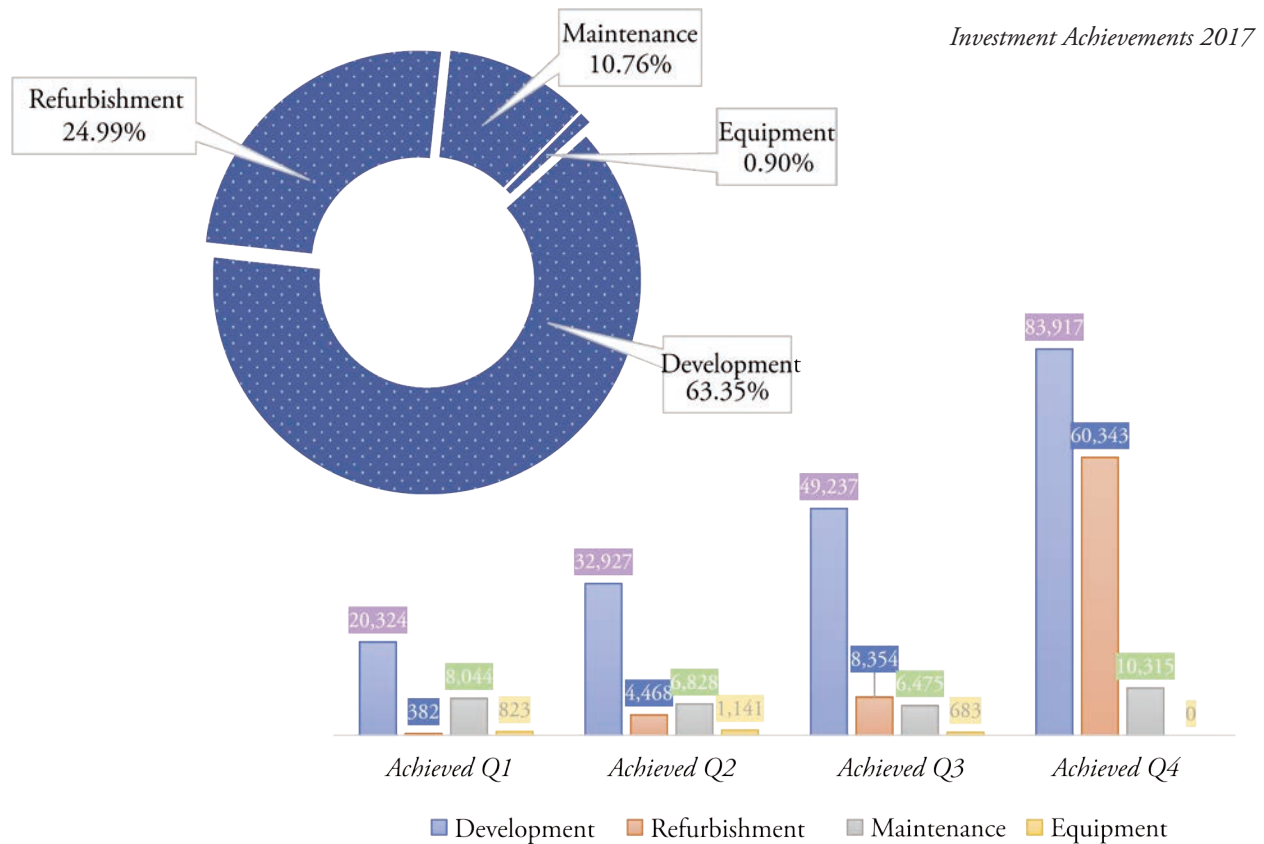
% Achievement	Allocated 2017	Achieved 2017	Savings	% Achievement
28.35%	472,392	273,051	21,211	62.29%
0	462,994	273,051	11,813	61.53%
0	9,398	0	9,398	0
42.85%	255,217	174,082	11,277	68.21%
4.43%	4,350	217	4,000	96.95%
0.00%	300	256		85.19%
49.33%	44,500	25,474	3,046	64.09%
9.25%	5,000	3,539	596	82.70%
12.96%	900	788		87.58%
-0.26%	110	106	4	100.00%
	140	120		85.56%
36.92%	30,000	14,736	3,519	60.85%
28.81%	25,000	3,753		15.01%
100.00%	255	236		92.67%
9.33%	300	82	31	37.53%
	252	236	16	99.85%
66.80%	120,000	123,208		102.67%
0.00%	100	40	60	100.00%
2.77%	6,780	1,046	0	15.43%
28.08%	3,100	1,046		33.74%
13.02%	107,690	63,613	9,934	68.29%
0	98,292	63,613	536	65.26%
0	9,398	0	9,398	
2.67%	60,000	54,636		91.06%
0.97%	12,000	5,712		47.60%
1.93%	800	368	432	100.00%
	35	20		55.71%
25.00%	20	10	10	100.00%
25.00%	50	8	42	100.00%
25.00%	50	9	41	100.00%
0.00%	2,802	2,802		100.00%
	4,198		4,198	
0.00%	20	9	11	100.00%
1.19%	800	0		0.00%
	5,200		5,200	
27.71%	77,194	31,662		41.02%
24.54%	25,511	2,647		10.38%

In 2017 investment works were achieved amounting to LEI 273,051 thousand, which represents a 50% increase compared to the achievements of 2016, namely LEI 182,113 thousand.

The achieved value of LEI 273,051 thousand has to also include the savings in the amount of LEI 21,211 thousand, achieved the negotiation of the contracts/works - LEI 11,813 thousand and the non-payment of the advance payments for the newly concluded contracts - LEI 9,398 thousand.

We note that the 2017 achievements had strong investment dynamics starting with the second half of the year, as shown in the table below, where the value of the achievements also includes savings.

Activity (th. LEI)	Allocated 2017	Achieved 12 months	Achieved Q1	Achieved Q2	Achieved Q3	Achieved Q4
Development	261,997	186,405	20,324	32,927	49,237	83,917
Refurbishment	107,690	73,547	382	4,468	8,354	60,343
Maintenance	77,194	31,662	8,044	6,828	6,475	10,315
Equipment	25,511	2,647	823	1,141	683	0
Total	472,392	294,261	29,573	45,364	64,749	117,711
%	100%	62.29%	6.26%	9.60%	13.71%	24.92%



7.3.2. THE DEVELOPMENT PROJECTS COMPLETED AND PUT INTO OPERATION IN 2017 ARE AS FOLLOWS:

HBr/HPP	Project name	Fixed asset value [LEI]
Bistrița	Hydropower Development of the Siret river in the Cosmești-Movileni section. Movileni HPP of the DMS Ismail Pumping Station. Electrical part. Usage facility.	221,704.89
Buzău	Măneciu Hydropower Development – Vălenii de Munte on the Teleajen river. Consolidation of the slope between the Valve House and the Equilibrium Reservoir Măneciu HPP	397,774.38

Hașeg	“Hydropower Development of the Strei river on the Subcetate section - Simeria. Bretea HPP” C+I works executed at the Plant + Derivations + 110 kV Station	117,400,501.83
Hașeg	“Hydropower Development of the Strei river on the Subcetate section - Simeria. Bretea HPP” Installation works for equipment and technological installations at Bretea HPP.	63,175,655.82



Târgu Jiu	Hydro-technical and energetic complex Cerna-Motru-Tismana stage II. Bistricioara catching route	1,240,492.48
Târgu Jiu	Hydro-technical and energetic complex Cerna-Motru-Tismana stage II. Access road to valve house in Bistrița catching.	155,581.36
Târgu Jiu	Hydro-technical and energetic complex Cerna-Motru-Tismana stage II. Access road for the Bistrița - Tismana adduction access gallery.	1,315,248.32
Total		183,906,959.08

7.3.3. STATUS OF COMPLEX USE INVESTMENT OBJECTIVES

Investments with complex functions are represented by historical investment objectives regarding hydropower development schemes with social functions (described below) that have been approached since the design concept as having only a secondary energy function.

These investment objectives mainly include complex functions of rational and safe water management, including:

- Mitigation of floods;
- Protection of the population, localities and agricultural lands;
- Water supply to riverine settlements;
- Ensuring the water reserve for the supply to the population and industry;
- Ensuring the flow for irrigation during periods of drought;
- Retention of solid flow in the dead volume of the accumulation.
- Other social functions.

It should be emphasized that the “historical” hydro-energetic projects were initiated mainly during the period 1982-1989, following a succession of State Council Decrees and the financing was made with public money through the ministries involved, the investment holders. After 1989, some of these projects were carried out by Apele Romane, financed from budgetary funds, until Hidroelectrica took over. With regard to these projects, the company's management continued to preserve, guard and secure these investment objectives in 2017 as well, until the adoption of a decision regarding their continuation / optimization / abandonment.

In 2017, ISPH PD contracted services to estimate the costs of abandonment, preservation, and securing the works performed on investments with complex functions, in accordance with the provisions of the Supervisory Board's decisions issued in 2016.

Upon completion of the TEC approval at the level of Branches and the Executive level of Hidroelectrica with regard to these studies, the data provided (estimated values for abandonment, respectively preservation and securing) were taken over by the Work Commission appointed by Decision no. 1421/2017 for carrying out financial analyses and economic calculations of profitability and efficiency for each investment with complex functions. The results and conclusions of these analyses were presented by the Work Commission to the management of Hidroelectrica. The process of evaluating the alternatives for these investment objectives is on-going (continuation, in cooperation with entities that benefit from the complex functions, respectively abandonment), and a decision shall be made at the completion of this stage.

7.3.4. LAND MANAGEMENT ACTIVITY

The status of the Certificates of ownership over the land acquired during 2001 ÷ 2017 is shown in the following table:

Branch/Plant	Issued certificates		Area (ha)	
	2001÷2017	out of which 2017	2001÷2017	out of which 2017
Bistrița	49	8	891.07	9.93
Buzău	43	-	315.02	-
Caransebeș	21	-	52.24	-
Cluj	49	-	86.64	-
Curtea de Argeș	105	-	346.97	-
Hateg	48	-	69.04	-
Oradea	42	-	254.79	-
Portile de Fier	27	-	21.65	-
Ramnicu Valcea	125	-	50.62	-
Sibiu	36	-	26.65	-

Branch/Plant	Issued certificates		Area (ha)	
Sebes	33	-	24.30	-
Slatina	23	-	114.40	-
Târgu Jiu	41	-	180.76	-
TOTAL	642	8	2,434.15	9.93

Obtaining all Ownership Certificates and increasing the share capital with the part of the ROMANIAN STATE is also one of the measures ordered by the Court of Auditors since 2011 and is closely monitored by the Hidroelectrica management. The continuation of the activity for obtaining the Certificates of ownership over the land managed by Hidroelectrica, as well as for the micro-hydropower plants taken over by Government Decision no.554/2002 and Government Decision no.1016/2002. We mention that on December 31st, 2017 for 162 premises with a total area of 132.46 ha, under the management of Hidroelectrica, Ownership Certificates have to be obtained, in order to accomplish the task of completing the action for obtaining the Ownership Certificate ordered by Decisions No. 11/29.09.2011 and letter 40892/06.02.2017 by the Romanian Court of Auditors.

Promotion of the necessary documentation for the issuance of normative acts in order to obtain the lands needed to finalize the works for the following investment objectives:

- Răstolița Hydropower Development;
- Hydropower Development of the Olt river, gorge on the Cornet ÷ Avrig section;
- Hydropower Development of the Strei river on the Subcetate÷ Simeria section;
- Hydropower Development of Surduc – Siriu etc.

The approval by the Ministry of Energy of the activity of registering in the Land Register the state's public ownership right over the goods which are the public property of the state, in the field of electricity production in plants and the land on which they are located, concessioned by Hidroelectrica as well as the approval of the funds needed for this activity. After obtaining the approval from the Ministry of Energy, the cadastral documentation for each building (dam, dike, reservoir, lock, etc.) will be drawn up in accordance with the ANCPI Regulation in force and the inventory of the legal documents on the basis of which the land was acquired (Expropriation Decrees, Transmission Orders, Decisions of the County Councils, GDs, Concession Agreement, etc.).

We would like to mention that Hidroelectrica is authorized by ANCPI to execute, for its own use, specialized works in the field of geodesy and cartography cadastre, in class S, certificate series RO – B – J, nr.135/10.06.2011.

Increase of the share capital with the equivalent value of the land for which the Ownership Certificates were issued.

The decision of the EGMS no. 26 of December 5th, 2017 approved the increase in the share capital of the company by the amount of LEI 594,560 by contribution in kind representing the value of 8 plots of land for which ownership titles were obtained on June 28th, 2017. At present, other documentations are being prepared for approval in order to obtain the land ownership certificates.

7.4. Maintenance

The maintenance activity within Hidroelectrica is the main support for the safe operation of the hydropower facilities. The importance of this activity lies in the following features:

- it maintains hydropower facilities under safe operating conditions;
- it recommissions damaged or malfunctioning installations;
- it increases the technical performance of the equipment;
- it provides occupational health and safety conditions for the operating staff;
- it eliminates risk factors for the environment and civil society;
- it ensures the observance of legal requirements.

The main service provider for the maintenance of hydro units is the 100% owned subsidiary – Hidroserv S.A.

Based on framework agreements and subsequent agreements to these, Hidroelectrica agreed with S.S.H. Hidroserv S.A. service and works programs in accordance with the real needs of the company and the possibility of “maintaining the electricity production groups in operation at the rated operating parameters, in safe conditions and at the highest possible availability of existing production capacities”.

The contracted works were and are identified based on Hidroelectrica's need for maintenance, established in the annual schedules and updated by the monthly schedules agreed between the Hidroelectrica branches and S.S.H. Hidroserv S.A. We also mention that Hidroelectrica is obliged to maintain the costs generated by the services and works provided by S.S.H. Hidroserv S.A., under the conditions of use and management of the financial resources of the company in accordance with the principles of “economy, efficiency and effectiveness”.

7.4.1. ACHIEVEMENT OF THE PHYSICAL MAINTENANCE SCHEDULE

In 2017, maintenance works were scheduled at the hydropower units for an average annual capacity of 193.83 MW, achieving an average power of 192.69 MW. From a physical standpoint, 95 maintenance works were scheduled for the hydro units, out of which 71 LN2, 21 LN3, 1 LN4, 2 CIV, and in the year 2017 a number of 77 maintenance works were performed, out of which 62 LN2, 14 LN3, 1 CIV. A number of 5 works (2 LN2, 3 LN3) were continued and were completed in 2017. There were also 216 TPs (technological stops) of hydro units, amounting to an average annual power of 42.76 MW, for the execution of works on equipment and constructions functionally linked to them.



Following the difficulties encountered by this company in carrying out the maintenance works, the management of Hidroelectrica took a series of measures to monitor and support Hidroserv's activity in order to remedy the failures and carry out the maintenance works of the 2017 maintenance schedule. Among these measures we can list the following:

- Daily monitoring of the status of malfunctions and the method for their remedy;
- Granting advance payments for works in accordance with the contractual provisions using several advance payment mechanisms: Advance payment invoice for materials and spare parts, payable to Hidroserv or payable directly to the supplier based on a protocol concluded with S.S.H. Hidroserv.
- Purchase by Hidroelectrica of the spare parts and materials necessary for the repair of some malfunctions and completion of maintenance works for which S.S.H. Hidroserv could not provide the material basis. Protocol-based regulation of how materials and parts will be acquired by Hidroelectrica and made available to Hidroserv.

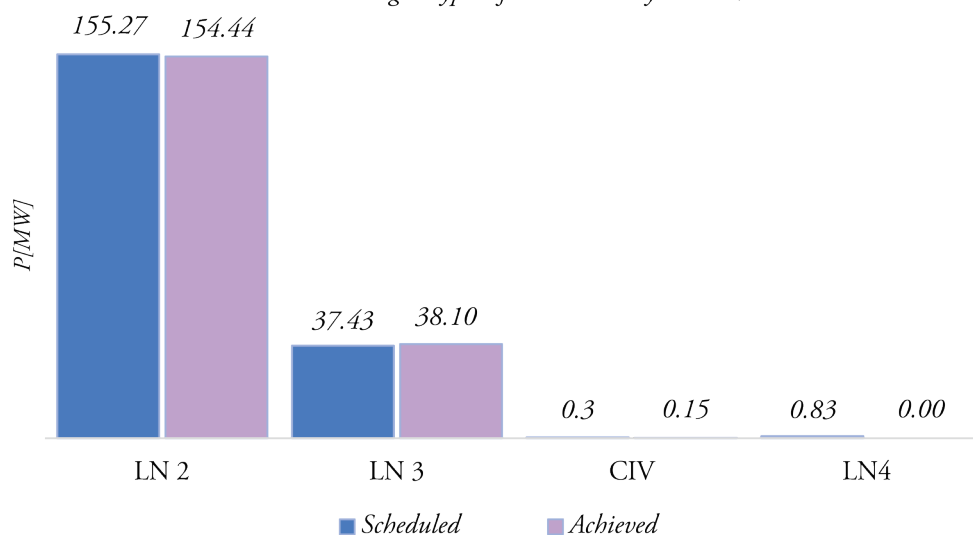
At a number of 23 hydro units, the duration of stopping for maintenance works exceeded the stop period foreseen in the annual maintenance schedule. This was due to the execution of additional works found to be necessary after the equipment was dismantled, and delays in the delivery of equipment by third party contractors. Exceeding the durations of stopping for maintenance works was mainly due to the fact that after the dismantling of the hydro-unit parts and the finding of malfunctions, it was necessary to perform additional dismantling and repairing and in some cases to transport the equipment to the supplier (UCM Reșița) for remedy.

Hydrotechnical constructions represent an important category of assets, the functionality of which is a safe condition in the operation of hydropower facilities. During the year 2017 maintenance and intervention works were carried out, amounting to LEI 7,338,067.04 (about 6.5% of the total).

Synthesis of the physical performance of the maintenance schedule on hydro units in 2017

	Scheduled					Achieved					
	LN2	LN3	LN4	CIV	Total	LN2	LN3	LN4	CIV	Total	%
Average power in maintenance (MW)	155.27	37.43	13.7	0.3	193.83	154.44	38.1	0	0.15	192.69	99
No. of maintenance works	71	21	1	2	95	62	14	0	1	77	81

Synthesis of the physical performance of the maintenance schedule according to types of works in the year 2017



7.4.2. ACHIEVEMENT OF THE VALUE MAINTENANCE SCHEDULE

At the end of 2017, Hidroelectrica's income and expenditure budget, for the maintenance works at the basic hydro units, constructions, PRAM-MCD electrical installations, hoisting and transport machinery, provided for the total amount of LEI 190,000,000, and a total amount of LEI 113,573,377.98 was achieved, of which LEI 5,678,616.05 for level 4 maintenance works. The value of construction works was LEI 7,338,067.04.

The low percentage of value achievement of the maintenance schedule in 2017 was mainly due to the problems encountered by S.S.H. Hidroserv in the preparation of contracted maintenance works (provision of the material basis). Works worth 25.7 million contracted with S.S.H Hidroserv were not carried out in 2017 and were further included in the maintenance schedule for 2018.

Synthesis of value achievements according to maintenance funds - 2017

Hydro Branch/Plant (LEI)	Scheduled 2017	Achieved 2017		
		Total of which:	LN 4	LN1, LN2, LN3, MC, LC
HB Porțile de Fier	43,668,079	22,304,277	245,414	22,058,863
HB Hațeg	20,512,065	10,851,848	206,984	10,644,864
HB Bistrița	23,645,591	12,885,228	730,336	12,154,892
HB Curtea de Argeș	31,671,714	19,840,972		19,840,972
HB Cluj	16,100,000	11,040,240	6,468	11,033,772
HB Sebeș	16,956,308	13,393,794	47,932	13,345,862
HB Rm. Vâlcea	32,795,100	23,248,709	4,441,482	18,807,227
Executive	4,651,143	8,310		8,310
Total	190,000,000	113,573,378	5,678,616	107,894,762

We mention that the works strictly necessary for ensuring the availability and the safe operation of the hydro-units and their auxiliary installations, works of type LN1, LN2 and MC were performed, amounting to LEI 78,167,345.



7.4.3. CBTH ACTIVITY AND CONSTRUCTION MAINTENANCE

Status of hydrotechnical constructions examination

At present, all facilities of Hidroelectrica have undergone the first cycle of examination in accordance with the provisions of Law 466/2001 and the normative acts subject to this Law, and for most of the works, the second cycle of authorization has been undertaken.

The performance of the examination of dams confirmed the safety status of works old enough for the time factor to have influence. Where appropriate, the experts indicated the measures and actions required to improve the surveillance activity or measures to improve their operation.

State of constructions and electro-hydraulic equipment (EHEM) for the evacuation of large waters

The constructions managed by Hidroelectrica had a normal behaviour in terms of the parameters measured by the measuring and control devices and the visual observations made by the CBT specialist teams, which allowed for operation under normal conditions.

The status of MCDs

A total of approximately 32,348 MCDs are installed to monitor the state of the constructions, of which 17,355 MCDs with manual reading. There are 20 automatic CBT parameters acquisition stations and 3 seismic monitoring stations in operation.

The equipment of constructions with MCD is heterogeneous, consisting mainly of appliances from the period of the commissioning of the works (approximately 70% of works have exceeded 20 years since commissioning).

The rehabilitation of the MCD systems is a priority for Hidroelectrica. Up to the present, rehabilitation works for the MCD systems for Vidraru and Izvorul Muntelui dams have been carried out and rehabilitation works for the MCD systems of the Cerna, Vădeni and Târgu Jiu dams are in progress.

Centralizing and interpreting data from CBT measurements within the CBTH-net application database

In 2018, the activity of completing the centralized electronic database by using the CBTH-NET application continued. Data acquisition is mainly done by manual input, except for the works for which automatic CBT parameters acquisition stations are in operation.

The data are uploaded weekly based on the measurements performed by the CBTH laboratories within the Hydropower Plant Branches, in accordance with the special tracking projects.

From the processing of the measurements it results that the construction part of the production assets shows a behaviour that falls within the normal development limits indicated by the behaviour functions prescribed by the designer.

EHEM behavior for large water dischargers

In 2018 hydromechanical equipment for large water dischargers had a normal behaviour, which allowed for the safe transit of access flows and large waters (where necessary). This has also been confirmed by the EHEM technical reports.

8

CORPORATE BUSINESS AND STRATEGY

The main objective of Hidroelectrica is the development of a sustainable energy system, in this regard focusing on achieving its strategic objectives, outlined in such a way as to fully make use of the opportunities for progress and ensure long-term corporate success.

The objectives of this development strategy of the company reflect the needs of the national economy related to the provision of resources, safety and energy efficiency and respect for the principles of sustainable development, being closely related to the achievement of the objectives of the European Union.

Also, Hidroelectrica's strategic objectives are aligned with the company's mission and values, with each direction of action focusing on increasing the company's performance and strengthening its leadership position on the Romanian energy market, with the prospect of becoming a regional leader in renewable energy generation.

8.1. *Strategic activity and institutional relations*

In 2017, the strategic activity and institutional relations focused mainly on the following directions of action:

- Developing the investment strategy, which implied a permanent analysis of the context in which the company carries out its business, the identification of strategic options and the evaluation of the best options;
- Identifying the medium and long-term goals of the company and the urgent directions of action to take for their achievement in order to strengthen the company's strategy;
- Developing relations with state institutions: Romanian Government, Ministry of Energy, etc.;
- Informing shareholders about the company's projects and developments;
- Carrying out documentation and analysis activities, materialized in the summaries, presentations and reports requested by or made available to shareholders, Hidroelectrica management, employees or other stakeholders;
- Maintaining the relationship with potential investors interested in the opportunity to buy micro-hydropower plants, as well as with the companies that have purchased micro-hydropower plants over time;
- Monitoring the fulfillment of contractual conditions for the post-privatization of micro-hydropower plants.

8.2. *Corporate business activity*

- The development of the investment strategy implied the initiation of the strategic actions regarding the achievement or acquisition of new energy production capacities from hydropower sources (thermoelectric, wind, solar, biomass and other renewable sources) and the analysis of the opportunity of approaching new fields of economic and industrial activity;
- Performing a market study to identify and evaluate the development opportunities of Hidroelectrica in Romania and in the region in the field of electricity, as well as in other areas for Hidroelectrica. The study mainly deals with the opportunities in Romania but also has a regional perspective by including the following countries: Hungary, Bulgaria and Serbia.
- Promoting and identifying opportunities to access funding from European / Norwegian funds / etc. for priority projects of the company.

8.3 *Activities regarding International Relations, the Relation with Investors, Representation and IPO*

8.3.1. INTERNATIONAL RELATIONS ACTIVITY

The international relations activity focused on initiating, developing and strengthening international cooperation relations with external partners.

Successful representation and participation in the specific activities within the organizations and professional associations in which it is a member is a permanent concern of the company.

8.3.2. REPRESENTATION OF HIDROELECTRICA AT RELEVANT INTERNATIONAL EVENTS

In 2017 there were several international events, in which Hidroelectrica was successfully represented, of which we mention: "CIS&CEE Capital Markets Day", UK, London - 26-28th March 2017, "Concorde Securities Chain Bridge", Hungary, Budapest - 5-6th April 2017, "Romania Investor Day", USA, New York - 18-21st April 2017, "Berengbank Conference", UK, London - 17-19th May 2017, "Industrial Eurelectric - Project of energy unions", Czech Republic, Prague - 17-19th May 2017, "SAP Forum Slovakia". Slovakia, Bratislava - 25-26th May 2017, "The sixth annual conference Romanian Energy Day 2017", "SAP Forum Slovakia", "Ministerial Conference and the eight International Forum on Energy for Sustainable Development", Kazakhstan, Astana - 10-15th June 2017, "Bilateral meeting with the Bulgarian Ministry of Energy", Bulgaria, Sofia - 5th September 2017, "HYDRO 2017 International Conference", Spain, Sevilla - 8-14th October 2017, "High Level Conference - Making the energy transition for new jobs, economy growth and investment", Belgium, Bruxelles - 6-8th November 2017, "International Summit and Hydropower Balkans 2017 Exhibition". Montenegro, Podgorica - 14-18th November 2017, "SCOM&THEMATIC Meeting within the Danube Sediment Project", Germany, Munich - 20-23th November 2017, "2017 The European Power Strategy & Systems Summit", Austria, Vienna - 27-30th November 2017, "International Conference - The European CIO Conference 2017 - How to stay ahead of the digital transformation curve", Germany, Wiesbaden - 28-30th November 2017, "POWER-GEN International Conference 2017", United States of America, Las Vegas - 4-9th December 2017, as well as international arbitrations, receptions and tests in accordance with the existing agreements.

8.3.3. ACTIVITIES RELATED TO THE HIDROELECTRICA LISTING PROCESS

The activities related to the Hidroelectrica listing process consisted, in 2017, mainly of:

- One-year extension of the Letter of Engagement concluded with the consortium represented by Raiffeisen Bank and Morgan Stanley in connection with the primary public offering of shares for the offering for subscription of a newly issued share package representing 15% of the previously existing share capital and the admission to trading of shares of Hidroelectrica on a regulated market managed by the Bucharest Stock Exchange;
- Developing the relationship with the legal consultant Dentons Europe - Todor and Associates SPARL to ensure a collaborative relationship in accordance with the Intermediation Trade Union;
- The signing on August 31st, 2017 of the Addendum no. 2 to the agreement with Horvath & Partners Management Consulting S.R.L. concerning the extension by one year of the insurance agreement regarding the "Financial consulting services for the preparation of a business plan based on a financial pattern, in connection with the launch of a primary public offer for sale of shares of Hidroelectrica S.A. and their admission to a regulated market for the purpose of attracting capital resources", a period during which the consultant will update both the document corresponding to the Business Plan and the related financial pattern with data and information valid at the date of the update, in line with the current leadership view of the management;
- Providing the requested information and data to the Ministry of Energy, to the Intermediation Trade Union and to the other consultants;
- Participating in meetings with the representatives of the Intermediation Consortium and the Deloitte Audit auditor;
- Preparation of weekly meetings with representatives of the Morgan Stanley & Raiffeisen Intermediation Consortium, of the shareholders and of the international legal advisor on the up-to-date status of the activities required for the listing process, as well as providing support and facilitating dialogue, and monitoring and follow-up regarding the various issues to be solved, such as solving the issue of the complex assets, assessing the land to be included in the capital increase, etc.

In 2017, the assumed objective was to develop new, high value-added activities and projects for the company to ensure its sustainable growth and continued brand strengthening.

8.4. Communication, PR and CSR Service



In 2017, the communication, PR and CSR activity was highlighted by:

Participation / partnerships in conferences and seminars relevant to the Romanian and / or international energy field, such as:

- The 6th edition of the summit in the field of energy - ZF Power Summit, organized by Ziarul Financiar between February 20-21st, 2017;
- The conference "Romania Investor Days" organized by Fondul Proprietatea in partnership with WOOD & Company, during 1-2nd March 2017;
- The Career Conference in the Energy Industry - 10-12th May 2017, event organized by SIER in partnership with the Faculty of Energetics of the Polytechnic University of Bucharest;
- The conference themed "R-evolution in Energy. Decisions for the Future" organized by the InvestTenergy publication - May 11th, 2017;
- The conference "PROFIT ENERGY Forum" - May 15th, 2017 (publication Profit.ro);
- The Energy Excellence Awards Gala - Romanian Energy Awards 2017 - May 25th, 2017 (award „Energy Company of the Year”);
- Energy Strategy Summit - June 15th, 2017, event organized by Wing Media Energy Consulting, the administrator of Energynomics.ro Magazine and of the Energynomics website;
- The conference "The Performance of Power Plants. Availability of Power Plants vs. their Efficiency", organized by CNR-CME - August 24th, 2017;



- The 5th edition of the “Plugged-in Power” conference - September 7th, 2017 (Bursa Press Group);
- The debate “Energy for the Future”, organized by Capital magazine - October 12th, 2017;
- Trade Winds 2017 - Southeast Europe - 18-20th October 2017;
- Conference on Energy and Environment (CIEM) - 19-20 October 2017;
- Gala of Awards granted by the Bucharest Chamber of Commerce and Industry (CCIB) - October 24th, 2017 (1st place in the Top Companies of Bucharest in the category Very Large Enterprises, as well as the special prize for the most spectacular business come-back and the highest profit obtained among companies in Eastern Europe);
- National Conference and Energy Exhibition - CNEE 2017, organized by SIER - 25-27th October 2017;
- Conference themed “What is Romania's Real Capacity of Electricity Production?” - November 2nd, 2017 (Energy Center publication together with Legal Magazine);
- Gala of the National Top of Companies, Edition XXIV - November 9th, 2017 (First Place in the 2017 National Top of Companies, Industry field, Electricity Production Group, Very Large Enterprises Category, and a Business Excellence Award for the highest profit recorded in 2016);
- The first edition of the CDCEP 16 + 1 Fair and Conference, organized by the Romanian Energy Center (REC) - 8-10th November 2017;
- The BURSA 2017 Gala, with the theme “The European Decade of the Romanian Centenary” - November 21st, 2017 (the Award for Special Financial Results in 2017);
- The Ziarul Financiar Gala, the Most Valuable 10 Companies in the Economy - November 23rd, 2017 (Hidroelectrica ranked first for the second consecutive year, being valued at EUR 3.57 billion, an increase by 25% since 2016);
- The 5th edition of the Energynomics.ro Awards 2017 - December 7th, 2017;
- Christmas Charity Cup 2017 - December 16th, 2017.

HUMAN RESOURCES

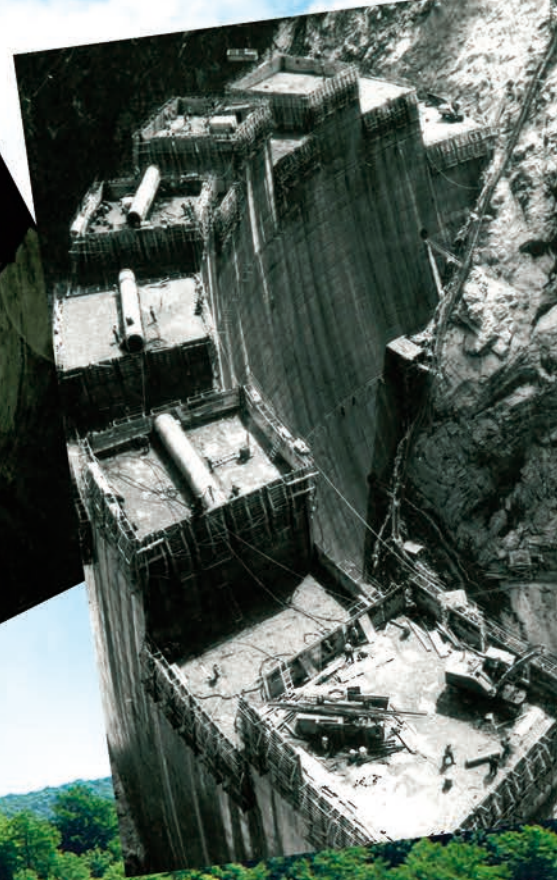
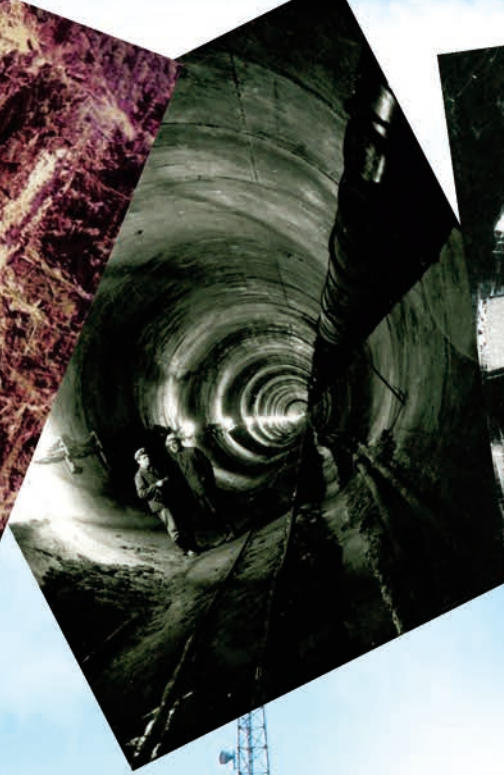
For the year 2017, the average number of staff in the IEB was set at 3,335 and the staff at the end of the year consisted of 3,321 employees.

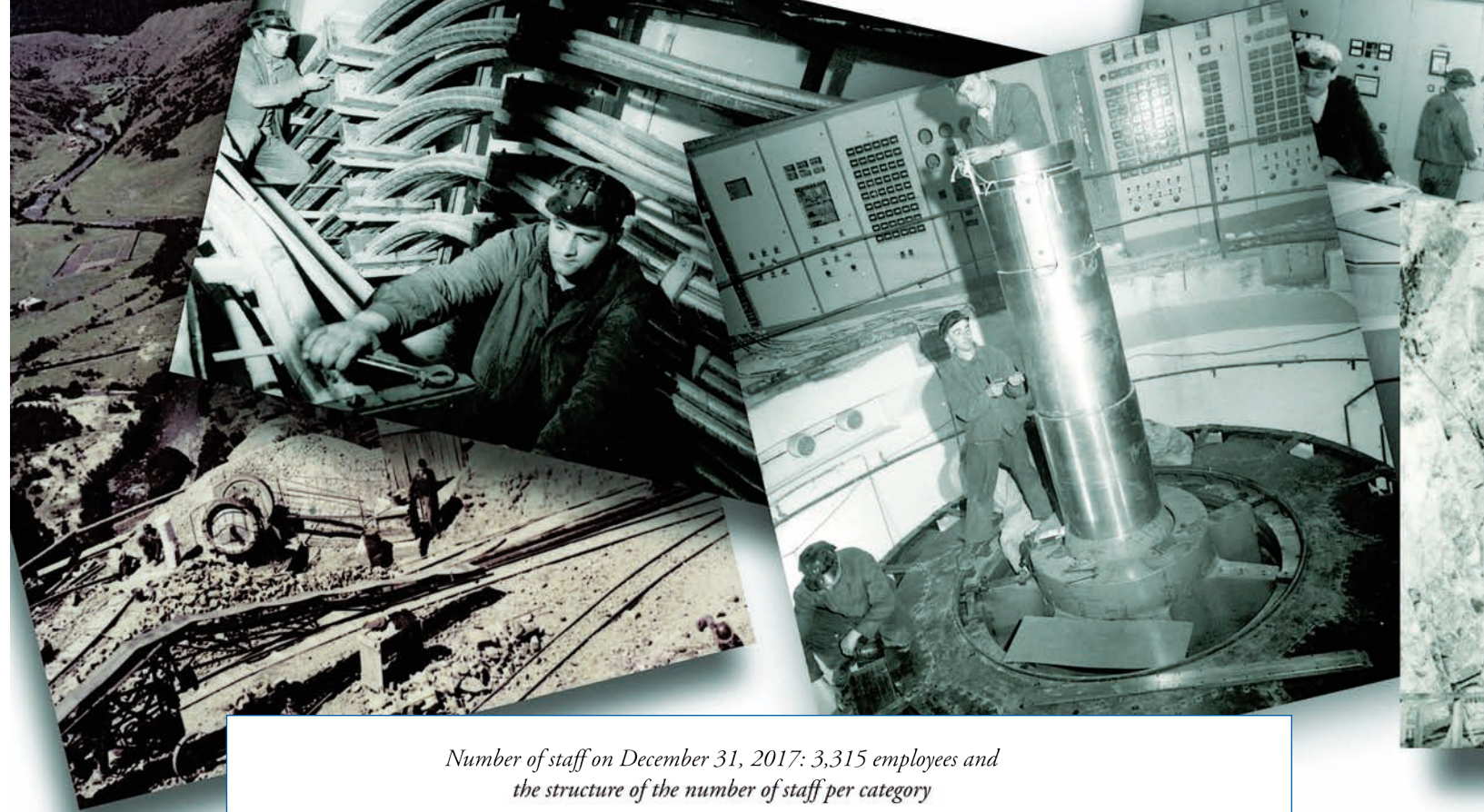
Staff development in 2017

On December 31st, 2017, the actual number of employees was 3,297, plus 18 suspended agreements for various reasons (a total of 3,314 full-time and 1 part-time).

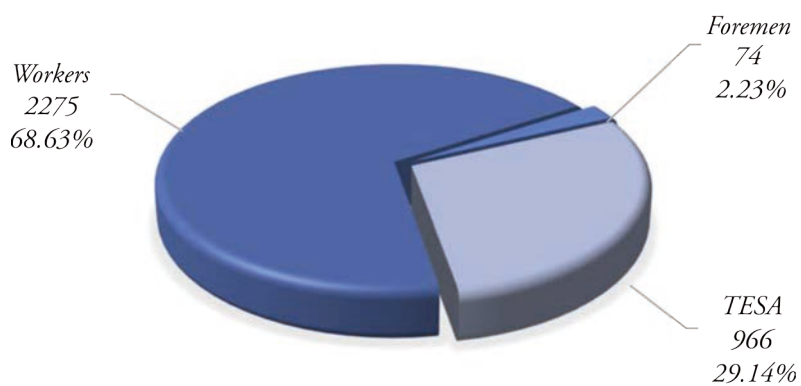
Hidroelectrica operates the hydropower potential with operational staff organized in a continuous shift schedule. In addition to this category of staff, the company employs technical, economic and administrative staff (TESA) and foremen.



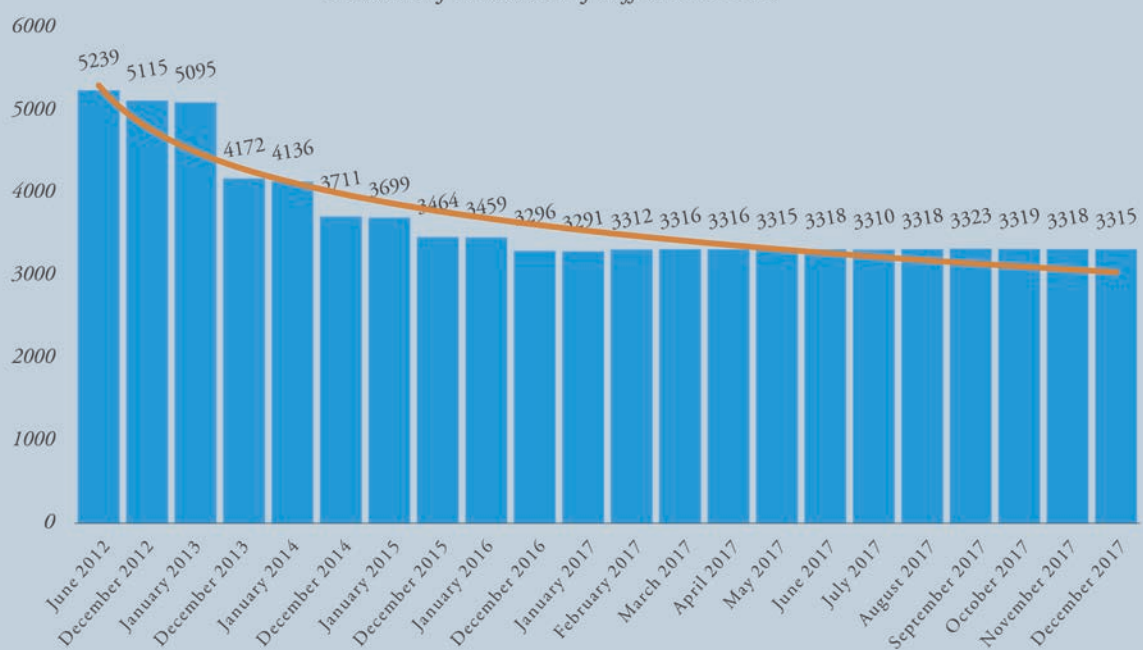




Number of staff on December 31, 2017: 3,315 employees and the structure of the number of staff per category



Evolution of the number of staff in 2012-2017





During 2012-2017, the evolution of the company's staff experienced a sharp decline, currently reaching 3,315, as shown in the graph below. Thus, the number of staff on June 20, 2012 (5,239 employees) decreased by 36.72% until December 31st, 2017, reaching a number of 3,315 (actual number of staff 3,297, 18 suspended individual labour agreements).

The monthly evolution of the number of staff in 2017, for the branches and the executive headquarters is shown below:

Hydro Branch	31.01. 2017	28.02. 2017	31.03. 2017	30.04. 2017	31.05. 2017	30.06. 2017	31.07. 2017	31.08. 2017	30.09. 2017	31.10. 2017	30.11. 2017	30.12. 2017
HB BISTRITA	404	402	403	400	402	402	402	403	403	401	407	404
HB CLUJ	350	352	347	348	351	350	349	349	349	348	347	347
HB CURTEA DE ARGES	617	623	623	622	622	623	620	621	621	620	621	624
HB HATEG	369	371	370	371	375	375	376	376	374	377	377	377
HB PORTILE DE FIER	431	431	434	433	432	431	429	427	429	429	423	423
HB RAMNICU VÂLCEA	508	516	523	523	521	521	521	519	521	520	517	520
HB SEBEŞ	343	351	349	348	347	349	347	350	350	348	351	348
EXECUTIVE	269	266	267	271	265	267	266	273	276	276	275	272
TOTAL EMPLOYEES (actual number + suspended ILAs)	3291	3312	3316	3316	3315	3318	3310	3318	3323	3319	3318	3315
Actual staff number	3266	3283	3288	3288	3289	3301	3292	3301	3303	3299	3300	3297

Leaving for natural reasons::

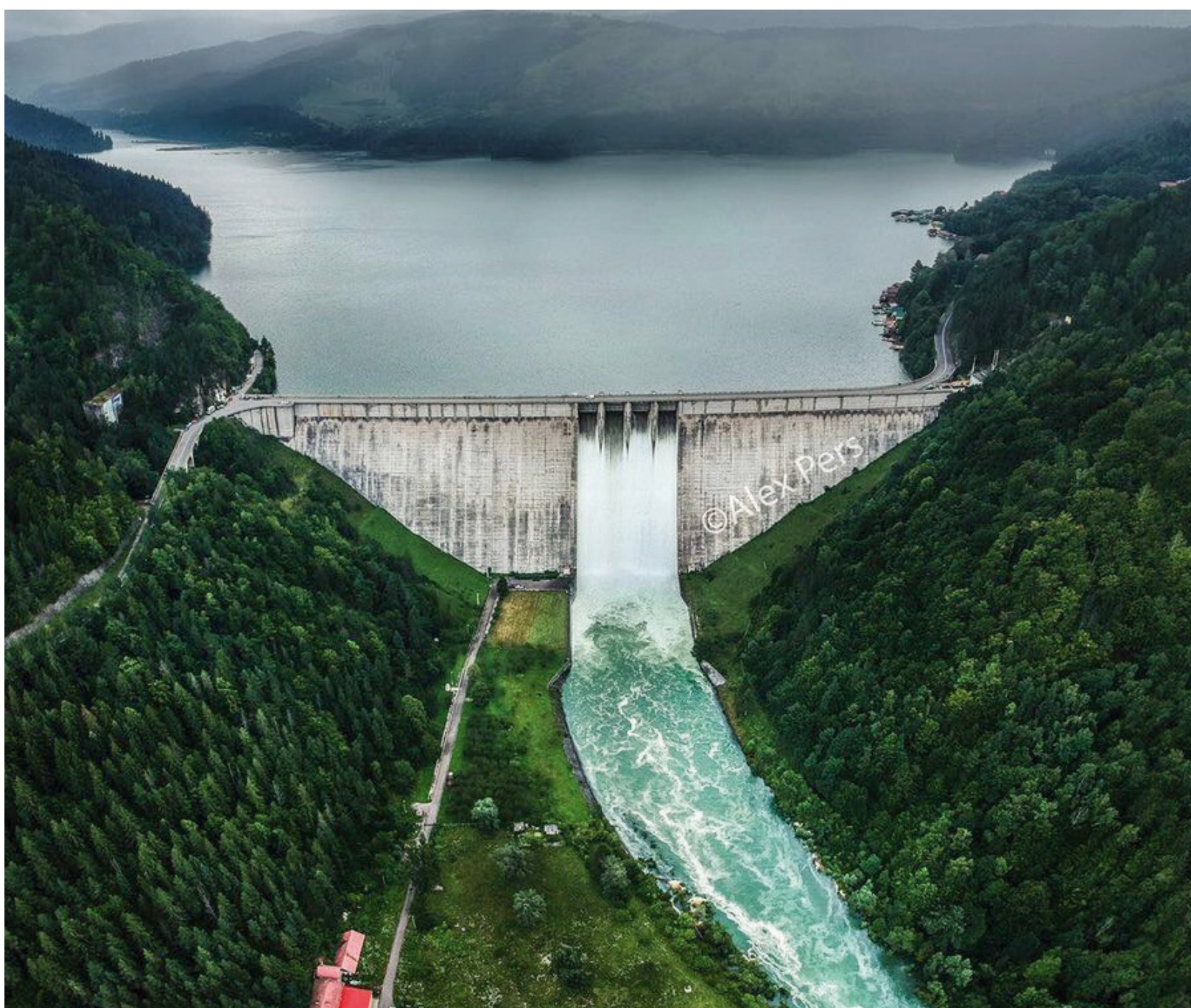
1,452 employees (retirements due to reaching the age limit, early and partial early retirements, retirements due to disability, leaving with the agreement of the parties, resignation, death, transfer, etc.). Of the total, 87 were departures by company transfer until December 31st, 2017. In 2017 there were 140 departures from the organization.

Reasons for leaving the organization	number of employees						Total
	2012	2013	2014	2015	2016	2017	
Resignation	0	8	8	10	8	5	39
Death	5	11	17	9	14	16	72
Not remaining employed at the end of the probation period	0	0	6	10	0	0	16
Rightful termination - authorization withdrawal	0	0	0	1	0	0	1
Early retirement	10	27	33	2	0	1	73
Partial early retirement	14	61	87	24	19	21	226
Retirement due to reaching the age limit	24	162	190	18	47	44	485
Disability retirement	0	12	6	4	8	2	32
Agreement of the parties	34	39	29	18	12	23	155
Agreement of the parties (voluntary redundancy)	0	0	0	101	100	7	208
Company transfer	0	9	55	17	6	0	87
Termination of fixed-term ILA	8	6	2	4	1	11	32
Disciplinary dismissal	5	0	5	2	2	0	14
Dismissal (with notice)	0	0	0	2	0	0	2
Dismissal due to physical unfitness						2	2
Individual dismissal						8	8
TOTAL 1	100	335	438	222	217	140	1452
Voluntary departures of reinstated employees							49
GENERAL TOTAL							1501



Wage fund achieved in the year 2017 (LEI)

IEB Capital	IEB Capital name	IEB 2017	ACHIEVED WAGE FUND JANUARY - DECEMBER 2017	Achieved %
C0=C1+C2	PAYROLL EXPENDITURE	253,385,024	237,227,655	93.62%
C1	Expenditure on salaries	240,026,918	228,366,172	95.14%
C.2	Bonuses	13,358,106	8,861,483	66.34%
C.3	Other expenditure on staff	16,400,000	5,113,420	31.18%
C.4	Expenditure relating to the mandate agreement and other management and control bodies, committees and commissions	1,490,912	1,575,016	105.64%
C.5	Expenditure on social insurance and social security, special funds and other legal obligations		55,553,685	
C	EXPENDITURE ON STAFF (C=C0+C3+C4+C5)		299,469,777	



Negotiations with the Trade Union “Hidroelectrica Hidrosind”

Throughout the year 2017 meetings within the Administration-Trade Union Joint Commission took place with the view of identifying the inequity in wages and the solutions for eliminating them, for the employees who work on the same positions, in the same power plant or in similar power plants and who are remunerated differently, as it was agreed under the article 4.37 from the Collective Labour Contract in force in 2017. The company's Management Board approved that the power plants operational staff be promoted starting from September 15th 2017.

In August 2017 the collective negotiation for the year 2018 started, including the negotiation of a new wage system, based on the principles of both intern and extern equity and on the employees' contribution. The implementation of such a system supposed that all the positions from the organization be assessed according to the Mercer methodology that is structured on five factors: impact, communication, innovation, knowledge and risk. The wage system negotiated with the trade union will be applied starting from January 1st 2018.

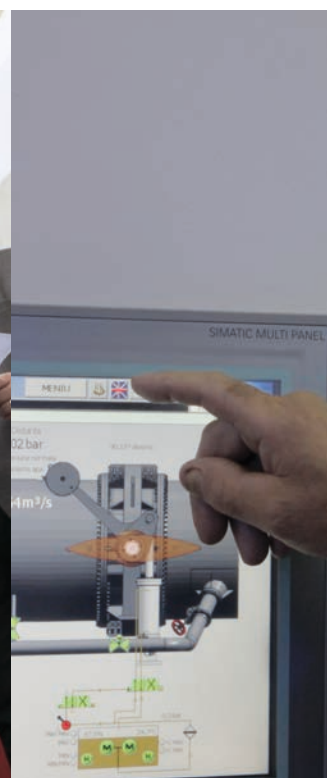
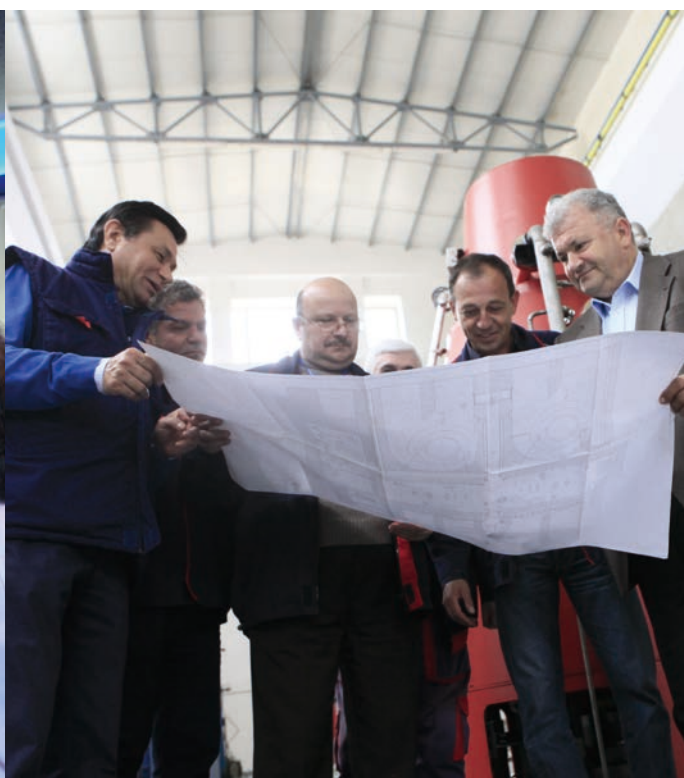
In December 2017 the administration and the Trade Union “Hidroelectrica Hidrosind” have completed the collective negotiation for the years 2018-2019. The Supervisory Board endorsed the result of the negotiation – The Collective Labour Contract for the years 2018-2019 was registered at the Bucharest Territorial Labour Inspectorate under the number 442/27.12.2017.

At the end of the month of December 2017 a Protocol was signed with the Trade Union “Hidroelectrica Hidrosind” under which the employees were awarded a wage increase of 6% starting from December 29th 2017. The wage inequities of the Technical, Support and Administrative Staff were adjusted in conformity with the propositions analyzed within the Administration-Trade Union Joint Commission and a wage increase of 32% for the year 2018 was awarded, which covered also the transition of the contributions from the employer to the employee (22%) under the GEO no. 79/2017.

Approval of the organizational structure and ROF Hidroelectrica

On April 18, 2017 the organizational structure of the company came into force with 3,442 positions, of which 321 in the executive and 3,121 in its 7 Branches, approved by the Directorate Decision no. 505/13.04.2017, with the approval of the Supervisory Board, issued by Decision no. 102/29.03.2017 and consultation of the trade union. The company's ROF, including the new process map version, was also approved as of April 2017.

On November 4th, 2017, a new organizational structure of the company having 3,588 positions came into force, of which 393 in the executive and 3,195 in its 7 Branches, approved by the Decision no. 1417/20.10.2017, with the approval of the Supervisory Board issued by Decision no. 45/29.09.2017 and consultation of the trade union. Also, a new version of the process map was developed, valid from November 4, 2017.



Professional training and development

The main activities carried out in January - December 2017 were the following:

EXTERNAL TRAINING

The activity of elaborating and approving the documents necessary for the participation of the employees in vocational training and authorization of the staff according to the needs transmitted by the branches continued. The following authorizations were obtained: 30 -Execution Technical Officer, 4 - Project Inspector, 60 -ISCIR Officer, 34 - Craners, 1- Traffic Safety Officer, 2 – Non-Destructive Control Specialist, 1 - Stacker, 1- Fluvial Seaman (a total of 130 authorized employees).

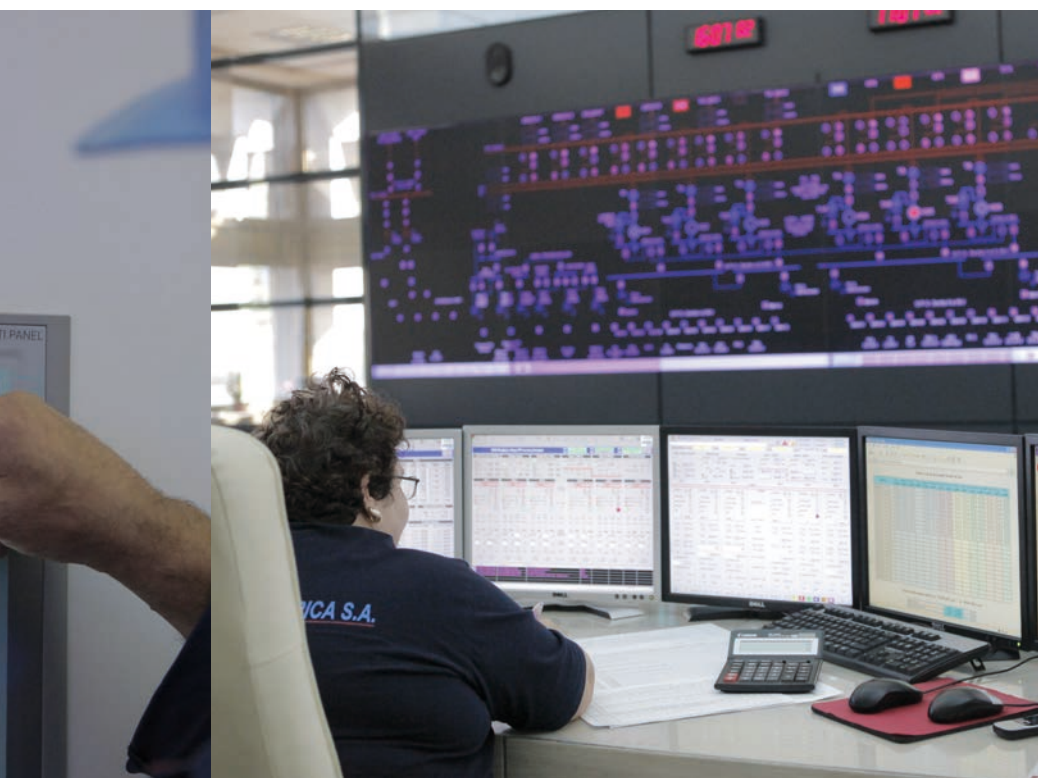
Main supported training programs with external trainers:

- Security agents course, performed for a number of 213 employees, with SC INTRATEST company. The course was held at Tierna, Băile Herculane. The final exam for security agents was organized following the course delivered by S.C. INTRATEST S.A. at Tierna in June 2017. A number of 213 employees were authorized by receiving a certificate.
- Course for updating knowledge on security agencies: the course took place between August - November 2017 and 432 employees were trained by S.C. INTRATEST S.A.
- Hidroelectrica staff training for the operation and maintenance of Dumitra HPP: at Dumitra HPP, 29 employees, with the companies UCM Reșița – Romelectro.

The studies, authorizations and qualifications obtained by the staff of the Executive and the branches were entered into the SAP database.

INTERNAL TRAINING

- The course “Organizational Behavior” was developed and uploaded on the e-learning platform, which is also the topic for the bi-annual evaluation of the employees in the human resources activity. Regarding this topic, training was carried out with the heads of the human resources and communication departments in the Branches and the staff of the Human Resources Department;
- The 2018 training needs of the Hidroelectrica departments were requested in order to centralize and substantiate the annual professional training plan;
- The training for organizational culture for new employees was carried out in the executive and in the branches: 157 entries on the e-learning platform or by a unitary ppt. presentation with the title “Organizational Culture in Hidroelectrica”. The trainings are given by employees of the human resources department and human resources and communication services in the branches of the company.



10

RISK MANAGEMENT AND PERSONAL DATA PROTECTION

Three major action directions were defined by:

- a) identifying and assessing the risks that may exist outside the documented Hidroelectrica processes (e.g.: technical, hydrological, operational, etc.);
- b) identifying and assessing risks that can be identified and evaluated in documented processes;
- c) the aggregation and reporting part of the risk register in accordance with OSGG 400/2015.

Starting with December, the “Process Risk Assessment” procedure has been approved. By the end of the year approximately 20% of the total implemented processes were evaluated, taking into account the compliance with the recertification requirements of the ISO 9001, 14001 and 18001 quality management systems that will be developed in the coming years.

The formalization of the risk management system within Hidroelectrica was achieved by the design of the system procedures level of the constitutive elements characteristic of such a system:

- Risk management team;
- Work tools for risk identification, measurement and assessment;
- Risk register.

The next steps considered and which have begun to be implemented since the end of 2017 consisted of:

- internal training sessions on this topic at the level of the management team in the executive and in the Branches;
- formalization of the three lines of defense;
- establishing the work method and the terminological alignment for aggregate risk reporting between the Risk, EHS, IT, and Security, Investments / Refurbishment, Production departments;
- starting the recruitment of staff within the department in accordance with the internal requirements.

From the perspective of the main risks monitored during 2017, the following activities were carried out:

10.1. COUNTERPARTY RISK

The materialization of this risk at the level of the transactions on the OTC market within OPCOM at the beginning of 2017 has led to a number of additional measures that have been continued and further developed:

- monitoring of covered and uncovered exposures;
- limiting access to the eligibility list of partners who do not provide adequate guarantees or record delays in payment;
- identifying alternative guarantee solutions for prospective interested customers;
- designing an internal model for assessing and scoring the solvency of potential customers in these markets;
- review of the specific conditions for the EFET framework agreement from the risk standpoint.

10.2. PRICE RISK

The materialization of this risk occurred during the year 2017 in both directions, at the beginning of the year prices rose much above the average on the OPCOM market, leading to the insolvency of some traders, and by the end of the year they decreased.

The management of this risk was achieved by a mix of measures that ensured the optimized use of available hydrological resources (either over-average rainfall or lack thereof) but also their medium- and short-term capitalization on regulated markets so that the profitability objectives of Hidroelectrica can be reached.



10.3. LIQUIDITY RISK

Due to the specificity of the company, the production and sale of highly sought after goods, as well as due to the progress made during the insolvency period and thereafter, the timely collections, at a market price brought the company back into a highly profitable area with a liquidity risk that is almost non-existent. Even with the payment of special dividends in the course of 2017, the liquidity of the company was in the parameters that allowed all financial obligations to be honoured without additional efforts (e.g.: attracted loans).

10.4. CREDIT RISK

The excess liquidity recorded by Hidroelectrica has led to the identification of a new type of risk to which the company is exposed by its deposits with commercial banks. Under these conditions, a procedure has been developed and implemented to monitor specific risk indicators and the solvency risk of the banks with which Hidroelectrica works.

10.5. OTHER RISKS

For a range of other identifiable risks outside documented processes, work sessions and awareness raising sessions have also been initiated and risk assessment tools to be implemented in the coming period have been identified.

Starting with 2018, the Risk Management Department will also be responsible for the first implementation steps in order to comply with the (EU) REGULATION 2016/679 of April 27th, 2016 on the protection of individuals with regard to the processing of personal data and on the free movement of such data and repealing Directive 95/46/EC. Following the implementation date of the Regulation, May 25th, 2018, the manager of the Risk Management Department will also assume the role of personal data protection officer within Hidroelectrica.

11

INTERNAL CONTROL. INTERNAL AUDIT

11.1. Internal control

The following types of corrective measures have been put in place through the control documents:

- Disciplinary investigation and sanctioning, as appropriate, of the employees appointed as responsible for the non-compliances mentioned in the control reports drawn up;
- Initiation of legal proceedings to recover possible damages resulting from the over-evaluation of agreements for the purchase of products, services and works or from the inefficient use of the financial resources of the company;
- Increasing the efficiency and safety of the equipment and installations in the hydropower plants by eliminating the technological risks identified in the protection and automation schemes of the hydro units;
- Developing operational procedures that optimize and regulate in a unitary manner how the processes and activities of Hidroelectrica are conducted.

11.2. Internal Audit

The internal public audit activity in Hidroelectrica is carried out through the Public Internal Audit Department. It is subordinated to the Audit Committee within the Company's Supervisory Board, in accordance with Law No. 162/2017 on statutory audit, Law 672/2002 (updated) on public internal audit and Law 31/1990 (updated) on trade companies.

The Public Internal Audit Department carries out insurance and advisory missions both at the Hidroelectrica Executive level and at the level of branches. Its mission is to increase and protect the value of the company by providing objective, risk-based assurance and by providing counselling and support to the company's management.

During the year 2017, insurance and counselling missions were carried out, following which 16 processes were implemented and / or updated. Thus, on December 31st, 2017, approximately 40 processes were completed within the Hidroelectrica Process Map. For each of these, multiple meetings were held with both executive employees and Hidroelectrica Branches responsible for documenting them and with process owners to ensure standardized and unitary documentation.

The activity of the internal audit department of Hidroelectrica, carried out during 2017, has led to the optimization of the method for carrying out the process activities. Also, in many situations, through counselling activities, a conciliation environment was ensured between the different organizational structures of the company.





12

IT SUPPORT

Implementing the ERP - SAP project

The ERP implementation project within Hidroelectrica was launched in April 2016 and finalized in March 2017. There were implemented 11 SAP modules, financial modules (FI, CO, AA, FM), logistics procurement (MM), human resources (HR, PY), trading (SD) and technical modules, maintenance (PM), projects (IM and PS), production (PP). The SAP platform was launched on a temporary technical platform and the auction for the new high availability hardware infrastructure was completed at the end of 2017.

Since April 2017, SAP entered the second year of support, maintenance and optimization of SAP processes.

It should be noted that Hidroelectrica won the Gold Winner award at the SAP Quality Awards annual award in the Fast Delivery category in the CEE.

Global Data Protection Regulation (GDPR) issue

One of the major projects for 2017 is the GDPR (Global Data Protection Regulation) issue, and a number of concrete steps were taken in this respect:

- A small project team was formed, composed of representatives of the following departments: IT, risk management, internal audit, legal, human resources, security. The Hidroelectrica team has had working meetings with several consultants on GDPR topics from companies operating in the fields of legislation, IT security and BIG4 consultancy.
- The first step to identify and classify personal data from both computer systems and document flows on paper has been started. The most important operations in the GDPR process were: identifying personal data, classifying them, identifying the legal grounds on which personal data is processed and establishing life cycles of data.
- The process of identifying personal data from legacy, decomposed, inactive, but still historical data has started.
- An entire suite of computer systems has been identified that will probably be needed to address and meet the IT security recommendations deriving from Regulation 2016/679. These include system of the type DLP Data Loss Prevention, systems of the type Document Management System, data protection and encryption systems along with SIEM-type monitoring systems.

IT security systems and Cybersecurity

One of the priority activities within the IT department is to provide an optimal IT security system. The dangerously high increase of cyber attacks on national critical infrastructure, especially in the energy sector, forces Hidroelectrica to take significant measures in this segment. The example of the partial fall of Ukraine's energy system in 2015 and 2016 or the US water treatment system (Kemuri Water Company case) has been disseminated within the department and within various pilot projects. Also, given the imminence of the entry into force of the NIS Directive, the IT department has continued its activities to improve IT security protection by:

- Separation of the SCADA networks from the office area;
- Revision and restriction of IT security protocols;
- Analysis of recent ransomware cyber attacks (Wannacry, Petya, etc.);
- Pilot for the solution to detect cyber threats in the network of the type Trendmicro/Darktrace;
- Procurement planning for systems of type DLP, SIEM, SHOCK, asset inventory etc.

Automation solutions for refurbishments

The IT department team has been heavily involved in the analysis of the proposed automation solution for the Stejaru HPP refurbishment project and the Vidraru HPP refurbishment project.

Various technical solutions have been analyzed, some with a high degree of novelty compared to conventional industrial automation systems, and in 2018 some of them will be taken into account in the revision of the "SCADA Guide".

Also, for the new version of the SCADA Guide, we intend to consider the standardization of the solutions applied at the Company level, with the aim of adopting technically standardized solutions in all future upgrading projects. It was also planned to review the "SCADA Guide" and to identify a global / unitary metering and counting solution for the company.

Reconfiguring the communications system

The company's communications system is one of the most complex in the country and allows data collection from over 250 locations. Most of the main communications channels are redundant in nature and run on multiple transport media (fiber, radio, ethernet) and on several communications operators. The auction for the new four-year framework agreement was launched in March 2017 and was finalized in September. The main objectives of the new agreements were to increase transmission capacities, to ensure an optimal level of redundancy, to replace security firewalls, to expand the capacity of the PBX, and to extend the mobility of employees by offering data services on mobile terminals (email), all of these facilities being provided for better dispatch and safety of operating processes.

At the end of the year and the beginning of this year, complex operations of reconfiguration of communications systems took place and to analyze the communication and operation of alarm systems.





13

NON-FINANCIAL STATEMENT FOR THE YEAR 2017

13.1. Hidroelectrica Policy

MISSION

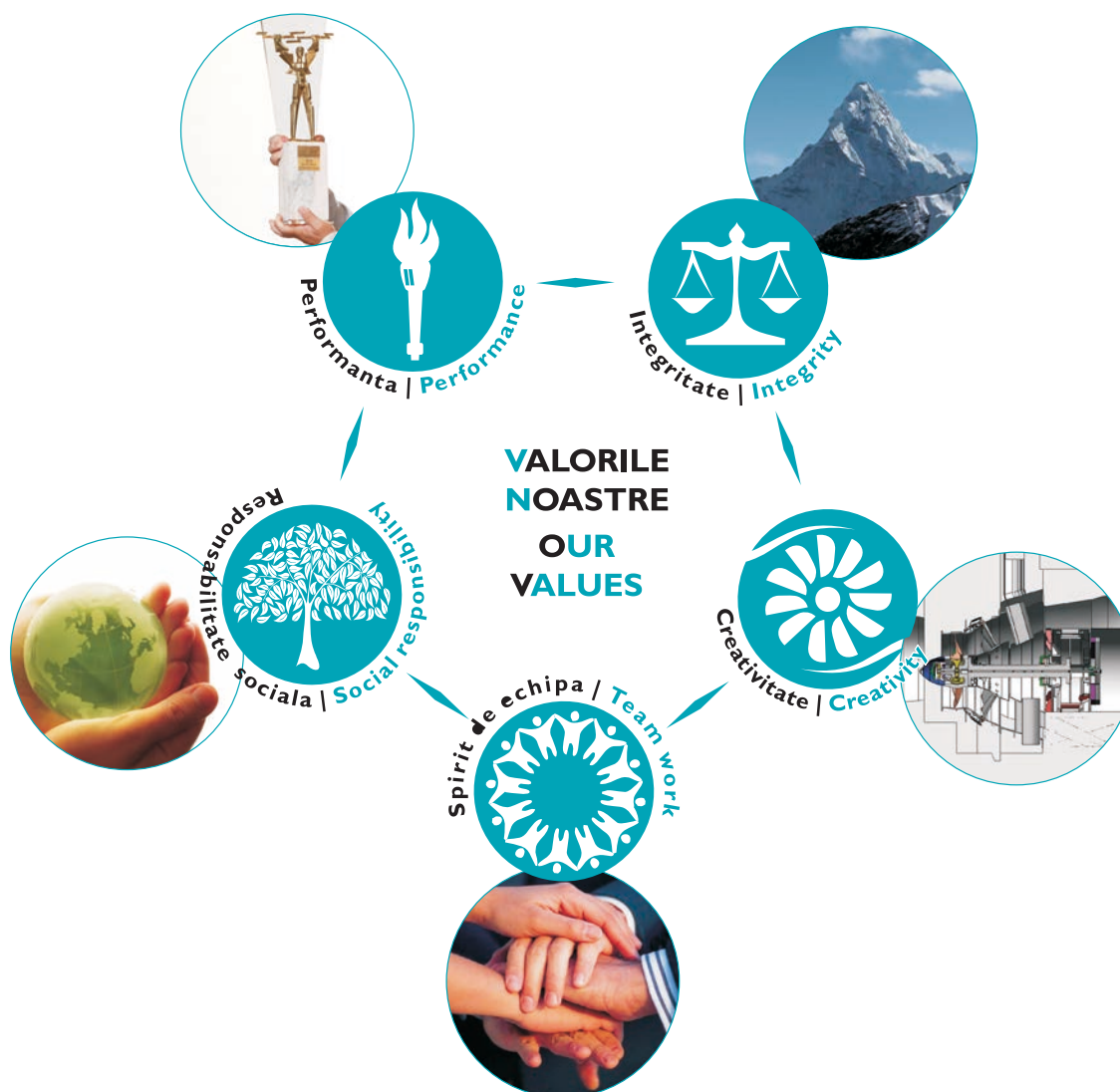
To create value through the production and marketing of electricity in hydro power plants with large installed capacities ($P_i > 10\text{MW}$), in a manner that is responsible to the community and the environment, under conditions of quality and performance.

VISION

Strengthening the leadership position in the production of electricity and the provision of ancillary services, following the principles of sustainable development.

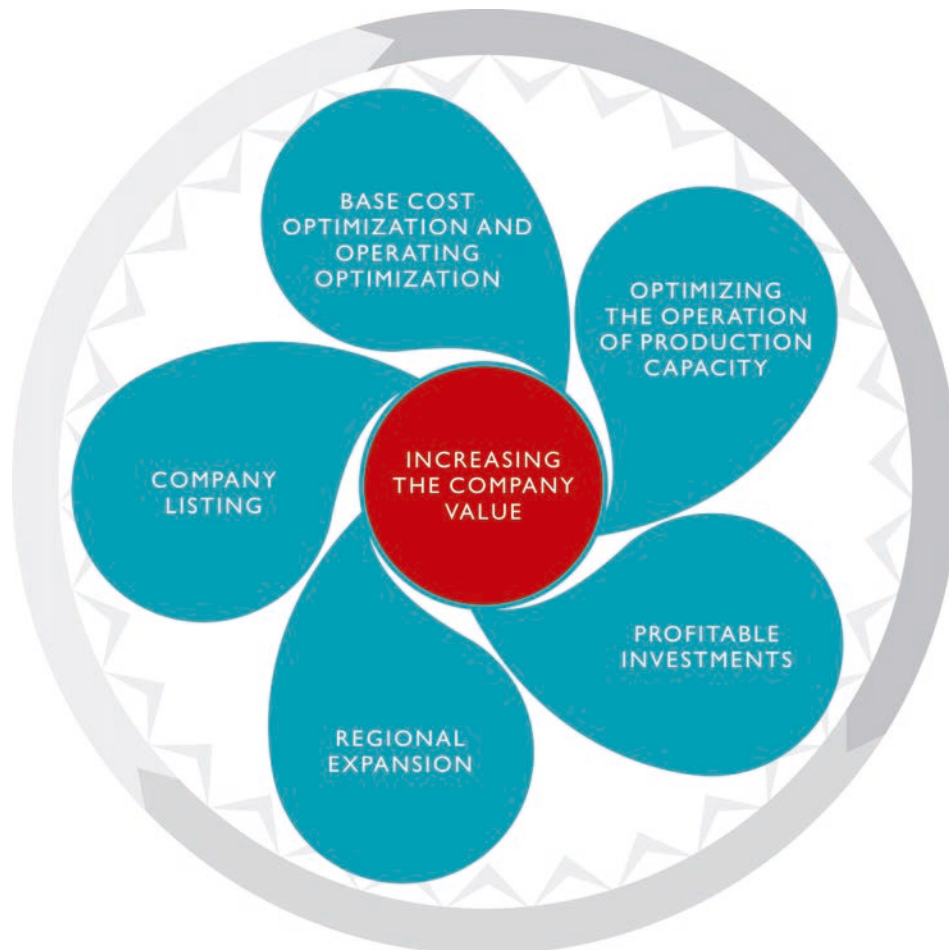
VALUES

Performance, Integrity, Creativity, Team spirit, Social responsibility



THE MAIN OBJECTIVE OF HIDROELECTRICA IS TO INCREASE THE VALUE OF THE COMPANY BY:

- 1. cost optimization and operational optimization
- 2. optimizing the operation of production capacities
- 3. cost-effective investments
- 4. regional expansion
- 5. company listing



Hidroelectrica sells electricity in a transparent, non-discriminatory and competitive manner to all potential customers in the competitive segment of the electricity market, pursuing the best price it can obtain in the markets it operates on, under the law (including secondary legislation).

In fulfilling its mission, Hidroelectrica is based on a management system in accordance with the requirements of the standards for quality management, environmental management, occupational health and safety management, monitored and continuously adapted / optimized, having as a reference the identification, implementation and monitoring of applicable requirements, the Plan-Do-Check-Act cycle and thinking based on risk and opportunity.

13.2. Hidroelectrica's scope of activity

Hidroelectrica is the most important electricity producer among energy producing companies on the energy market, supplying, in the year 2017, 21.03% of the total production (according to information provided by the National Power Dispatcher) and the main provider of system services (at the NES level, in 2017 it provided approx. 61.8% of the secondary adjustment service, 79% of the fast tertiary reserve service and 100% of the service for providing reactive energy debited or absorbed from the network in the secondary voltage adjustment band).

THE MAIN ACTIVITIES OF THE COMPANY CONSIST OF:

- electricity production in hydropower plants and the sale of electricity;
- the provision of ancillary services for the National Energy System;
- the provision of water management services from own accumulations by the supply of raw water, flow adjustments, flood protection, ensuring the flow and other common water management services;
- ensuring navigation on the Danube river by locking;
- in the hydropower developments on the inland rivers, under the management of the company, Hidroelectrica performs control and ensures the mitigation of the flood waves with regard to the transit of the catastrophic flows.

In the event that increased flows endanger material assets and human lives, the company contributes to a great extent to limiting and eliminating these situations by the National Emergency Committee.

On December 31st, 2017, Hidroelectrica had 208 hydropower plants and pumping stations with a total installed capacity of 6,444 and a number of 3,321 employees.

The company consists of 7 branches without legal personality dispersed on the territory of the country, namely:

1. Bistrița HB - Strada Locotenent Drăghiescu, nr.13, Piatra Neamț;
2. Cluj HB - Strada Taberei nr. 1, Cluj Napoca;
3. Curtea de Argeș HB - Strada Basarabilor nr. 82-84, Curtea de Argeș;
4. Hațeg HB - Bulevardul Nicolae Titulescu, nr. 23, Hațeg;
5. Porțile de Fier HB - Strada I.C. Bibicescu nr. 2, Drobeta Turnu Severin;
6. Râmnicu Vâlcea HB - Strada Decebal, nr. 11, Râmnicu Vâlcea;
7. Sebeș HB - Strada Alunului, nr. 9, Sebeș.

The company is also the sole shareholder of the following Branches:

Hidroelectrica-SERV S.A. registered with the Trade Register attached to the Bucharest Court under no. J40/9762/05.08.2013, a company formed by the merger of the 8 Hidroserv branches for repairs and service (established by RGD no. 857/2002), a subsidiary with legal personality.

Starting with October 8th, 2014, the company changed its name to Societatea de Servicii Hidroenergetice-Hidroserv S.A, and on December 31st, 2016 it had a share capital of LEI 70,576,810, fully paid, consisting of LEI 10,599,240 cash contribution and LEI 59,977,570 contribution in kind, divided into 7,057,681 nominal shares of LEI 10 each.

Societatea de Servicii Hidroenergetice-Hidroserv S.A. has as its main purpose the provision of repair services and other service activities for hydro units, although the main scope of activity specified in the Articles of Incorporation, NACE code 3511, is "Electricity production" and the secondary scopes of activity are made up of series of related service activities across multiple domains to support the main scope of activity.

In view of the negative development of the economic and financial indicators, the Hidroserv Board of Directors requested the insolvency of the company, and the syndic Judge, by the decision pronounced on October 10th, 2016, within the file no. 36365/3/2016, pending in the Bucharest Court - Civil Section VII, ordered the opening of the insolvency proceedings.

Hidroelectrica Trading d.o.o. Belgrade - trade company having the form of a Limited Liability Company, with headquarters in Belgrade, Republic of Serbia, with a registered capital of EUR 500,000 (of which EUR 50,000 was paid) and its main scope of activity being the sale of electricity, set up on October 31st, 2014.

During 2016, Hidroelectrica started the licensing process for the SEEPEX-Serbia grant. In accordance with the legislation approved in October 2015, the electricity companies in the European Union can be directly licensed on the Serbian market without having to open a local office.

At the same time, it should be noted that Hidroelectrica obtained **the energy trading license in Hungary** in its own name, being fully operational from December 1st, 2014, and delivered energy starting with December 2014. The dispute with ANRE on the possibility of producers to export directly was won by Hidroelectrica in the merits procedural phase.

With the objective of becoming a major regional player on the electricity market in Southeastern Europe, Hidroelectrica continued in 2017 the activities characteristic of this process on the markets in Hungary and Serbia:

- identifying the main actors on the energy market in Serbia and Hungary according to the monthly reports of the Regulatory Authorities of the two countries (AERS and MEKH);
- identifying the categories of agreements that can be concluded;
- the rules on the balancing market in Serbia and the conditions under which the agreement can be concluded with the Party Responsible for Balancing;
- identifying 52 traders operating on the Serbian market and registered as PRE and active on SEEPEX;
- identifying the most recently published transmission structure and tariffs in the two countries;
- a price statistic for annual and monthly capacity auctions on borders;
- an imbalance price statistics applicable to PRE.

13.3. *Occupational Health and Safety, Environment, Emergency Situations*

The activities related to Occupational Health and Safety, Environment, Emergency Situations carried out in 2017 had as main objectives:

- increasing compliance with applicable legislation and other requirements of Occupational Health and Safety, Environment, Emergency Situations assumed by Hidroelectrica;
- controlling the risks of injury and occupational illness, significant environmental issues related to the activity carried out in the company and fire risks.

Compliance with the legal requirements in the fields of Occupational Health and Safety, Environment, Emergency Situations of the activities carried out within Hidroelectrica has been controlled by the competent authorities to the hydropower facilities as follows:

- 91 inspections of the National Environmental Guard
- 16 inspections of the Territorial Labor Inspectorates
- 58 inspections of the Inspectorates for Emergency Situations.

The Occupational Health and Safety activity in Hidroelectrica is organized in accordance with the requirements of Law 319/2006 on Occupational Health and Safety.

In order to ensure the information, participation and consultation of employees in the development and implementation of decisions on Occupational Health and Safety, the Occupational Health and Safety Committee is organized and functioning both at the company level and at the level of each branch of Hidroelectrica.

PREVENTIVE OCCUPATIONAL HEALTH AND SAFETY MEASURES IN HIDROELECTRICA

The Occupational Health and Safety activity has a preventive nature and is carried out on the basis of the Prevention and Protection Plan drawn up at the level of each branch and at the executive level. By implementing the measures foreseen in the prevention and protection plan for 2017, the compliance with the legal provisions regarding Occupational Health and Safety was envisaged and the concrete result was that during the year 2017 there were no imminent threats to the safety of the workers in relation to the activities carried out by them at the workplace.

The expenditure schedule for the implementation of the prevention and protection plans in the Hidroelectrica

sub-units for the year 2017 was in the total amount of LEI 2,225,394, with the following amounts per categories:

1. Technical measures for prevention and protection	LEI 635,273
2. Organizational measures for prevention and protection	LEI 1,370,275
3. Hygienic-sanitary measures	LEI 219,846
4. Other measures	LEI 0

The Expenditure Schedule for the implementation of prevention and protection plans in the sub-units of Hidroelectrica also includes measures whose value is highlighted in the maintenance / investment / equipment works.

Degree of achievement of the expenditure schedule:

- Technical measures for prevention and protection (also including the amount of purchases initiated in 2017 and completed in 2018): 61.36%
- Organizational measures for prevention and protection: 76.64%
- Hygienic-sanitary measures: 100%

OCCUPATIONAL HEALTH

Following the regular medical examination of Hidroelectrica employees, no occupational illness and illness related to the profession was detected and reported. Common illness (without professional determination) has been directed to the family physician or to the specialist physician.

The overall risk of professional injury and illness in Hidroelectrica in 2017 was 2.95. The overall risk level, both at a consolidated level and at the level of each branch and the executive, falls below the acceptable risk level of 3.5.

Environmental Protection Activity

REGULATORY ACTS

At the end of 2017, all 213 hydropower facilities, required to be authorized, held a valid environmental permit. All environmental permits for the facilities of the Hidroelectrica assets are issued without compliance programs.

The operating conditions imposed by the environmental permits refer to the monitoring of the environmental factors and to the observance of the environmental legislation applicable for the performed activity. For the monitoring of the environmental factors, actions are taken to measure the physical-chemical indicators of the quality of the accumulated water and of the turbinated water, and to measure the noise level at the site boundaries.

Environmental permits obtained in 2017:

- issuance of Environmental Permit Bretea HPP no. 118/29.12.2017 (Hateg HB) - new facility put into operation;
- review of the Environmental permit for Vernești HPP (Curtea de Argeș HB) - for the reduction of the access flows;
- review of the Environmental permit for Căndești HPP (Curtea de Argeș HB) - for the reduction of the access flows;

Environmental permits obtained in 2017 for:

- Refurbishment of the 110kV Clăbucet Station HPP (Curtea de Argeș HB);
- Refurbishment of the 110kV Oești HPP (Curtea de Argeș HB);
- Hydropower development in Surduc Siriu - Removal from the forest fund of the 1.1754 ha area with the deforestation of the 0.8964 ha area (Curtea de Argeș HB);
- Refurbishment of the Hydropower Development on the Râul Mare Retezat (Hațeg HB).



ENVIRONMENTAL PROTECTION WORKS

In order to control the significant environmental aspects, actions with an environmental protection component were carried out, amounting to LEI 2,485 thousand, including the fees paid for obtaining the regulatory documents.

The most important categories of environmental protection actions / works carried out in 2017 were:

- Water pollution prevention and water purification works executed at Bistrița HB, Curtea de Argeș HB, Hațeg HB and Râmnicu Vâlcea HB. These accounted for 15.80% of the total value of the environmental protection works;
- Works for flood prevention, flood protection and removal of flood effects at Bistrița HB, Cluj HB, Curtea de Argeș HB, Hațeg HB, Rm. Vâlcea HB and Sebeș HB. These accounted for 45.48% of the total value of the environmental protection works;
- Actions for waste management, both waste generated from our own activity and waste collected from the retention fronts and water intakes, were carried out in all branches of the company. These accounted for 30.81% of the total value of the environmental protection works;
- Works for land protection and combating erosion, landslides and soil desertification, performed in Rm. Vâlcea HB and Sebeș HB. These accounted for 4.73% of the total value of the environmental protection works;
- Control measures and laboratory tests were carried out by Curtea de Argeș HB, Cluj HB, Hațeg HB, Râmnicu Vâlcea HB and Sebeș HB.

In 2017 there were no environmental events.

EMERGENCY SITUATIONS ACTIVITY

In 2017, relations with the Inspectorates for Emergency Situations aimed at the joint cooperation and organization of exercises and practical applications in order to streamline preventive actions and increase the response capacity of the staff in case of an emergency. The topic of the exercises was: "The activity of the County Committee for Emergency Situations and the County Inspectorate for Emergency Situations for the management and coordination of the intervention forces for limiting and removing the consequences of a hydrotechnical accident and alarming the population".

On a monthly basis, on the first Wednesday of the month, within the exercise of testing and verifying the notification, warning and alarm system in civil protection situations organized at the national level by the General Inspectorate for Emergency Situations, the sirens within the warning and alarm systems existing in the Hidroelectrica branches are activated.

In order to maintain the systems for warning and alarming the population in good working order, the procedure for purchasing their maintenance services was started.

In accordance with the legal requirements in the fields of sustainable water management and emergency situations, for the elaboration and update of the action plans in case of an accident at the dams managed by Hidroelectrica, in 2017 agreements were concluded for the services of drafting these plans.

13.4. Fulfilling the responsibilities related to the Hidroelectrica Code of Ethics

- The testing of knowledge regarding the Hidroelectrica Code of Ethics for 2016 was supported; 509 employees were evaluated on the e-learning platform and the rest of the employees were trained and tested in writing.
- The statements on conflicts of interest were requested and centralized for the Procurement and Trading Supply departments.
- Following the centralization of data for the "Information note regarding the degree of kinship of the Hidroelectrica staff", the notes were submitted to the Management Board for the purpose of establishing measures to solve the conflicts of interest situations.
- The e-learning testing platform for 2017 regarding the Hidroelectrica Code of Ethics in force was launched, 896 employees from the executive and branches participated, and the rest of the employees were tested in writing.

13.5. Professional competition

The most prestigious professional competition in the country took place during 9-14th July 2017, in Băile Herculane, and it was organized by the Hațeg Hydropower Branch and the Hidroelectrica Executive seat.



13.6. Social responsibility program

- In May 2017 the documentation was drawn up and the acquisition for the 2017 social responsibility program “Hidroelectrica of the future” was carried out.
- The preparatory activities for organizing the second edition of the Corporate Social Responsibility Program “Hidroelectrica of the future” were carried out, for students in vocational and technical education who are training for the energy field (for the professions of machinist and electrician).
- The “Hidroelectrica of the future” Social Responsibility Program is run by Hidroelectrica starting with 2016, in partnership with the Ministry of National Education, over the course of 4 years, and it aims at educating young people in the spirit of work and presenting career opportunities by making the professions in the hydropower field more popular. 600 students from 14 high-schools specialized in the energy field in the country visited hydropower facilities, within this action aimed at developing the inter-institutional communication between the educational units and Hidroelectrica.
- The opening of the second edition of the program was hosted by the Râmnicu Vâlcea Branch on November 10th, 2017, at the Dorin Pavel Power Station - the Lotru Ciunget Hydropower Plant, in the presence of the President of the Management Board, Mr. Bogdan Badea and of the General Inspector, Mr. Dragoș Cosma. This year, out of all the Branches of the company, the following main hydropower facilities were visited: Dorin Pavel HPP, Porțile de Fier HPP, Vidraru HPP, Vidraru Dam, Dimitrie Leonida-Stejaru HPP, Bicăz Dam, Bacău HPP, Gâlceag HPP, Suga HPP, Oașa Dam, Mărișelu HPP, Târnița HPP, Moroieni HPP, Sinaia 0 HPP (museum), Păltinu HPP, Vălenii de Munte HPP, Sadu I HPP (museum), Turnu HPP, Bascov HPP, Târgu Jiu HPP, Tismana HPP, Herculane HPP, Retezat HPP, Gura Apelor Dam and Clopotiva HPP.

13.7. Internship conventions for students

Conventions for the students' internships (from the Polytechnic University of Bucharest and other Universities in Iași, Cluj, Craiova and Timișoara) as well as for the Râmnicu Valcea Energy College were approved and the requests followed by internships were centralized and carried out in the branches and in the executive 44 undergraduate and master students and 96 students have completed their internships.

13.8. Hidroelectrica policy on donations and sponsorship

As a company active in the energy sector, Hidroelectrica is aware of its responsibility towards the communities in which it operates. By the sponsorship / donation actions carried out under the legal provisions in force, Hidroelectrica wants to contribute to a better life of local communities, based on the company's values: Integrity, Team spirit, Social responsibility, Creativity, Performance.

AREAS OF PRIMARY INTEREST:

Environmental protection:

Hidroelectrica acts responsibly and actively engages in projects aimed at protecting and improving natural environmental conditions and reducing environmental pollution and pollution sources in the areas where it operates.

At the same time, under the motto "Hydropower - a clean environment for all", the activities carried out by Hidroelectrica are based on a proactive approach to environmental protection and the involvement and motivation of all staff to take on a responsible attitude towards the environment and the social community.

Health

Hidroelectrica supports the medical and healthcare field, public or private hospitals or other medical institutions through sponsorship / donations for equipment, procurement of services, projects in the field, etc.

Hidroelectrica also sponsors various national programs, organizations, and other entities that support the provision of medical treatments / interventions for persons with such needs. These sponsorships can also be granted directly to individuals who need such medical treatments / interventions (through sponsorship agreements).

Education and research

Hidroelectrica supports the education and professional training of young people (especially in the energy field), the development of a practical experience for students and young specialists, as well as the intensification of the activity in the alternative training systems.

Educational institutions are also supported (e.g.: schools, high schools, universities, etc.) and / or academic communities, as well as other education, study and research activities, including participation in national or international scientific competitions / conferences. Private scholarships may also be awarded.

Sports

Hidroelectrica sponsors teams, associations, sporting events that have a good reputation and operate in accordance with the law, are recognized by the competent state authority responsible for sports organizations, both in the professional sports and amateur sectors, which offer opportunities to promote the image of the company.

OTHER AREAS OF INTEREST:

Social / humanitarian / philanthropic

Social solidarity is part of the value core of the business model of the company. Hidroelectrica supports social activities with regard to:

- children - supporting projects or organizations, entities that promote children with special needs and / or their development;
- charity projects or for helping disadvantaged categories of persons;
- aid in case of natural disasters;
- projects aimed at protecting human rights.

Local communities

Hidroelectrica can provide sponsorships that help support and develop local community projects and strengthen the relationships between the company and the community.

Culture

The cultural activities that promote our country's culture in the field of national heritage, as well as modern and Western identity are supported by the company. The culture sectors can be: music (local, national or international events/concerts; musical artists in the process of making a name for themselves or already established, etc.), painting, sculpture, theatre, cinema, photography, digital art, multimedia, etc.

ABBREVIATIONS

ANCPI - National Agency for Cadastre and Real Estate Advertising

ANRE – Romanian Energy Regulatory Authority

CANE – Classification of Activities in the National Economy

CBT – Construction Behaviour Tracking

CLA – Collective Labor Agreement

DAM - Day Ahead Market

E – Power

GD – Government Decision

HA - Hydro Aggregate

HB - Hydro Branch

HPP - Hydropower Plant

ILA – Individual Labor Agreement

Ic - Installed Capacity

IEB – Income and expenditure budget

MCD – Measuring and Control Devices

MHPP - Micro Hydropower Plant

NES - National Energy System

OPCOM - Romanian Electricity Market Operator

PCCB - Centralized Bilateral Contracts Market

RGD – Romanian Government Decision

SHPP - Small Hydropower Plant

SCADA - Supervisory Control and Data Acquisition

TEC – Technical-Economic Council