

## SUMMARY

<a href="#">1. IDENTIFICATION DATA</a> .....	Error! Bookmark not defined.
<a href="#">2. GENERAL DATA</a> .....	Error! Bookmark not defined.
<a href="#">3. HIDROELECTRICA IN FIGURES</a> .....	Error! Bookmark not defined.
<a href="#">4. LENDMARKS OF 2020</a> .....	Error! Bookmark not defined.
<a href="#">5. ADMINISTRATION AND MANAGEMENT. CORPORATIVE GOUVERNANCE</a> .....	Error! Bookmark not defined.
<a href="#">6. ECONOMIC AND FINANCIAL ACTIVITY</a> .....	Error! Bookmark not defined.
<a href="#">7. DOMAINES OF ACTIVITY</a> .....	Error! Bookmark not defined.
<a href="#">7.1 PRODUCTION AND OPERATION</a> .....	Error! Bookmark not defined.
<a href="#">7.2. ELECTRICITY TRADING / SUPPLING ACTIVITY</a> .....	Error! Bookmark not defined.
<a href="#">7.3. INVESTMENT ACTIVITY</a> .....	Error! Bookmark not defined.
<a href="#">8. PREDICTABLE DEVELOPMENT OF THE COMPANY</a> .....	Error! Bookmark not defined.
<a href="#">9. HUMAN RESOURCES</a> .....	Error! Bookmark not defined.
<a href="#">10. RISK MANAGEMENT</a> .....	Error! Bookmark not defined.
<a href="#">11. PROCESS MANAGEMENT. INTERNAL AUDIT</a> .....	Error! Bookmark not defined.
<a href="#">12. IT AND COMMUNICATION</a> .....	Error! Bookmark not defined.
<a href="#">13. LITIGATIONS</a> .....	Error! Bookmark not defined.
<a href="#">14. NON-FINANCIAL STATEMENT FOR 2020</a> .....	Error! Bookmark not defined.
<a href="#">15. ABBREVIATIONS</a> .....	78

## 1. IDENTIFICATION DATA

- Name of the company: S.P.E.E.H. HIDROELECTRICA S.A.
- Registered office: Bucharest, 15-17 Ion Mihalache Blvd., floors 10-15, sector 1, 011171
- Phone/fax: 021303.25.00; 021303.25.78
- Sole registration number at the Trade Register Office: 13267213
- Fiscal registration number: RO13267213
- Registered at Trade Register Office under no.: J40/7426/2000
- Paid-in and subscribed share capital: RON 4,484,474,670

## 2. GENERAL DATA

S.P.E.E.H. Hidroelectrica S.A. is a joint stock company, established based on Romanian Government's Decision no. 627/13 July 2000, with registered office in Bucharest, sector 1, 15-17 Ion Mihalache Blvd., floor 10-15, fiscal registration number RO13267213 and registered with the Trade Register Office to the Bucharest Tribunal under no. J40 / 7426/2000.

The share capital of S.P.E.E.H. Hidroelectrica S.A. as on December 31, 2018 was in amount of RON 4,484,474,670, consisting of 448,447,467 ordinary shares, issued in dematerialized form, by registration in account, with a par nominal value of RON 10, having the following structure of the shareholders:

- *ROMANIAN STATE* through the Ministry of Energy, holding a number of 359,009,551 shares, with a total nominal value of RON 3,590,095,510, representing 80.06% of the share capital of the Company;
- *Fondul Proprietatea S.A.*, holding 89,437,916 shares, with a total nominal value of RON 894,379,160, representing 19.94% of the share capital of the Company.

The main activities of the company consist of:

- production of electricity in hydropower plants;
- selling electricity;
- performing ancillary services for the National Energy System;
- provide water management services from own accumulations by supplying raw water, debit adjustments, floods' protection, debit insurance and other common water management services
- ensuring navigation on the Danube river by locking;
- achieve control and ensure the attenuation of flood waves for the transit of catastrophic flows in the hydro-energetic facilities on the internal rivers under Hidroelectrica's management.

In situations that the increased flows might endanger material assets and human lives, together with the Ministerial Committee for Emergency Situations within the Ministry of Waters and Forests and the County Committees for Emergency Situations, the company contributes to a very important extent in limiting and eliminating these situations.

The company operates based on the licenses granted by the National Regulatory Authority for Energy (ANRE), which are regularly updated, thus:

- License No.332/ 2001 for the commercial exploitation of power generation capacities, including the provision of ancillary services, updated by ANRE Decision no.509 / 2017, valid until 24.07.2026.
- License No.932/ 2010 for the supply of electricity, updated by the ANRE Decision no. 768/2016, valid until 01.06.2020.
- License No.2215/ 2020 for the supply of electricity, updated by the ANRE Decision no. 718/06.05.2020, valid for 10 years.

The organizational structure, the company consists of 7 branches without juridical personality distributed on the territory of the country, namely:

- SH Bistrița - 13 Locotenent Drăghiescu Street, Piatra Neamț;
- SH Cluj - 1 Taberei Street, Cluj Napoca;
- SH Curtea de Argeș - 82-84 Basarabilor Street, Curtea de Argeș;
- SH Hațeg - 23 Nicolae Titulescu Blvd, Hațeg;
- SH Porțile de Fier - 2 I.C.Bibicescu Street, Drobeta Turnu Severin;
- SH Râmnicu Vâlcea - 11 Decebal Street, Râmnicu Vâlcea;
- SH Sebeș - 9 Alunului Street, Sebeș.

### 3. HIDROELECTRICA IN NUMBERS

FINANCIAR	2020	2019	2020/2019
Revenues from operation (mil. RON)	3,850	4,177	-8%
EBITDA (mil RON)	2,711	2,934	-8%
Net Profit (mil. RON)	1,452	1,387	5%
OPERATIONAL (TWh)	2020	2019	2020/2019
Energy produced	14.97	15.21	-2%
Energy delivered	14.58	14.93	-2%
Energy sold	15.96	15.87	1%

\* EBITDA (Profit before interest, tax, depreciation and amortization) is defined and calculated based on profit (loss) before tax adjusted by i) depreciation and amortization / resumption of impairment of tangible and intangible assets, ii) movements in provisions, iii) value adjustments / resumption of adjustments of net current assets and iv) financial result. In the calculation of EBITDA for 2019, the profit before tax was adjusted with provisions used in 2019 following the loss of the dispute (ICC 19414 / MHM arbitration file) with Andritz Hydro GmbH (RON 71,302,700).

The method of calculating EBITDA used by other companies may be significantly different from the one used by our company. Consequently, the EBITDA presented in this note cannot be used, as such, for the purpose of comparison with EBITDA of other companies.

Note: The financial information presented in the table above is unconsolidated.

### 4. BENCHMARKS OF 2020

In few words, 2020 may be characterized as one of substantial change in the way we all perceive the world. The effects of the Covid 19 pandemic were felt in all areas of the global economy, in the consumers' behavior and the entire population in general, generating substantial regulatory changes, constituting both threats and opportunities through significant adverse effects on some industries and empowering

others. Thus, the key element of the year was the adaptation to the changes of some fundamental principles, caused by the appearance of the Covid pandemic 19.

The first phase of the crisis generated by Covid 19 was characterized by a dramatic, very abrupt decrease in commodity prices as well as a general decline in global stock markets, reaching the point where the price of oil on Futures markets to be negative for May 2020.

(source: <https://globalriskinsights.com/2020/05/making-history-coronavirus-and-negative-oil-prices/>  
<https://www2.deloitte.com/ro/en/pages/business-continuity/articles/pretul-istoric-negativ-al-petrolului-implicatii-pentru-romania.html>)

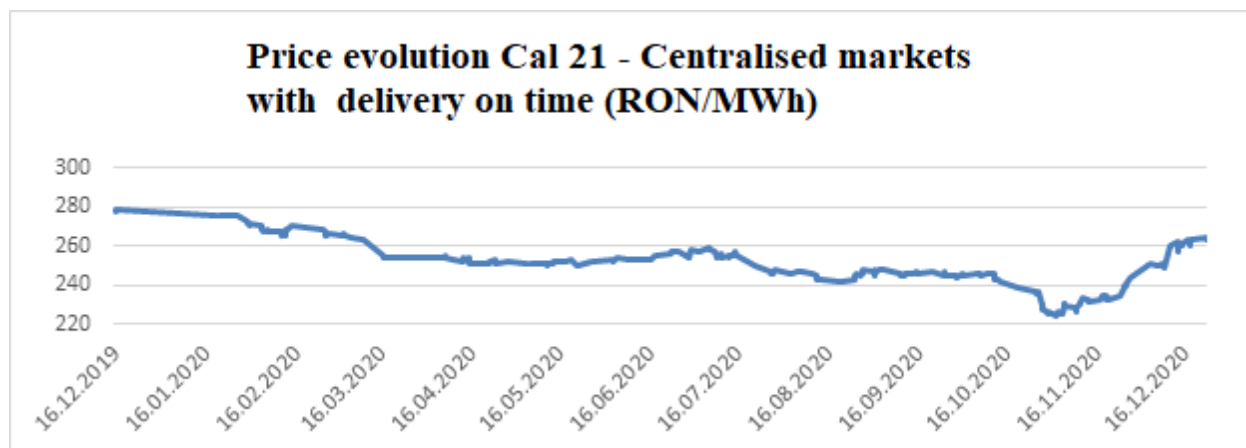
The energy market was no exception, registering significant decreases in prices, with negative influences on the entire situation of the company in the first half of 2020. At the same time, at the internal operational level, Hidroelectrica faced a severe drought in the first half of the year, Danube's flow registering minimum records. To be added in this context, the amount of energy delivered at a regulated price of approximately 3.2 TWh (22% of total production), which Hidroelectrica was obliged to deliver at a price below half, compared to the average market price recorded in 2020. However, due to the sustained efforts of the company's management and the speed of management's response to ensure operational activity in conditions of maximum safety of employees' health, the company's situation has recovered dramatically since the second half of 2020. Equally spectacular prices' recovering in the second half of the year and a return of flow to normal average levels determined Hidroelectrica to register remarkable results considering the general context, maintaining an EBITDA margin in line with previous years, of approximately 70% .

In addition, in 2020 Hidroelectrica took advantage of the opportunities in the market by participating in significant transactions in the energy industry at regional level. Thus, following the decision of the CEZ Group to withdraw from Romania by selling its assets for financing a local investment in new nuclear capacities, Hidroelectrica had the opportunity to participate in a competitive process for the acquisition of CEZ assets, a process that although was awarded by a world-class investment company has laid the groundwork for a change in the mentality of the company, as a whole. As a result of the experience gained, we have continued to invest in identifying new opportunities, so that at the end of the year Hidroelectrica managed to win the acquiring process of a wind farm with an installed capacity of 108 MW owned by Steag Gmbh in Romania, Constanta County.

In terms of legislative impact, the main benchmarks of 2020 were:

- introducing the centralized market of the bilateral electricity contracts - trading contracts by extended action and the use of products to ensure trading flexibility (April 2020);
- publication of Law no. 155/2020 for the amendment and completion of the Law on electricity and natural gas no. 123/2012 (July 2020);
- introducing the centralized market for awarding contracts of electricity delivery for long periods which aims to ensure the transparency of transactions through contracts for the sale-purchase of electricity for long periods of delivery (September 2020).

On the competitive market, in 2020 the transaction prices for 2021 were influenced by the effects of the pandemic caused by the Covid 19 virus. From the chart below you can see the instability caused by this pandemic with major impact on consumption (in April 2020 the decrease in internal consumption was about 15 percentage points). With the implementation of measures specific to such emergencies, the price of electricity registered a relative capping in the second and third quarters, followed by a price increase in the last quarter of 2020 (generated by rising prices in the power commodity area) .



Source: Hidroelectrica internal analyzes

- The export-import balance in 2020 was negative, Romania continuing to be an importer of electricity:

<b>EXPORT*</b>	<b>4,580 GWh</b>
<b>IMPORT*</b>	<b>7,380 GWh</b>
<b>BALANCE</b>	<b>-2,800 GWh</b>

No.	Indicator	u.m.	December 2019	December 2020	%	2019	2020	%
0	1	2	3	4	5=4/3 *100	6	7	8=7/6*100
1	Energy produced	TWh	5.10	5.24	102.75	57.02	53.74	94.25
2	Energy supplied	TWh	4.80	4.94	102.92	53.63	50.79	94.71
3	Import	TWh	0.60	0.57	95.00	5.07	7.38	145.57
4	Export	TWh	0.45	0.42	93.34	3.55	4.58	129.02
5	Internal consumption (2+3-4)	TWh	4.95	5.10	103.03	55.15	53.59	97.18
6	Consumption of household customers:	TWh	1.20	1.30	108.34	12.98	13.62	104.93
6.1.	- in US / regulated regime	TWh	0.75	0.79	105.34	8.40	8.40	100.00
6.2.	- in a competitive regime	TWh	0.45	0.51	113.34	4.58	5.22	113.98
7	Consumption of non-household customers:	TWh	3.01	3.06	101.67	36.52	34.65	94.88
7.1.	- in SU / UI mode and inactive	TWh	0.09	0.08	88.89	1.00	0.87	87.00
7.2.	- in a competitive regime	TWh	2.92	2.98	102.06	35.52	33.78	95.11

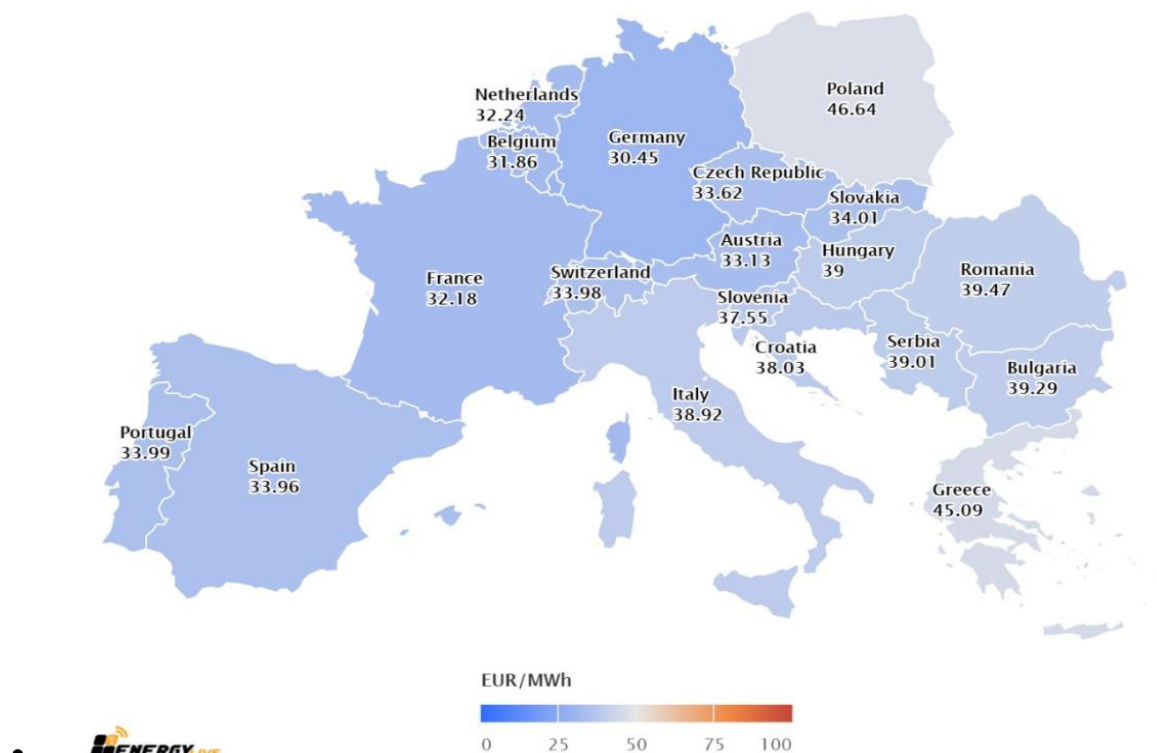
<https://www.anre.ro/ro/energie-electrica/rapoarte/rezultate-monitorizare-piata-energie-electrica/20201586509371>

\*source: ANRE Report 2020

- SPOT price in Europa



## Yearly day-ahead electricity prices for 2020



Source: Energy LIVE

*For Romania: OPCOM report 2020:*

[https://www.opcom.ro/opcom/uploads/doc/rapoarte/Anual/RS\\_2020\\_RO.pdf](https://www.opcom.ro/opcom/uploads/doc/rapoarte/Anual/RS_2020_RO.pdf)

*For Europa: graphic by EnergyLive*

## 5. COMPANY ADMINISTRATION AND MANAGEMENT. CORPORATE GOVERNANCE

### CORPORATE GOVERNANCE

The corporate governance within Hidroelectrica has as references EGO no.109 / 2011, regarding the corporate governance of public enterprises, republished, with subsequent amendments and completions, Hidroelectrica's Articles of Association, the provisions of SR EN ISO 9001: 2015 Quality management systems - Requirements, SR EN ISO 31000: 2018 Risk management - Guidelines and OSGG 600/2018 updated for the approval of the Code of internal managerial control of public entities. The requirements of these regulations are convergent and can be found in the documents resulting from the implementation and development of procedures M01.001 Strategic Planning, M02.001 Evaluation Modeling the Process Map and the Internal Management Control System of Hidroelectrica and M02.010 Implementation Evaluation a process through which is established the framework / way of determining, regulating, managing and executing the activities / operations in a **professional, coherent, transparent, integral and simple manner**, having a constructive and common approach, at the level of the entire company.

By its policy, approved by the company's Supervisory Board, Hidroelectrica intends to have a management system complying the requirements of quality, environmental and occupational safety and health management standards, continuously monitored and adapted / optimized, with reference to the identification, implementation and monitoring of applicable requirements, the Plan-Perform-Verify-Act cycle and reflection based on risk and opportunity. This compliance is demonstrated by the certification of the quality management system - SR EN ISO 9001: 2015, the environmental management system - SR EN ISO 14001: 2015 and the occupational health and safety management system SR OHSAS 18001: 2008 of Hidroelectrica by SRAC, IQNET partner (The International Certification Network) - RENAR accredited certification body.

Considering the performance indicator established by Hidroelectrica Management Plan for the 2019-2023 regarding the implementation / validation of the implementation each year of a number of 4 standards according to the Order of the General Secretariate of the Government no. 600/2018 on the approval of the Code of internal managerial control of public entities, during 2020 the following standards were reviewed and confirmed as being implemented: Standard 5 - Objectives, Standard 6 - Planning, Standard 7 - Performance monitoring, Standard 16 - Internal Audit.

Hidroelectrica has a permanent concern for preventing and combating human rights abuses, as well as for establishing and developing tools to combat corruption and bribery.

The Code of Ethics approved by the Supervisory Board is a guide for the company's management and employees regarding professional conduct and ways to solve issues of business' ethics.

The members of the Supervisory Board are appointed by the Ordinary General Meeting of Shareholders, and the Directorate is appointed by the Supervisory Board, exercising their attributions under the control of the Supervisory Board (consisting of 7 members).

### **Supervisory Board**

On 05.02.2019, the shareholders appointed the members of the Supervisory Board with a term of office of 4 years:

<b>No.</b>	<b>SB Member</b>
<b>1.</b>	<b>Ioana-Andreea LAMBRU (Chairperson)</b>
<b>2.</b>	<b>Daniel NAFTALI</b>
<b>3.</b>	<b>Mihai MIHALACHE</b>
<b>4.</b>	<b>Karoly BORBELY</b>
<b>5.</b>	<b>Cătălin POPESCU</b>
<b>6.</b>	<b>Carmen RADU</b>
<b>7.</b>	<b>Cristian-Nicolae STOINA</b>

Within the Supervisory Board, the following committees are appointed, having an advisory role:

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



## Directorate

Starting 10.06.2019, the members of the Directorate were appointed for a period of 4 years.

The members of the Directorate during 2020 are presented below.

<b>Bogdan-Nicolae BADEA</b>	<b>10.06.2019</b>	<b>09.06.2023</b>	<b>SB Decision 39 on 03.06.2019</b>
<b>Marian BRATU</b>	10.06.2019	09.06.2023	SB Decision 40 on 03.06.2019
<b>Răzvan-Ionuț PAȚALIU</b>	10.06.2019	09.06.2023	SB Decision 41 on 03.06.2019
<b>Radu-Cristian POP</b>	10.06.2019	09.06.2023	SB Decision 42 on 03.06.2019
<b>Cristian VLĂDOIANU</b>	10.06.2019	09.06.2023	SB Decision 43 on 03.06.2019

In accordance with Art. 51 of GEO no. 109/2011, with subsequent amendments and completions, the company posted on its website the followings: the structure of the Supervisory Board, the advisory committees, as well as the Management Board, the resumes of the members of the Supervisory Board and the Directorate, their remuneration, the Code of Ethics, Statutory financial statements on 30.06.2019, decisions of the General Meeting of Shareholders, etc..

On 25.07.2019, the General Meeting of Shareholders approved, with majority of votes, the company's Management Plan, as well as the financial and non-financial performance indicators of the members of company's Supervisory Board and the Directorate.

Below are presented the approved performance indicators and the ratio of fulfillment on 31.12.2020:

### Total degree of fulfillment of the KPI for the year 2020

No.	Key performance indicators (KPI) HE Directorate	2020						
		Target	Value of target	Realized value	Ratio of fulfilling of KPI target (%)	Weightin g coefficient KPI (%)	Result (%)	Target
Financial KPI								
1	Turnover (mil. RON)	min. 90% of REB	3,788	3,409	3,840	113	10	11,26
2	EBITDA margin (%)	min. 90% of REB	59%	53%	71%	132	10	13,24
3	Gross profit (mil. RON)	min. 90% of REB	1,422	1,279	1,782	139	15	20,90
4	Current liquidity	min. 1	1	1	7.6	200	5	10,00
5	Net debt ratio	max. 3	3	3	-0.1	200	5	10,00
6	Outstanding payments to the state budget (ths RON)	0	0	0	0	100	5	5,00
Operational KPI								
1	Achievement of investment program in refurbishments / modernizations (%)	min. 55%	111,153	47,517	84,382	178	10	17,76
2	Achievement of physical maintenance program for planned works (%)	min. 55%	5,102	2,806	4,235	151	10	15,09

3	Availability of hydro units (%)	min. 75%	100%	75%	91%	122	5	6,09
<b>KPI Public service-oriented</b>								
1	Performing ancillary services necessary to ensure the operational stability of the NES (secondary control reserve and fast tertiary control reserve). at the request of NED (%)	min. 90%	6,429,796	5,786,816	6,429,796	111	5	5,56
2	Fulfilling the obligations to supply electricity from sales contracts (%)	min. 90%	15,963,033	14,366,730	15,963,033	111	5	5,56
<b>KPI on corporate governance</b>								
1	Timely preparation of the revenue and expenditure budget (%)	100%	100%	100%	100%	100	3	3,00
2	Establish risk management policies and risk monitoring (%)	min. 80%	100%	80%	91%	114	3	3,41
3	Implementation of the internal managerial control system	min. 4 standard	100%	4	4	100	3	3,00
4	Development of reporting and control capabilities according to REB principles	100%	100%	100%	100%	100	3	3,00
5	Preparing and completion of the listing process Note 2 *	100%	100%	100%	50%	50	3	1,50
<b>Total degree of compliance KPI HE Directorate (%)</b>								<b>134.27</b>

\* Calculated according to the form S1040-Annual accounting report to ANAF

**Note 1.** The 2020 completion percentage was calculated in accordance with the 2020 allocation decreased by the amount of RON 24,758 thousand, distributed on the Vidraru Refurbishing project following the approval of the cancellation report of the procedure and other savings.

**Note 2.** Currently, during the preparation and realization of the listing process, the service contracts were signed with the legal consultant (Dentons Europe SPARL), as well as the 'equity adviser' consultant (STJ Advisors Group Ltd.). Following the promulgation in August of law 173/2020, which provides for the suspension of operations for the sale of shares held by the Romanian state for a period of 2 years, the preparation phase of the listing process, at the end of which we hire the authorized intermediary, has been suspended.

## 6. FINANCIAL AND ECONOMIC ACTIVITY

### Statement of financial position as on December 31, 2020

	Individual statements		Consolidated statements	
	31.Dec.20	31.Dec.19	31.Dec.20	31.Dec.19
<b>Assets</b>				
<b>Fixed assets</b>	13,895,332	14,695,506	13,950,681	14,695,506
<b>Tangible assets</b>	3,357	3,442	4,598	3,442
<b>Intangible assets</b>	28,755	-	-	-
<b>Restricted cash</b>	10,257	-	10,257	-

<b>Other fixed assets</b>	220,300	216,776	220,280	216,776
<b>Total fixed assets</b>	14,158,001	14,915,724	14,185,816	14,915,724
<b>Current assets</b>				
<b>Inventories</b>	59,652	70,883	68,255	70,883
<b>Receivables</b>	354,790	327,536	361,526	327,536
<b>Bank deposits</b>	1,730,071	1,736,855	1,730,071	1,736,855
<b>Restricted cash</b>	-	10,257	-	10,257
<b>Cash and cash equivalent</b>	343,410	222,977	354,845	222,977
<b>Other current assets</b>	13,635	8,197	15,934	8,197
<b>Total current assets</b>	2,501,558	2,376,705	2,530,631	2,376,705
<b>Total assets</b>	16,659,559	17,292,429	16,716,447	17,292,429
<b>Equity and debts</b>				
<b>Equity</b>				
<b>Share capital</b>	4,484,475	4,482,393	4,484,475	4,482,393
<b>Inflation adjustment of share capital</b>	1,028,872	1,028,872	1,028,872	1,028,872
<b>Public patrimony</b>	45,285	39,619	45,285	39,619
<b>Revaluation reserve</b>	6,094,877	6,458,436	6,094,877	6,458,436
<b>Other reserves</b>	777,064	687,947	780,501	687,947
<b>Retained earnings</b>	2,096,479	2,398,101	2,084,633	2,398,101
<b>Total equity</b>	14,527,052	15,095,368	14,518,643	15,095,368
<b>Liability</b>				
<b>Long-term debt</b>				
<b>Bank loans</b>	-	26,446	3,395	26,446
<b>Leasing</b>	14,630	14,530	14,630	14,530
<b>Deferred income</b>	144,648	155,794	144,943	155,794
<b>Deferred tax liabilities</b>	686,746	708,992	692,353	708,992
<b>Employee benefits</b>	101,516	101,207	117,136	101,207
<b>Provisions</b>	620,020	582,561	620,020	582,561
<b>Trade payables</b>	-	13,738	5,643	13,738
<b>Other liabilities</b>	8,916	14,096	30,850	14,096
<b>Total long-term debt</b>	1,576,476	1,617,364	1,628,970	1,617,364
<b>Current debts</b>				
<b>Long-term bank loans</b>	26,944	43,561	28,527	43,561
<b>The current portion of the lease</b>	6,384	5,065	6,384	5,065
<b>Trade payables</b>	194,326	161,426	172,746	161,426
<b>Debts related to contracts with clients</b>	73,660	31,460	73,660	31,460
<b>Current profit tax</b>	81,406	181,676	81,406	181,676
<b>Revenues recorded in advance</b>	5,528	5,538	5,528	5,538

Employee benefits	62,734	32,019	77,260	32,019
Provisions	85,919	98,756	88,498	98,756
Other current debts	19,130	20,196	34,825	20,196
<b>Total current debts</b>	<b>556,031</b>	<b>579,697</b>	<b>568,834</b>	<b>579,697</b>
<b>Total debts</b>	<b>2,132,507</b>	<b>2,197,061</b>	<b>2,197,804</b>	<b>2,197,061</b>
<b>Total equity and debt</b>	<b>16,659,559</b>	<b>17,292,429</b>	<b>16,716,447</b>	<b>17,292,429</b>

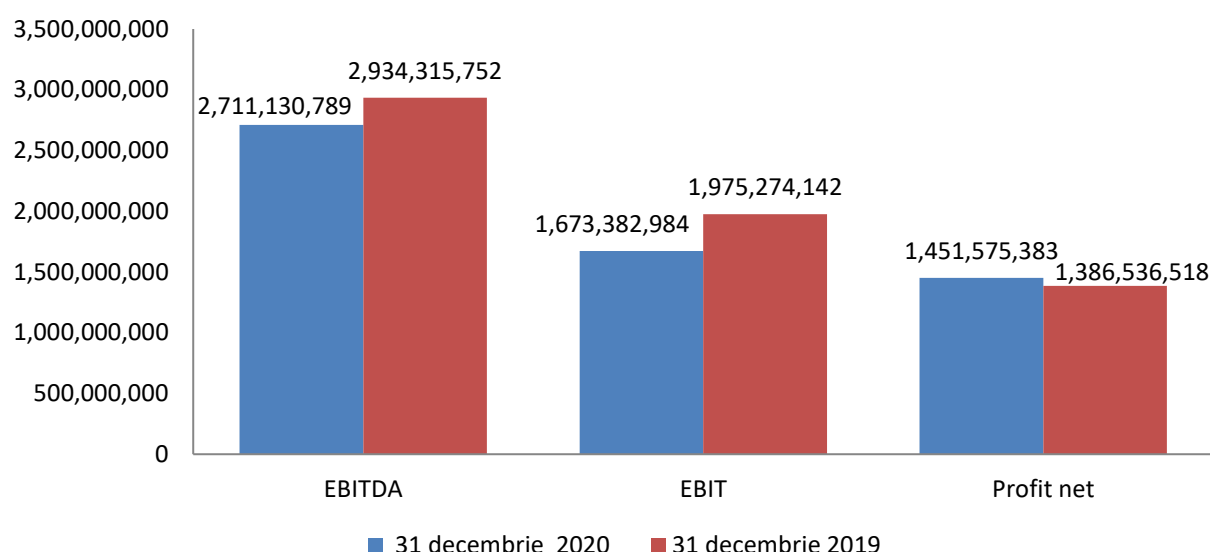
### Profit / loss statement and other comprehensive income:

Thousand RON

	Individual statements		Consolidated statements	
	31.Dec.20	31.Dec.19	31.Dec.20	31.Dec.19
<b>Revenues</b>				
Sale of electricity	3,828,344	4,142,447	3,841,443	4,142,447
Other operating revenues	22,094	34,761	35,326	34,761
<b>Total revenues</b>	<b>3,850,438</b>	<b>4,177,208</b>	<b>3,876,769</b>	<b>4,177,208</b>
<b>Operating expenses</b>				
Purchased electricity	(15,383)	(25,775)	(15,383)	(25,775)
Depreciation of tangible and intangible assets	(764,920)	(737,518)	(766,581)	(737,518)
Resumption of adjustments for the depreciation of tangible and intangible assets, net	(177,106)	34,529	(177,106)	34,529
Value adjustments of trade receivables and other receivables, net	(16,128)	(1,117)	(18,110)	(1,117)
Stock value adjustments	(27,434)	(247)	(27,280)	(247)
Payroll and other remuneration	(470,536)	(396,671)	(500,355)	(396,671)
Turbinated water	(307,077)	(327,629)	(307,077)	(327,629)
Materials and consumables	(9,379)	(9,576)	(16,933)	(9,576)
Repairs and maintenance	(133,482)	(101,777)	(86,879)	(101,777)
Changes in provisions	(31,463)	(325,353)	(33,400)	(325,353)
Other operating expenses	(224,147)	(310,800)	(233,977)	(310,800)
<b>Total operating expenses</b>	<b>(2,177,055)</b>	<b>(2,201,934)</b>	<b>(2,183,081)</b>	<b>(2,201,934)</b>
<b>Operating profit</b>	<b>1,673,383</b>	<b>1,975,274</b>	<b>1,693,688</b>	<b>1,975,274</b>
<b>Financial income</b>	<b>111,341</b>	<b>113,776</b>	<b>82,241</b>	<b>113,776</b>
<b>Financial expenses</b>	<b>(2,369)</b>	<b>(7,824)</b>	<b>(2,365)</b>	<b>(7,824)</b>
<b>Net financial result</b>	<b>108,972</b>	<b>105,952</b>	<b>79,876</b>	<b>105,952</b>
<b>Profit before tax</b>	<b>1,782,355</b>	<b>2,081,226</b>	<b>1,773,564</b>	<b>2,081,226</b>

<b>Income tax</b>	(330,780)	(694,689)	(330,397)	(694,689)
	1,451,575	1,386,537	1,443,167	1,386,537
<b>Other elements of the overall result</b>				
<b>Revaluation reserve adjustments, net of tax</b>	(24,357)	(52,015)	(24,357)	(52,015)
<b>Other elements of the overall result</b>	(24,357)	(52,015)	(24,357)	(52,015)
<b>Total overall result</b>	1,427,218	1,334,522	1,418,810	1,334,522

LEI



\* EBITDA (Profit before interest, tax, depreciation and amortization) is defined and calculated based on profit (loss) before adjusted tax by i) depreciation and amortization / resumption of impairment of tangible and intangible assets, ii) movements in provisions, iii) value adjustments / resumption of adjustments of net current assets and iv) financial result. In the calculation of EBITDA for 2019, the profit before tax was adjusted with provisions used in 2019 following the loss of the dispute (ICC 19414 / MHM arbitration file) with Andritz Hydro GmbH (RON 71,302,700).

The method of calculating EBITDA used by other companies may be significantly different from the one used by the company. Consequently, the EBITDA presented in this note cannot be used, as such, for the purpose of comparison with EBITDA of other companies.

**EBIT - represents the profit before the payment of interest and tax (operational profit).**

**Income tax increased in 2019 because of the taxation of retained earnings from revaluation reserves used to pay special dividends as well as to cover value adjustments of current objectives, as shown below:**

a) For 2020:

- The distribution of special dividends in the amount of RON 508,020,287 from the revaluation reserves, previously transferred to the carried forward result and which, according to the fiscal legislation, are taxed at the moment of changing the destination insofar as they were previously tax deducted;

b) For 2019

- Distribution of dividends in the amount of RON 1,000,000,000 from revaluation reserves previously transferred to the retained earnings and which, according to the fiscal legislation, are

- taxed at the moment of changing the destination; and
- Changing the destination of revaluation reserves by covering the accounting corrections (losses) registered in 2018 on account of the retained earnings in the amount of RON 1,574,162,178.

In 2020, the company distributed dividends in the amount of RON 2,003,281,336 (4.47 RON / share) from the profit of 2019 and from the carried forward result, representing the revaluation reserve transferred as the depreciation or cassation of tangible assets. According to the Fiscal Code, the revaluation reserve registered before 2004 transferred to the carried forward result as the related depreciation and cassation of the related tangible assets was taxed as a result of the change of destination.

	<b>Dividends distributed in 2020</b>
<b>Dividends distributed from the profit of the year 2019</b>	<b>1,253,281,336</b>
<b>Dividends distributed from retained earnings representing revaluation reserves transferred</b>	<b>750,000,000</b>
<b>Total</b>	<b>2,003,281,336</b>

In 2019, the company distributed dividends in the amount of RON 2,798,679,809 from the following sources:

	<b>Dividends distributed in 2019</b>
<b>Dividends distributed from the profit of the year 2018</b>	<b>1,798,679,809</b>
<b>Dividends distributed from retained earnings representing revaluation reserves transferred</b>	<b>1,000,000,000</b>
<b>Total</b>	<b>2,798,679,809</b>

In 2020, dividends were paid in the amount of RON 2,003,281,336, and in 2019, dividends were paid in the amount of RON 2,935,698,041.



## Situation of cash flows

	Individual statements		Consolidated statements	
	31.Dec.20	31.Dec.19	31.Dec.20	31.Dec.19
<b>Cash flows from operating activities:</b>				
Net profit	1,451,575	1,386,537	1,443,167	1,386,537
<i>Adjustments for non-monetary items:</i>				
Depreciation of tangible assets	763,686	735,399	765,347	735,399
Depreciation of intangible assets	1,234	2,119	1,234	2,119
Resumption of value adjustments of tangible assets, net	177,106	(34,529)	177,106	(34,529)
Expenses from revaluation of tangible assets, net	(28,755)	-	-	-
Expenses with value adjustments of trade and other receivables, net	16,226	1,117	18,110	1,117
Expenses with value adjustments of inventories	27,434	247	27,280	247
Revenues from taking control of the Hidroserv subsidiary	-	-	(13,009)	-
Loss / (profit) on disposal of tangible assets	15,511	254	19,066	254
Revenue from investment subsidies	(5,498)	(5,527)	(5,500)	(5,527)
Unrealized losses due to exchange rate differences	1,087	2,439	1,087	2,439
Interest income	(61,979)	(86,127)	(61,986)	(86,127)
Interest expenses	680	344	680	344
Income tax expense	330,779	694,690	330,397	694,690
	2,689,086	2,696,963	2,702,979	2,696,963
<b>Changes in:</b>				
Trade receivables	(41,904)	119,604	(29,665)	119,604
Other assets	(10,538)	(2,089)	(926)	(2,089)
Inventories	(16,203)	(1,129)	(7,441)	(1,129)
Trade payables	7,841	1,056	(12,728)	1,056
Deferred Revenues	8	11,300	8	11,300
Employees' benefits	31,024	5,502	25,539	5,502
Provisions	24,621	247,016	22,665	247,016
Other liabilities	36,615	(1,586)	30,446	(1,586)
Cash generated from operating activities	2,720,550	3,076,637	2,730,877	3,076,637
Interest paid	(680)	(344)	(1,496)	(344)
Profit tax paid	(453,295)	(655,371)	(453,295)	(655,371)
Net cash from operating activity	2,266,575	2,420,922	2,276,086	2,420,922
<b>Cash flows from investment activity:</b>				
Payments for acquisitions of tangible assets	(160,125)	(136,162)	(166,733)	(136,162)
Payments for acquisitions of intangible assets	(1,149)	(1,245)	(2,391)	(1,245)
Proceeds from the sale of tangible assets	-	1,780	494	1,780
Interest received	63,762	100,939	63,771	100,939
Payments for deposits with an initial maturity of more than 3 months	(3,210,000)	(9,246,000)	(3,210,000)	(9,246,000)

Receipts from deposits with an initial maturity of more than 3 months	3,215,000	9,991,000	3,215,000	9,991,000
The impact of taking control of the Hidroserv subsidiary			9,426	
Net cash from / (used in) investment activity	(92,512)	710,312	(90,433)	710,312
<b>Cash flows from financing activity</b>				
Cash contributions to share capital	415	-	415	-
Loan repayments	(44,149)	(43,258)	(44,303)	(43,258)
Leasing	(6,615)	(5,065)	(6,615)	(5,065)
Dividends	(2,003,281)	(2,935,698)	(2,003,281)	(2,935,698)
Net cash used in financing activity	(2,053,630)	(2,984,021)	(2,053,784)	(2,984,021)
Net increase / (decrease) in cash and cash equivalents	120,433	147,213	131,869	147,213
Cash and cash equivalents as on January 1	222,976	75,764	222,976	75,764
Cash and cash equivalents as on 31 December	343,409	222,977	354,845	222,977

Indicator (ths. Ron)	2020	2019	Variation (%)
Net income	1,451,575	1,386,537	4.7%
Gross operating profit	1,673,383	1,975,274	-15.3%
Turnover	3,839,909	4,149,243	-7.5%
Operating expenses	2,177,055	2,201,934	-1.1%
EBITDA*	2,711,131	2,934,316	-7.6%
Liquidity (cash, restricted cash and cash equivalents plus bank deposits)	2,083,738	1,970,089	5.8%

\* Calculated according to form S1040 Annual accounting report to ANAF.

\*\* EBITDA (Profit before interest, tax, depreciation and amortization) is defined and calculated based on profit (loss) before tax adjusted by i) depreciation and amortization / resumption of impairment of tangible and intangible assets, ii) movements in provisions, iii) value adjustments / resumption of adjustments of net current assets and iv) financial result. In the calculation of EBITDA for 2019, the profit before tax was adjusted with provisions used in 2019 following the loss of the dispute (ICC 19414 / MHM arbitration file) with Andritz Hydro GmbH (RON 71,302,700).

The method of calculating EBITDA used by other companies may be significantly different from the one used by our company. Consequently, the EBITDA presented in this note cannot be used, as such, for the purpose of comparison with EBITDA of other companies.

Note: The financial information presented in the table above is unconsolidated.

#### Main financial and non-financial indicators

Indicator [RON]	Calculation formula	u.m.	2020	2019
<b>EBITDA*/CA</b>				
EBITDA*/Equity	EBITDA*/CA	%	70.60%	70.72%
Gross profit/CA	EBITDA*/Equity	%	18.66%	19.44%
Gross profit / Equity	Gross profit/CA	%	46.42%	50.16%
Net profit/Total assets	Gross profit / Equity	%	12.27%	13.79%
EBITDA*/CA	Net profit/Total assets	%	8.72%	8.02%
<b>Liquidity and solvency indicators</b>				
Current liquidity indicator	Current assets /DPTS	X	7.58	5.96

<b>Immediate liquidity indicator</b>	Current assets – Inventories/DPTS	X	7.41	5.80
<b>Patrimonial solvency</b>	Equity /Total debts	X	6.87	6.87
<b>Risk indicators</b>				
<b>Debt indicator</b>	Borrowed capital / Equity	x.	0.33%	0.59%
<b>Activity indicators</b>				
<b>Rotation speed of flows-clients gross value</b>	Average customer balance * 365/CA	days	31	34
<b>Credit turnover of suppliers</b>	Average supplier balance adjusted VAT * 365/CA	days	14	13

\* EBITDA (Profit before interest, tax, depreciation and amortization) is defined and calculated on the basis of profit (loss) before tax adjusted by i) depreciation and amortization / resumption of impairment of tangible and intangible assets, ii) movements in provisions, iii) value adjustments / resumption of adjustments of net current assets and iv) financial result. In the calculation of EBITDA for 2019, the profit before tax was adjusted with provisions used in 2019 following the loss of the dispute (ICC 19414 / MHM arbitration file) with Andritz Hydro GmbH (RON 71,302,700).

The method of calculating EBITDA used by other companies may be significantly different from that used by our company. Consequently, the EBITDA presented in this note cannot be used, as such, for the purpose of comparison with EBITDA of other companies.

## Company's results

No.	Indicator [thousand Ron]	Achieved 2020	Achieved 2019	Variation (%)
0	1	2	3	4=2/3
1	Operating revenues	3,850,438	4,177,208	92
2	Operating expenses	2,177,055	2,201,934	99
3	<b>Operating profit</b>	1,673,383	1,975,274	85
4	Financial expenses	2,369	7,824	30
5	Financial income	111,341	113,776	98
6	<b>Net financial income / expenses</b>	108,972	105,952	103
7	<b>Profit before tax</b>	1,782,355	2,081,226	86
8	Income tax expenses, net	330,780	694,689	48
9	<b>Profit for the financial year</b>	1,451,575	1,386,537	105

## Execution of the Revenue and Expenditure Budget on 31 December 2020

The income and expenditure budget are prepared at the level of the individual financial statements.

In 2020, all revenue indicators were exceeded (total revenues were 102% of budgeted revenues). Expenditure indicators - including salary related - were met (total expenditure was 89% of the budget).

Thousand Ron

		%			
	Indicators*	No.	REB 2020 approved	Achieved 2020	Achieved vs. Approved
		rd.			[col.5/ col 4]
1	2	3	4	5	6
I.	TOTAL INCOME	1	3,872,628	3,962,822	102%
	(Row2+Row5+Row6)				
1.	Total operating income, of which:	2	3,794,248	3,871,037	102%
	Subsidies, according to the legal provisions in force	3	-	-	0%
	Transfers, according to the legal provisions in force	4	-	-	0%
2.	Financial income	5	78,379	91,785	117%
3.	Extraordinary income	6	-	-	0%
II.	TOTAL EXPENSES	7	2,451,087	2,180,467	89%
	(Row8+Row20+Row21)				
1.	Operating expenses	8	2,419,889	2,177,055	90%
	(Row9+Row10+Row11+ Row19)				
A.	Expenditure on goods and services	9	791,214	505,791	64%
B.	Expenses with taxes, fees and assimilated payments	10	65,472	40,312	62%
C.	Staff expenditures	11	507,016	472,922	93%
	(Row12+Row15+Row17+Row18)				
C0	Salary related expenditure	12	467,708	434,617	93%
	(Row13+Row14)				
C1	Payroll expenditures	13	430,731	401,991	93%
C2	Bonuses	14	36,977	32,626	88%
C3	Other personnel related costs, of which:	15	16,100	16,856	105%
	Expenses with compensatory payments related to employee availability	16	1,000	226	23%
C4	Expenditures related to the mandate contract and other management and control bodies, commissions, and committees	17	9,117	8,205	90%
C5	Expenses with insurance and social protection, special funds and other legal obligations	18	14,091	13,244	94%
D.	Other operating expenses	19	1,056,187	1,158,030	110%
2.	Financial expenses	20	31,198	3,412	11%
3.	Extraordinary expenses	21	-	-	0%
III.	GROSS RESULT	22	1,421,540	1,782,355	125%
	(profit/loss)				
	(Row1-Row7)				
IV.	INCOME TAX	23	368,336	330,780	90%
V.	ACCOUNTING PROFIT AFTER DEDUCTING INCOME TAX	24	1,053,204	1,451,575	138%

\* The values of the indicators are calculated according to the budget law for 2020

### **Financial auditors' fees**

Fees for professional services provided by KPMG Audit S.R.L. to the company in the period covered by the financial statements for the financial year ended 31 December 2020 and until the date of this Report (the period from 1 January 2021 until the date of this report) are the following:

- Financial audit services on the Financial Statements prepared in accordance with OMFP 2844/2016 – RON 361,286 (for the year ended December 31, 2020);
- Financial audit services on the Consolidated Financial Statements prepared in accordance with IFRS - RON 165,996 (for the year ended December 31, 2020);
- Non-audit services - RON 0 (for the year ended December 31, 2020).

## **7. DOMAINS OF ACTIVITY**

### **7.1 PRODUCTION AND OPERATION**

#### **Evolution of electricity consumption and production in 2020**

The total installed power in NES in 2020 was 20,581.81 MW (plants with commercial exploitation license ANRE) of which 4,787.2 MW in coal-fired power plants, 3,205.1 MW in hydrocarbon power plants, 6,643.09 MW in hydro power plants, 1,413 MW in nuclear power plants, 3,013.16 MW in wind power plants, 137.48 MW in biomass-based power plants and 1,381.84 MW in photovoltaic power plants and 0.05 MW in geothermal power plants.

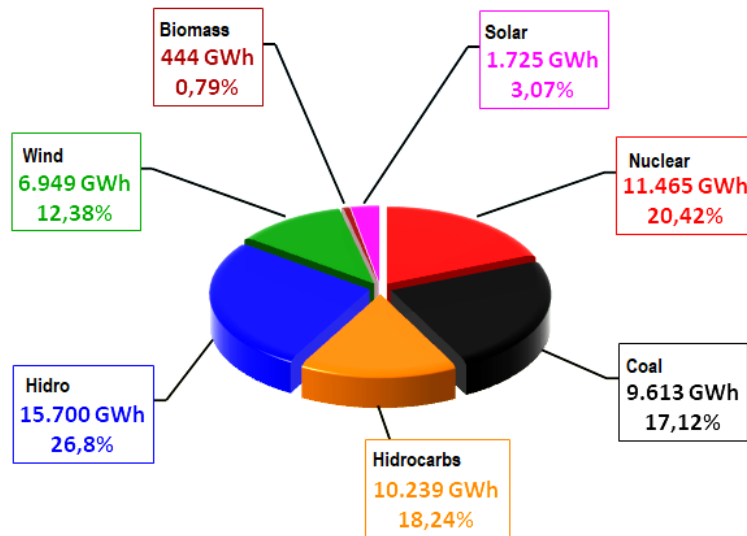
Romania's domestic electricity consumption in 2020 was 58,919 GWh, with a value 3.46% lower than the value recorded in 2019 (61,032 GWh).

Electricity production in 2020 was 56,135 GWh, of which 11,465 GWh produced in coal-fired power plants, 10,239 GWh in hydrocarbon power plants, 11,465 GWh in nuclear power plants, 15,700 GWh in hydroelectric power plants (of which 14,966 GWh in hydroelectric power plants under Hidroelectrica administration), 6,949 GWh in wind power plants, 444 GWh in biomass-based power plants and 1,725 GWh in photovoltaic power plants.

The electricity produced in the Hidroelectrica installations represented 26.65% of the total production of the country. The share of production in Hidroelectrica installations compared to the total production of NES was between 36.8% (June) and 20% (January).

The production achieved in 2020 in the hydroelectric power plants under administration was 1.57% (239 GWh) lower than the one achieved in the previous reporting year 2019.

**The structure of Romania's electricity production in 2020, according to the nature of the fuel - data NED**

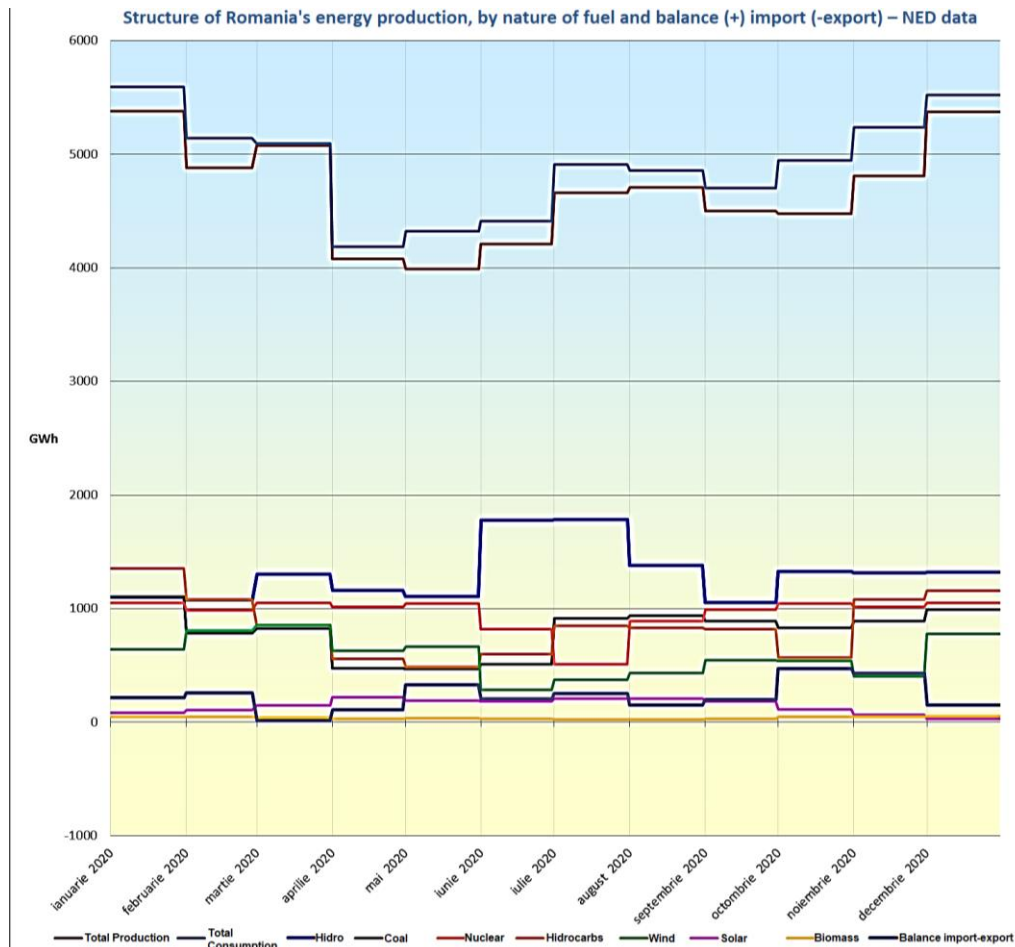
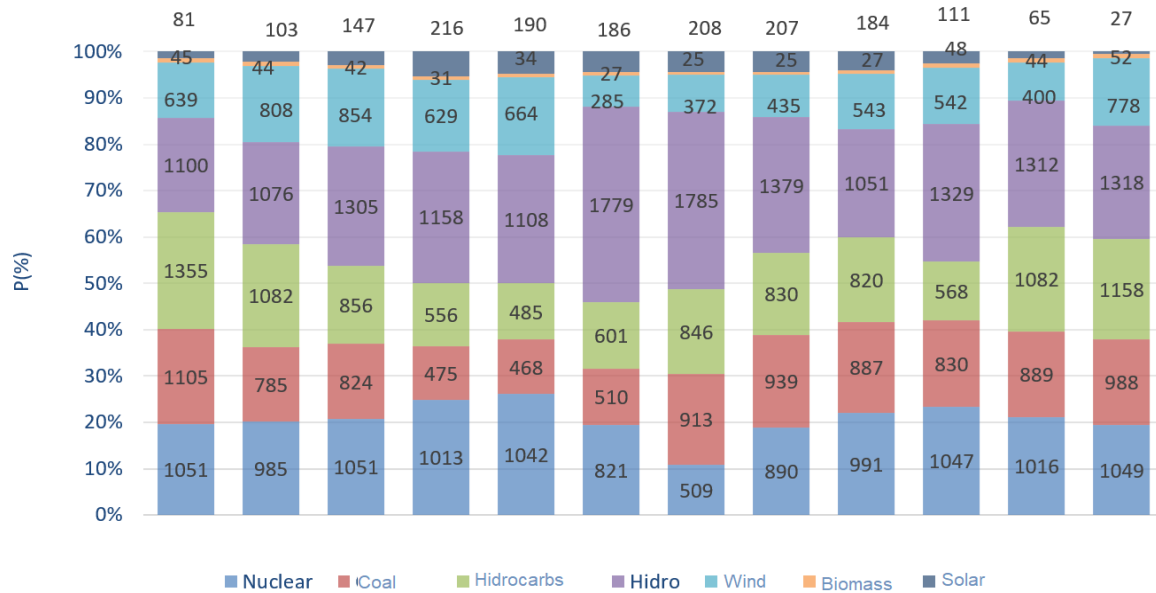


The table below shows the participation in the monthly coverage of the NES load schedule of Romanian producers (depending on the type of fuel).

[GWh]										
Month	Consumption	Production	Production	Production	Production	Production	Production	Production	Production	
	total	nuclear	coal	hydrocarb	hydro	wind	biomass	fvolt	total	Exp (-)
										Imp (+)
Jan	5,593	1,051	1,105	1,355	1,100	639	45	81	5,376	-529
Feb	5,141	985	785	1,082	1,076	808	44	103	4,883	-470
Mar	5,093	1,051	824	856	1,305	854	42	147	5,079	-434
Apr	4,185	1,013	475	556	1,158	629	31	216	4,078	-336
May	4,321	1,042	468	485	1,108	664	34	190	3,991	-283
Jun	4,412	821	510	601	1,779	285	27	186	4,209	-253
Jul	4,909	509	913	846	1,785	372	25	208	4,658	-238
Aug	4,857	890	939	830	1,379	435	25	207	4,705	-292
Sep	4,703	991	887	820	1,051	543	27	184	4,503	-292
Oct	4,945	1,047	830	568	1,329	542	48	111	4,475	-252
Nov	5,237	1,016	889	1,082	1,312	400	44	65	4,808	-214
Dec	5,523	1,049	988	1,158	1,318	778	52	27	5,370	-418
Total 2020	58,919	11,465	9,613	10,239	15,700	6,949	444	1,725	56,135	-4,011



### Monthly shares of Romania's electricity production in 2020 (by nature of fuel - NED data)



### Hidroelectrica's production of energy

Hidroelectrica's gross energy production was 14,965 GWh.

Energy production in hydroelectric power plants in 2020 was obtained in a quota of 98.6% due to the natural influx, registering a deployment of 107.85 million cubic meters (202.67 GWh), the energy reserve of large lakes of accumulation decreased from 2,229.86 GWh on 31.12.2019 (1,747.02 million cubic meters of stock) to 2,027.19 GWh on 31.12.2020 (1,639.18 million cubic meters of stock).

### Providing ancillary services

Hidroelectrica, through the volume and quality of the ancillary services provided, is one of the main factors that contribute to ensuring the stability in operation of NES.

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

Name of service	UM	Auctioned	Assigned	Contracted	Achieved
Secondary control reserve	hMW	2,141,476	4,600	2,146,076	2,146,076
UP fast tertiary reserve	hMW	3,735,418	2,880	3,738,298	3,738,298
DOWN fast tertiary reserve	hMW	545,422	0	545,422	545,422
Reactive energy discharged or absorbed from the network into the secondary voltage control band	Hrs X group	-	-	7,421	7,421

The following table and figures show the volume of ancillary services performed in 2020 by Hidroelectrica compared to the total at NES level.

Name of service	UM	NES need	Achieved by Hidroelectrica	* Achieved HE (%)
Secondary control reserve	hMW	3,795,000	2,146,076	56.55%
UP fast tertiary reserve	hMW	5,180,100	3,738,298	72.16%
DOWN fast tertiary reserve	hMW	842,150	545,422	64.77%
Reactive energy discharged or absorbed from the network into the secondary voltage control band	Hrs X group	7,421	7,421	100%

*\*(%) of the NES values*

Following the regulations regarding the qualification of domestic producers as ancillary service providers (Transelectrica procedure PO TEL-07 V OS-DN / 154/2001), Hidroelectrica continued in 2020 the qualification program of its units.

Compared to the previous reporting year, the situation is unchanged, currently Hidroelectrica obtaining the qualification for the following ancillary services:

- Secondary frequency - power control → 28 hydro-aggregates;
- Fast Tertiary Reserve → 95 Hydro Aggregates;
- Reactive power regulation in the secondary voltage adjustment band → 28 hydro-aggregates;

- Restoration of NES → 5 hydro-aggregates;

We should mention that the qualification process has a permanent character, each qualified unit for the provision of ancillary services must periodically reconfirm, through tests, the ability to perform the ancillary services for which it was initially qualified.

### **Dynamics of power installed in Hidroelectrica in 2020. HPP participation in the power balance**

In Hidroelectrica's installations, a number of 187 capacities with a capacity of 6,372,172 MW were in operation on 31.12.2020.

Compared to 2019, the installed power in operation in the hydroelectric power plants from the Hidroelectrica patrimony was reduced by 60.158 MW, according to the Commercial Operation License no. 332 / 24.07.2001.

The maximum value (percentage of terminal production) of domestic consumption for production and processing was registered at the Curtea de Argeș branch (including Buzau plant) (2.15%) and the minimum value was registered at the Portile de Fier branch (including Tg Jiu plant) (0.54%). Overall, the mentioned percentage value of domestic consumption for production and processing was 0.04% lower than in 2019.

### **The situation of green certificates**

In 2020, there were accredited 17 plants (including those postponed from accreditation) to benefit from green certificates. Practically 10 power plants benefited from green certificates (Zervești for 11 months, Bistrița Prislop, Godeanu2, HPP Vălenii de Munte, SHPP Vălenii de Munte, Zăbala 4A, Fughiu, Obrejii de Căpâlna, Cugir, LPHPP Râul Alb). A number of 7 power plants had their accreditation suspended in 2020 (Vicov, Cernavoda, Chiojd 2, Greșu, Boia1, Leșu, Vulcan2), these being unavailable.

In the reporting year 2020, Hidroelectrica received 84,068 green certificates for the energy produced and delivered in 2020 by accredited power plants (the energy that benefited from green certificates was 30,185,929 MWh) and were returned (from the deferred starting with 2013) 19,728 green certificates. Practically, Hidroelectrica had 103,796 green certificates for trading.

## **7.2. TRADING / ELECTRICITY SUPPLYING ACTIVITY**

The trading of electricity on the platforms managed by OPCOM takes into account several factors related to the trading strategy, the evolution of market prices, the moment of bidding, the degree of useful filling of lakes, the flow of the Danube and inland rivers, the analysis of the main competitors. etc.

During the analyzed period, offers were submitted containing structured products (band and peak) with delivery in 2020, 2021 and 2022, thus having exposure on the following OPCOM platforms for the sale of electricity, in a transparent and non-discriminatory manner:

- a. Centralized market of bilateral electricity contracts - the mode of trading by extended auction and by continuous negotiation (PCCB-EA and PCCB-CN);
- b. Centralized market with continuous double negotiation of bilateral electricity contracts (OTC).

## Electricity sales (quantities, prices and values) in 2020

Sale types	Quantities (MWh)	% of total sales	Average price TG (RON/MWh)	Sales revenue TG included (RON)
Sales on the regulated market +TG	3,154,445	19.75	109.45	345,245,875
Sales on forward contracts (PCCB-LE, PCCB- NC, PCSU, PC- OTC)	9,924,505	62.15	233.18	2,314,172,798
Sales on NDM	1,765,206	11.05	222.33	392,450,340
Sales on INTRADAY	983	0.01	418.81	411,736
Sales Balancing + Imbalances	498,086	3.12	413.59	206,005,405
Supply	619,830	3.92	261.71	162,215,709
<b>TOTAL sales 1 Jan. - 31 Dec. 2020</b>	<b>15,963,054</b>	<b>-</b>	<b>214.28</b>	<b>3,420,501,863</b>
<b>TOTAL sales STS (hMW) 1 Jan.- 31 Dec. 2020</b>	<b>6,437,217</b>	<b>-</b>	<b>-</b>	<b>336,063,263</b>

## Total sold energy

Indicator	Quantities (MWh)
Net production (GWh)	14,583,448
Energy Purchases (GWh) - NDM, Balancing Market, Competitive Markets	1,379,606
<b>Total Energy sold</b>	<b>15,963,054</b>

## Evolution of quantities sold on the regulated market during 2015 - 2020

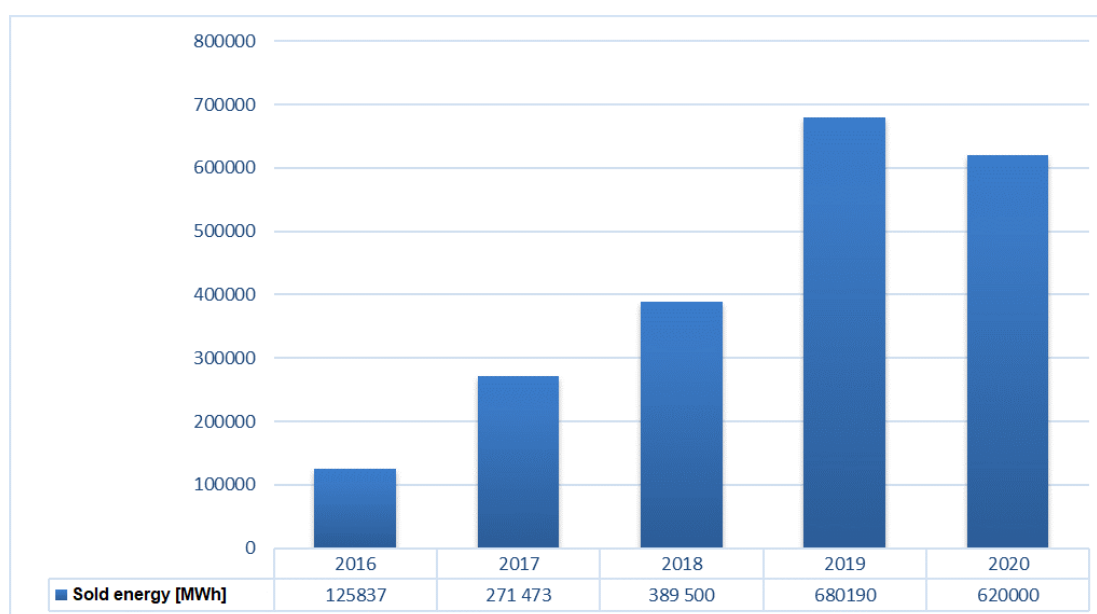
Indicator	2020	2019	2018	2017	2016	2015
Energy sold by HE (GWh)	3,154	1,637	-	1,131	2,698	4,160
Share of HE's production sold on the regulated market	19.76	11.07	-	8.29	15.81	26.49
<b>HE share in total regulated market</b>	<b>44.94</b>	<b>37.91</b>	<b>-</b>	<b>65.00</b>	<b>65.00</b>	<b>65.00</b>

## Sales trends in major markets over the past two years, volume and value

Indicator	2019		2020	
	GWh	Value [ths lei]	GWh	Value [ths lei]
Electricity sales, of which:	15,879	3,640,988	15,963	3,420,502
Regulated contracts +TG	1,637	184,584	3,154	345,246
Contracts on the open market, of which:	14,242	3,456,404	12,809	3,075,256
- OPCOM contracts (LE+NC+OTC+PCSU)	10,302	2,301,843	9,925	2,314,173
- NDM/PI	2,627	679,480	1,766	392,862
- Balancing market + imbalances	632	307,679	498	206,005
- Supply	681	167,402	620	162,216

## The activity of supplying electricity

The sale of electricity to the final customer on the retail market is carried out by the Supply Service of Hidroelectrica. Specific activities are carried out, such as prospecting market, identifying ways to capitalize electricity, carrying out the activity on the retail market in accordance with all ANRE regulations. In addition to the activity of selling electricity, there are also activities related to the license production, such as reporting the technological process, buying green certificates on the OPCOM platform, reporting, and managing electricity exchanges with Transelectrica and distribution operators.



In 2020, specific activities were carried out:

- Preparation and transmission of personalized offers to customers with a forecasted consumption of more than 1 GWh / year, according to requests received;
- Concluding supplying contracts in accordance with the standard offers published on the website;
- Concluding distribution contracts and related additional documents, for the new customers of Hidroelectrica, currently being concluded distribution contracts with all concessionaire distribution operators;
- Coordinating the activities carried out in the branches regarding the exchange centralizers, the technological process and other problems;
- Distribution and transport contracts concluded with clients for HE's own production;
- Introduction in SAP of the distribution invoices related to customers' places of consumption;
- Transmission of all reports related to the energy supply activity to ANRE.

Also, in 2020, a number of 103,796 green certificates were capitalized to cover the mandatory share of green certificates related to the sale of energy to the final customer, amounting to RON 3,674,310.

By Decision no. 69 / 28.10.2020, the Supervisory Board of Hidroelectrica approved the development strategy of the supply activity within Hidroelectrica 2021-2025.

### 7.3. INVESTMENT ACTIVITY

The investment budget for 2020 provides for a total amount of RON 4,227,978 thousand (Annex 4 to REB 2020-2022), composed of investment works (RON 428,028 thousand), acquisition of participations (RON 3,757,000 thousand) and repayment of installments of loan for investments made in previous periods (RON 42,810 thousand).

The degree of the investment program related to REB 2020 Hidroelectrica is presented in the following table:

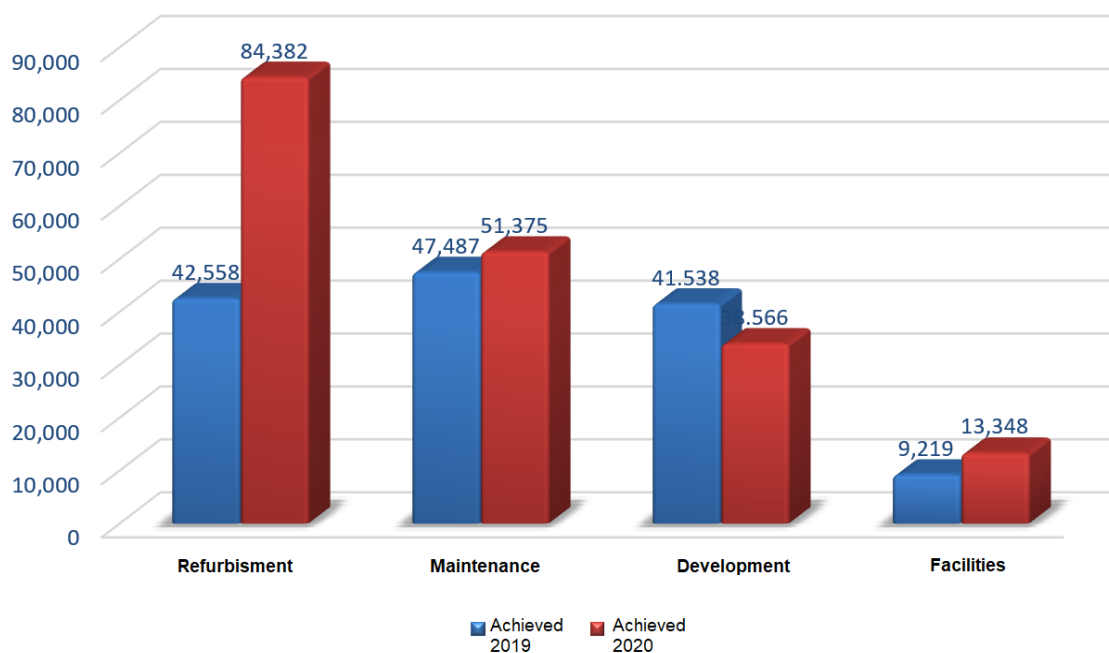
Activity	Approved 2020	Achieved 2020	Savings 2020	ths RON
				% with savings
Development	167,498	38,566	54,728	34.20%
Refurbishment	111,153	84,382	24,758	97.67%
Equipment maintenance with capitalization	84,518	50,729	0	60.02%
Construction maintenance with capitalization	5,664	646	0	11.41%
Facilities	59,195	13,348	0	22.55%
<b>Total</b>	<b>428,028</b>	<b>187,671</b>	<b>79,486</b>	<b>53.84%</b>



Compared to 2019 :

Activity	Approved 2019	Achieved 2019	Savings 2019	% with savings
Development	208,701	41,538	15,165	21.46
Refurbishment	138,529	42,558	53,891	50.28
Equipment maintenance with capitalization	64,119	39,830	0	62.12
Construction maintenance with capitalization	9,181	7,657	0	83.40
Facilities	69,579	9,219	0	13.25
<b>Total</b>	<b>490,109</b>	<b>140,801</b>	<b>69,056</b>	<b>33.44</b>

## Investments



Compared to the degree of the specific ICP - "Investment program in refurbishments / modernizations (%)", in 2020 the fulfillment of the target established by the Management Plan (of minimum 55%) was registered, by achieving a percentage of 97.67% from the budgeted value, from which the unallocated advances and savings were deducted, in the amount of RON 24,758 thousand.

The causes of failure to fulfill the budget in 2020 are:

- Lack of GD for land transfer from the forest fund to HPD Răstolița;
- Lack of GD for expropriation at HPP Racovița;
- Failure to grant the necessary building permits for the execution of safety works at HPD of the Jiu River on the Livezeni - Bumbești sector;
- Lack of Environmental Agreement necessary to resume the works at HPD of the Jiu River on the Livezeni - Bumbești sector;

- Unjustified interventions of the Environmental Guard which ordered the suspension of works at HPD Bistra Poiana Mărului;
- Delays due to faulty activity of local / national authorities involved in issuing permits / authorizations.
- Delays of executors due to supplying problems and decreased work pace due to the Covid pandemic;
- Documentation submitted late and / or incomplete to third party collaborators;
- Cancellations of procurement procedures.

The main investment / works objectives that were put into operation in 2020 are:

<b>Investment objectives / Works</b>	<b>Values received (RON)</b>
HPD Raul Mare Retezat	134,917,852
HPD Bistra Poiana Marului	105,833,686
HPP Stejaru Refurbishment	65,283,674
Maintenance with capitalization	62,799,493
HPD of Siret on Cosmești-Movileni sector. Movileni stage	41,354,634
Crossing the derivation HPP Onesti	35,360,670
Cornetu-Avrig HPP Robesti	31,680,295
Insurande Oltet Dan at confluence with Draganesti	22,971,801
Independent equipment	14,182,429
HPD of Bistrița river on Borca - Poiana Teiului sector. Poiana Teiului stage	12,920,565
Refurbishment 110kV HPP Bradisor	5,411,130
Refurbishment 110kV HPP Oesti	4,492,957
Refurbishment PSI Lock PF2	4,258,577
Refurbishment 110 SP Petrimanu	3,385,347
Fiber optic communication system between HPP Clabucet and Pecineagu Dam	3,343,840
HPD Raul Mare Aval	3,031,581
Refurbishment 110 kV SP Lotru Aval	3,001,991
Refurbishment 110kV SP Jidoaia	1,988,579
Refurbishment 110kV HPP Clabucet	1,295,484
Refurbishment 20kV HPP Valcele	967,212
HPD Strei on Subcetate-Simeria sector	841,867
Upgrade in HA1 Remeti	750,470
Upgrade Unit 110kV HPP Voila	680,705
Upgrade Unit. 110kV HPP Vistea	546,191
Upgrade Unit 110kV HPP Avrig	546,191
Upgrade Unit 110kV HPP Scoreiu	546,191
Upgrade Unit 110kV HPP Arpasu	546,191
<b>Total</b>	<b>562,939,603</b>

### Maintenance and equipment

For 2020, the equipment maintenance program was prepared (approved by the Management Decision no. 193 / 09.03.2020), based on the proposals of Hidroelectrica branches, amounting to RON 240.54 million, of which the estimated value of the following equipment maintenance works to be executed with SSH Hidroserv is RON 191.14 million.

The distribution of these values by performers is as follows:

- RON 191.14 million with S.S.H. Hidroserv S.A. of which RON 12.13 million works contracted and not executed or partially executed in previous years, which continues in 2020;
- RON 42.01 million - third party executors;
- 7,39 million lei - own resources;

For 2020, through the annual equipment maintenance program, 4,883 maintenance works were scheduled to be executed, being distributed on executors as follows:

- 4,379 works with S.S.H. Hidroserv S.A. ;
- 504 works with third party executors / own resources;

The equipment maintenance program was updated in the fourth quarter of 2020 both as value and physically, within the initial budget, by the Directorate's Decision no. 359 / 26.10.2020. Following the update, the estimated value of the maintenance work performed with S.S.H. Hidroserv S.A. is RON 193.35 million, respectively RON 47.19 million works executed with other third party executors or own resources.

On 31.12.2020, works amounting to RON 219.9 million were contracted, of which:

- RON 192.6 million with S.S.H. Hidroserv S.A., representing 99.6% of the 2020 schedule;
- RON 27.3 million with third party executors.

### The situation of the physical accomplishment of the equipment's maintenance works as on 31.12.2020

In 2020, equipment's maintenance works amounting to RON 240.54 million were scheduled to be performed, being performed on 31.12.2020 equipment's maintenance works amounting to RON 177 million, of which RON 154.84 million with S.S.H. Hidroserv S.A. The corrective maintenance works carried out in 2020 (both with S.S.H. Hidroserv S.A. and with other third party executors) amounted to RON 32.61 million (of which RON 10.06 million additional works to the planned ones).

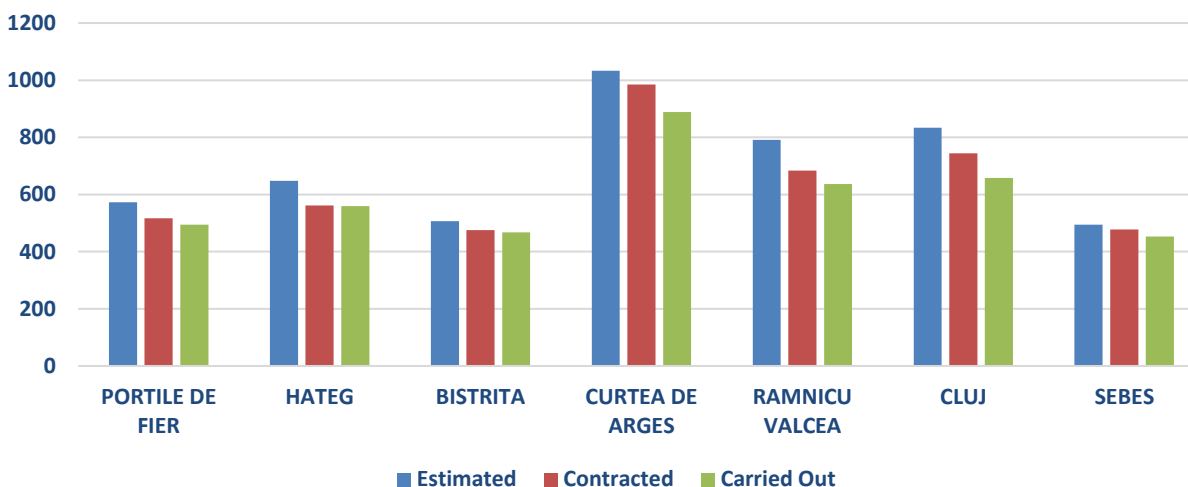
The reporting of accomplishing physical and value maintenance program has as reference the Equipment Maintenance Program, approved by the Management Decision no. 193 / 09.03.2020.

### Equipment maintenance achievements - physical - graphic stage

No.	Branch	Number of works estimated according to AMP 2020	Number of contracted works	Number of works carried out at 31.12.2020	%
1	Portile de Fier	573	517	495	86.39%
2	Hateg	648	562	559	86.27%
3	Bistrita	507	475	468	92.31%
4	Curtea de Arges	1.033	985	889	86.06%
5	Ramnicu Valcea	791	684	637	80.53%

6	Cluj	834	744	658	78.90%
7	Sebes	495	478	453	91.52%
8	Executiv	2	2	2	100%
<b>TOTAL</b>		<b>4,883</b>	<b>4,447</b>	<b>4,161</b>	<b>85.21%</b>

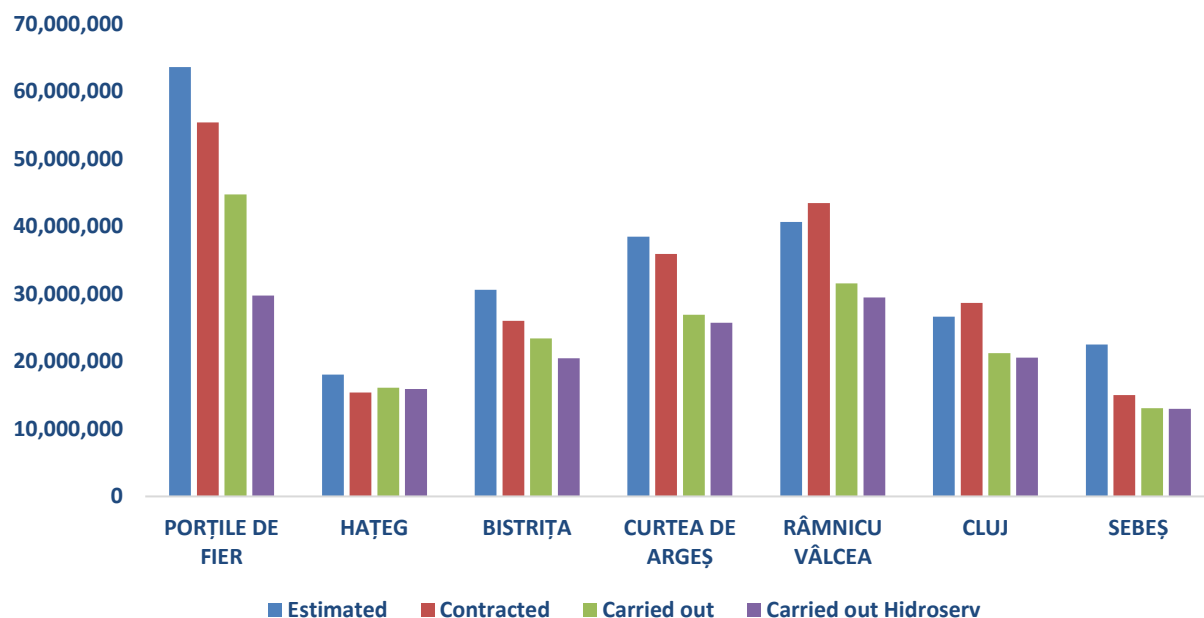
### Physical stage - Annual maintenance program 2020



### Achievements of equipment maintenance values

No.	Branch	Estimated value of works according to AMP 2020		Value of contracted works (RON)		Value of works performed on 31.12.2020 (RON)	
		Total	by Hidroserv	Total	by Hidroserv	Total	by Hidroserv
1	Porțile de Fier	63,610,074	37,986,656	55,399,527	37,828,279	44,741,511	29,743,186
2	Hațeg	18,069,689	16,557,387	15,404,024	15,291,157	16,082,786	15,903,287
3	Bistrița	30,628,684	24,613,996	26,026,141	22,936,111	23,388,715	20,489,549
4	Curtea de Argeș	38,463,180	33,927,814	35,908,364	32,867,146	26,906,020	25,720,664
5	Râmnicu Vâlcea	40,666,135	35,582,056	43,465,921	41,017,665	31,578,018	29,463,511
6	Cluj	26,614,050	23,812,857	28,682,225	28,110,525	21,247,213	20,546,322
7	Sebeș	22,483,912	18,655,818	15,030,814	14,582,368	13,055,401	12,974,273
<b>TOTAL</b>		<b>240,544,723</b>	<b>191,136,583</b>	<b>219,952,845</b>	<b>192,633,251</b>	<b>177,035,490</b>	<b>154,840,793</b>

### Values - Annual Maintenance Program 2020

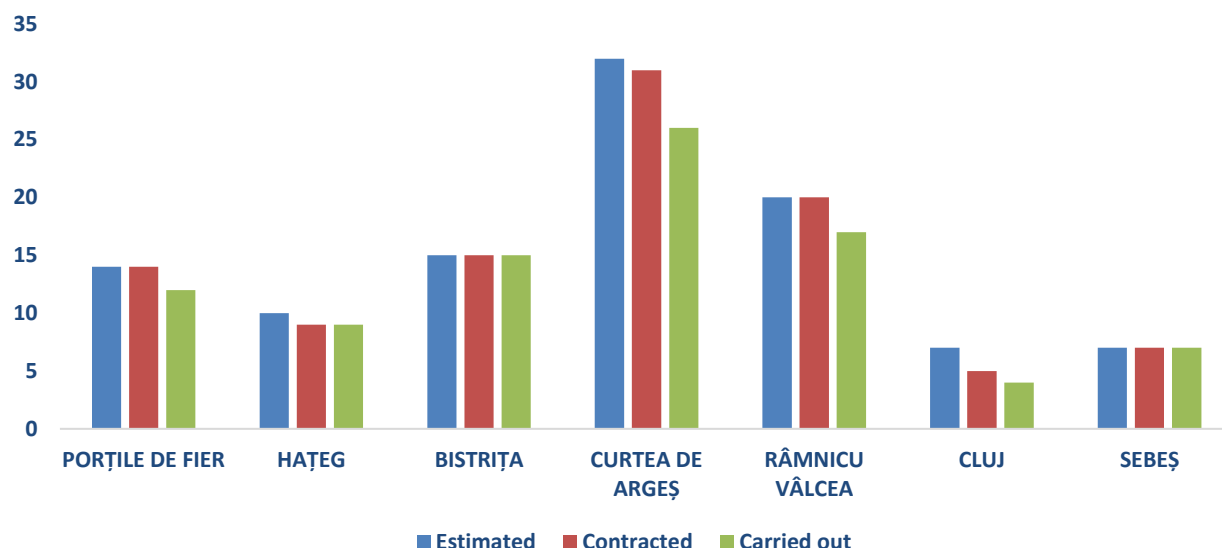


From the point of view of the works with capitalization (CAPEX), until 31.12.2020, works were carried out amounting to RON 50.70 million.

In 2020, revisions were scheduled for 105 hydro units, being contracted 101. On 31.12.2020, 90 maintenance works on hydro aggregates were completed, 4 being under completion.

No.	Branch	Hydro aggregate maintenance works					
		Estimated		Contracted		Achieved	
		Number	Value	Number	Value	Number	Value
1	Porțile de Fier	14	11,516,966	14	13,699,467	12	9,637,027
2	Hațeg	10	4,760,935	9	4,430,585	9	4,792,183
3	Bistrița	15	7,653,267	15	7,176,880	15	6,736,730
4	Curtea de Argeș	32	19,372,281	31	17,557,972	26	12,683,275
5	Râmnicu Vâlcea	20	8,421,057	20	8,041,108	17	7,185,002
6	Cluj	7	4,145,585	5	4,051,402	4	2,090,855
7	Sebeș	7	4,330,251	7	3,829,459	7	3,670,810
TOTAL		105	60,200,342	101	58,786,873	90	46,795,882

### Hydro-aggregate maintenance work



Until 31.12.2020, all maintenance works necessary for the safe operation of hydropower installations have been performed.

#### Optimization of hydraulic construction behavior monitoring activity and constructions' maintenance

The main objective of the hydraulic construction behavior monitoring activity and construction maintenance is to ensure the operating condition under normal operating conditions of the constructions under Hidroelectrica's administration. Through the organizational structure implemented in 2017, emphasis was placed on the identification and promotion of maintenance works on existing buildings, based on the continuous monitoring activity carried out with specialized personnel and specific tools.

The activity of monitoring the behavior of the constructions ensures a permanent diagnosis of the safety status of the constructions, as well as the contact with the governmental authority responsible for the safety of the CONSIB dams.

The main features of this activity are:

- collecting data on the behavior of constructions by performing visual observations and measurements with the permanent updating of the database;
- inspection of the state of the hydrotechnical constructions within Hidroelectrica;
- expertise with authorized experts of hydrotechnical constructions in order to obtain operating permits in safe conditions;
- determination and centralization of operating restrictions;
- ensure the activity of the Commission for Monitoring the Behavior of Constructions, subcommittee of CONSIB according to GEO 244/2000;
- the annual information of CONSIB regarding the activity of Hidroelectrica HCBM, according to GEO 244/2000.

The data obtained from supervising the dams allow to take decisions to start the current maintenance works at the best moments of time. They give the chance to find out from the commencing phases some



atypical behavioral phenomena and allowing to take measures before such phenomena become dangerous for the safety of the construction.

The monitoring of the behavior of the dams takes place by visual inspections performed by qualified personnel and the interpretation of the data obtained from the monitoring with measuring equipment of some relevant parameters. In global practice, the view is strengthened that a monitoring system, however complete and sophisticated, cannot replace direct visual inspections. Some of the most dangerous events such as local deformations, cracks, concentrated infiltrations, wet spots cannot be 100% detected with measuring instruments. After identifying these phenomena through visual inspections, the evolution can be followed and interpreted based on the data provided by the monitoring system.

It should be borne in mind that a large part of the measuring and control devices representing the monitoring system have been installed during the commissioning of the constructions. They are direct reading devices that involve performing manual measurements and loading data manually into the electronic UCCHNET application. It is currently necessary to develop a medium and long-term strategy to ensure the transition from current to modern, fully automated systems that allow the collection and transmission of data in real time, with a much higher frequency than at present. By installing such a system it is possible to obtain the substantiation of the decision in emergency situations based on information collected in real time and a better planning of maintenance activities.

The principles to be applied in the management of monitoring construction behavior and construction maintenance activities are:

- ✓ identification and signaling with maximum speed any anomalies registered in the behavior of constructions;
- ✓ based on the data collected and correctly interpreted, to schedule a plan of maintenance works, which would prevent the occurrence of possible accidents or the introduction of restrictions in operation;
- ✓ the accomplishment in the shortest possible time of the intervention works that are required for the restoration of the safety state of the constructions and elimination of the restrictions in operation.

## **8. PREDICTABLE DEVELOPMENT OF THE COMPANY**

Hidroelectrica's strategy is closely linked to national realities and needs, as well as to European directions and policies targeting the energy sector.

Taking into account the opportunities offered by the market, in terms of renewable resources whose development is strongly supported by the European Union, Hidroelectrica aims to focus on capitalizing them. The current operating environment of the company requires adjustment to the directions set out in the European Ecological Pact, aiming to move towards neutral energy production in terms of CO2 emissions by 2050. The new European targets aim to accelerate the pace of investment in clean and sustainable energy, this intention and necessity being strengthened by national policy as well.

In recent years, Hidroelectrica has stated its intention to preserve its interests in renewable energy, keeping the 100% green company label at the heart of the company's values.

Hidroelectrica aims to maintain its leading position in the field of electricity production and for supplying ancillary services, both nationally and regionally. The main directions of action involve supporting efforts

to transform Hidroelectrica into a major player on the electricity market in South-Eastern Europe, as well as expanding the company's activity (including at regional level), by consolidating current activities and identifying new business opportunities.

### 8.1. Strategy activity and institutional relations

2020 stands out by the updating of Hidroelectrica's investment strategy approved by the Decision of the General Meeting of Shareholders no. 8 / 15.06.2020, whose main directions are: completion of production capacities in advanced stage of execution, realization of new hydropower capacities, refurbishment and modernization of existing power plants, new projects to diversify the activity, realizing capacities from other renewable energy sources, but also through the implementation of research and innovation activities at the company's level.

The company's concepts for the future have in view the increase of the degree of innovation, especially by increasing the technological level both of the efficient exploitation of the used resources, and of the optimal mix of renewable sources for the production of electricity.

The company is interested in investments in onshore and offshore wind farms, photovoltaic parks, biomass-based electricity production, hydrogen production by hydrolysis, development of e-mobility networks. All these, correlated with the implementation of the most modern and secure information systems aim at the structural transformation and consolidation so that the company becomes a Romanian and regional champion of the transition to clean energy.

Thus, in 2020, the strategy and institutional relations activity focused mainly on the following directions of action:

- Updating the company's investment strategy, by permanently analyzing the context in which the company operates, identifying strategic options and evaluating the best options;
- Identifying the medium and long-term objectives of the company and the directions of action necessary to strengthen the company's strategy;
  - Refurbishment of hydroelectric power plants;
  - Development of new production capacities;
  - Unlocking the situation of hydropower facilities with complex uses and reduced energy component, under various stages of execution;
  - Diversification of the production portfolio through energy production projects, especially from renewable sources (wind, solar, biomass), but also involvement in other economic fields, taking into account current conditions and the evolution of the energy market at national and regional level;
  - Starting the procedures regarding the listing of the company on the stock exchange;
  - Implementation of new technologies in the process of electricity production.
- Monitoring the companies that bought micro-hydropower plants over time and the fulfillment of the assumed contractual obligations.
- Conducting and developing relationships with organizations and associations of which Hidroelectrica is a member: IHA, WORLD ENERGY COUNCIL by CNR-CME, CRE, EURELECTRIC by IRE, ARIR.

## 8.2. Corporate Business Activity

In 2020, the activity carried out followed the objectives and strategic directions approved by Hidroelectrica Management Plan 2019-2023, in order to increase the value and sustainable development of the company. The main mergers and acquisitions (M&A) projects in which the company has engaged, grouped by areas of interest, are the following:

### *Opportunity to acquire CEZ Romania Group participations - ENESCU project*

During 2020, Hidroelectrica submitted in Consortium with 2 other companies from Romania, an offer for the acquisition of the entities of the CEZ Romania Group, within the ENESCU project. By participating in this M&A process, which involved assets from fields complementary to Hidroelectrica's current activity, such as electricity distribution, electricity and natural gas supply, the production of electricity from renewable sources (wind and hydro) was with a view to achieving the objectives approved by the shareholders regarding the diversification of the company's business portfolio and the portfolio of electricity generation capacities, maintaining the company's green label at a rate of 100%. Following the competitive procedure, the CEZ Group decided to sign the contract with another bidder, better positioned than the Consortium Hidroelectrica was a part of.

### *Opportunity to take over UCM Resita assets - SCORILO project*

Among the main strategic initiatives of Hidroelectrica, in the medium and long term, is the security of the existing production portfolio through the optimal implementation of maintenance and refurbishment / modernization programs, thus ensuring their operation for a new life cycle in increased safety and reliability. In this sense, during 2020, Hidroelectrica started the analysis and evaluation actions in order to take over a part of UCMR's assets, which will be used to streamline the company's maintenance. In this way, is intended a consolidation and extension of Hidroelectrica's capacity to carry out maintenance operations, while achieving substantial savings both on the equipment maintenance side and on the investment side, within the modernization / refurbishment projects.

### *Opportunity to acquire shares CRUCEA WIND FARM and STEAG ENERGIE ROMANIA - ARIZONA project*

In December 2020, the sale-purchase contract was signed by Hidroelectrica for the 2 entities and implicitly of the Crucea Nord Wind Power Plant with an installed capacity of 108 MW, in the 36 wind turbines. The acquisition of this capacity was completed in the first quarter of the current year.

From a strategic perspective, of positioning, given the direction of the energy market in Romania, and the role assumed by Hidroelectrica through the investment strategy, that of central pillar of the energy transition on one side and from an operational perspective on the other side, Hidroelectrica marks an important step in its development by awarding this offer, characterized by a very high competitive level, which was attended by both companies with strategic interests of expansion in the area of production from renewable sources and companies with easy access to finance, seeking returns higher than those offered by traditional financial investments.

By acquiring the wind farm from Crucea Nord, Hidroelectrica realizes the first important acquisition of private companies by a company with majority state shareholder, a first step that materializes the strategic direction towards diversifying the production portfolio and also an indispensable step from the perspective of positioning Hidroelectrica in the context of the European Green Pact and the decarbonization objectives of the energy sector.

At the same time, by financing the acquisition through credit, the capital structure of the company is made more efficient and implicitly the performance indicators that measure the return on shareholders' capital are enhanced, through the leverage effect created. Also, the complementarity of the assets taken over, with the current portfolio of power plants owned by Hidroelectrica, creates the premises for improving the equity story and the company's image in the perspective of its listing.

### **8.3. International Relations, Investor Relations, Representation and IPO**

In the first part of 2020, Hidroelectrica continued its preparations for IPO and listing by concluding service agreements with the legal consultant (Dentons Europe SPARL), as well as the consultant 'Equity Adviser' (STJ Advisors Group Ltd.), going through the following stage:

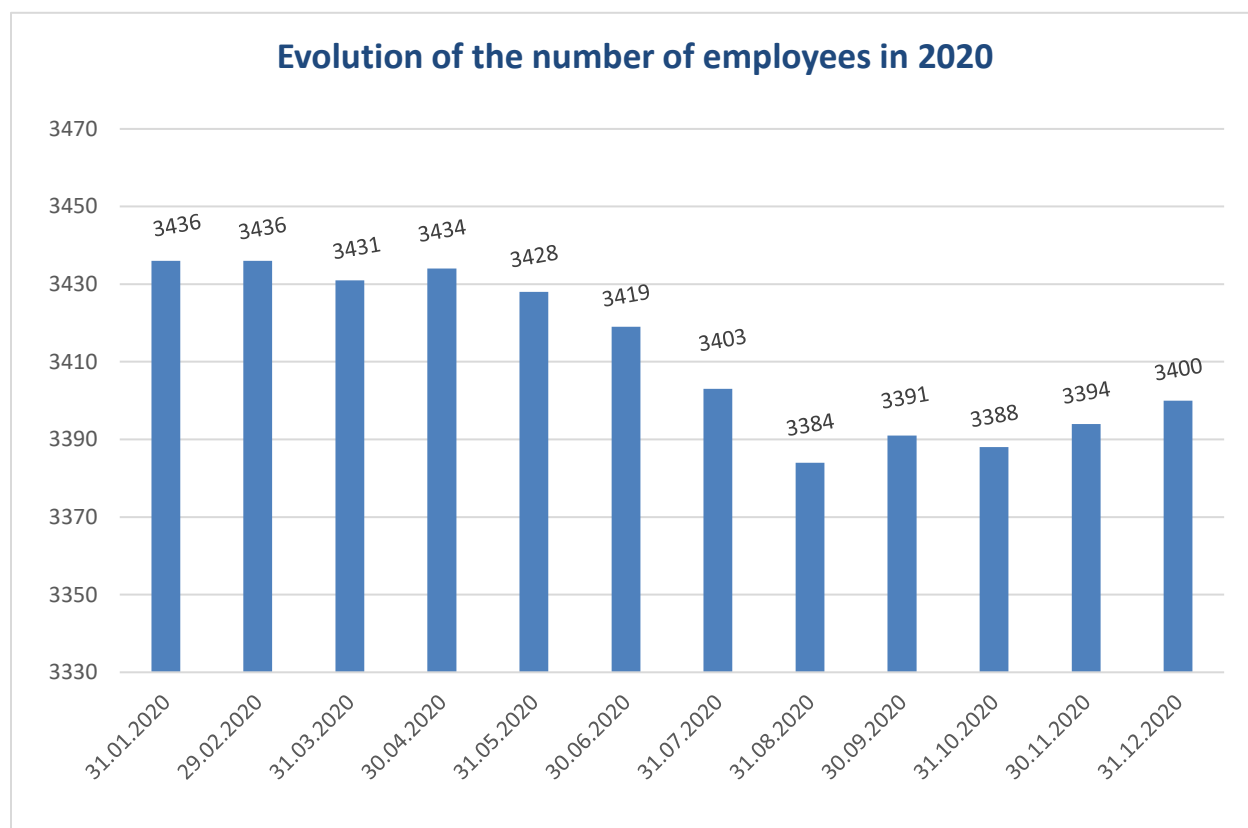
- On 12 February 2020, the public procurement procedure was launched in SEAP for “Procurement of legal advice and assistance services of an international legal consultant who will take all necessary measures in order to meet the requirements imposed on the capital markets in connection with the public tender procedure provided by GD no. 1066/2013, with subsequent amendments and completions”.
- The public procurement procedure launched in SEAP on December 18, 2019 for “Equity Adviser” capital market consulting services that will be used for training and assistance in conducting the IPO S.P.E.E.H. Hidroelectrica S.A. ” and was resumed in SEAP on 3 March 2020;
- On May 6, 2020, the service agreement was concluded with Dentons Europe SPARL for legal advice and legal assistance services in order to meet the requirements imposed on the capital markets in connection with the public offering procedure provided by GD no. 1066/2013, with subsequent amendments and completions”
- On May 19 the contract for the provision of consultancy services for the “Equity Adviser” capital market was concluded with STJ Advisors Group Ltd. (UK) for the preparation and assistance in conducting the IPO of S.P.E.E.H. Hidroelectrica S.A..”

Following the promulgation in August 2020 of Law no. 173/2020, providing the interdiction to assign shares held by the state in national companies and corporations, credit institutions, as well as in any other company in which the state has the quality of shareholder for a period of 2 years, was suspended during preparation phase of the listing process, at the end of which the authorized broker was to be hired.

## **9. HUMAN RESOURCES**

For 2020, in the approved REB, the average number of employees was established at 3,500 and the number at the end of the year at 3,540 employees.

On 31.12.2020, the actual number of employees was 3,373, to which were added 27 contracts suspended for various reasons (a total of 3,398 full-time and 2 part-time).



## 10. RISK MANAGEMENT

### Integrated corporate risk management

Hidroelectrica bears the responsibility of a key player in the balance and security of the National Energy System. As the operator of an activity subject to a series of specific risks, Hidroelectrica is dedicated to a professional and prudent risk management, within acceptable limits and with an attitude of continuous improvement, in line with the best practices in the industry. The objective of risk management in Hidroelectrica is the identification of threats and opportunities and their management within limits in providing a reasonable guarantee that the company's objectives will be achieved.

The risk management system in Hidroelectrica is an integral component of the corporate governance structure, in line with the requirements of OSGG600 / 2018, of ISO 9001 and ISO 31000, built as a comprehensive framework for risk identification, assessment, treatment, monitoring and reporting, both in the short term (operational risks, related to specific activities and objectives), and in the long term (strategic risks, related to general long-term objectives).

### The context of the pandemic COVID-19

2020 was a year of multiple challenges in the context of the COVID-19 pandemic. The epidemic caused by the new coronavirus had been a major shock to the company and the economy since its onset in Q1 2020. With a significant increase in new cases of infection and the introduction of restrictions during the year,

the pandemic has had and continues to have a major impact on the economy and society as a whole. Since the outbreak of the pandemic, Hidroelectrica has responded promptly to the challenges and has aligned itself with all the requirements imposed by the authorities but also with the best practices in crisis' management.

Response actions pursued two major priorities:

- health and safety of Hidroelectrica employees, contractors and partners;
- ensuring the continuity of the activity in order to produce electricity and provide ancillary services for the safe operation of NES.

Proactive measures and actions required to manage risks have been included:

- updating the business continuity plan, taking into account the specific context;
- acquisition and endowment of employees with protective equipment and hygienic-sanitary materials;
- organizing the epidemiological triage at all work points and testing activities in order to diagnose COVID-19;
- implementation of the work-from-home program on a rotating basis for a significant group of support and administrative staff;
- reorganization of activities and work programs for personnel in the areas of production, dispatching and equipment maintenance;
- implementation of specific rules regarding the access of third parties in the key perimeters of the company;
- continuous implementation and monitoring of rules of conduct and protection in the context of the pandemic;
- increasing IT capabilities for digitization and working in remote system.

Hidroelectrica operates in a strategic sector, the electricity generation sector, which, unlike other economic sectors, has not been significantly affected by the COVID-19 epidemic. In conjunction with the mitigation actions, the company's operations, including deliveries, were not discontinued during 2020. We believe that the effects of the pandemic on Hidroelectrica were relatively limited and we estimate that they will not significantly affect the company's ability to operate and to honor its obligations in the next 12 months.

### Financial risks

- **Energy price:**

Price risk involves registering financial losses or failure to achieve estimated results due to adverse changes in market prices or factors that may influence price developments. Both the price of electricity and the volume of sales are influenced by external factors: climatic conditions (hydrological) and market conditions (volume of demand). Also, the prices on the trading markets are influenced by the price of fuels, of the elements from the support schemes, or by variations of the production from other sources. Hidroelectrica manages this risk by mitigating exposure to adverse variations, using a mix of measures such as analysis of statistical series on hydrological conditions to optimize production and sale plans, short- and medium-term forward sales contracts for a significant amount of estimated production, together with measures to control and optimize the cost base, so that Hidroelectrica's profitability objectives are achieved.

- **Credit risk (including counterparty risk):**

Credit risk is the risk that the company will incur a financial loss due to the breach of contractual obligations by a customer or a counterparty to a financial instrument, and this risk results mainly from trade receivables, cash and cash equivalents and bank deposits.

Cash and bank deposits (representing deposits with an initial maturity of more than 3 months) are placed in financial institutions that are considered to have a high creditworthiness. The carrying amount of financial assets represents the maximum exposure to credit risk.

	31 December 2020	31 December 2019
<b>Clients and assimilated accounts</b>	354,790,189	327,536,263
<b>Other receivables</b>	220,299,606	214,385,212
<b>Cash and cash equivalent</b>	343,409,698	222,976,476
<b>Restricted cash</b>	10,257,471	10,257,471
<b>Bank deposits</b>	1,730,071,123	1,736,855,286
<b>Total</b>	2,658,828,087	2,512,010,708

The company's exposure to commercial credit risk is mainly influenced by the individual characteristics of each customer. The company has established a credit policy according to which each significant customer is individually analyzed in terms of creditworthiness before concluding a contract, so that the sale is made to customers with an appropriate creditworthiness. The adjustment for impairment of trade receivables is the amount of expected losses, calculated on the basis of loss rates.

The following table provides information on the exposure to trade credit risk and expected loss rates as at 31 December 2020.:

	Weighted average loss rate 0%	Gross value	Depreciation adjustment	Net trade receivables
<b>Non past due</b>	0.00%	316,673,869	0	<b>316,673,869</b>
<b>Outstanding - from 0 to 3 months</b>	0.23%	23,722,823	(53,639)	<b>23,669,184</b>
<b>Outstanding - from 3 to 6 months</b>	2.62%	13,960,566	(365,654)	<b>13,594,912</b>
<b>Outstanding - from 6 months to 1 year</b>	96.02%	21,412,832	(20,560,608)	<b>852,224</b>
<b>Outstanding – more than 1 year</b>	100.00%	71,092,753	(71,092,753)	<b>0</b>
<b>Total</b>		<b>446,862,843</b>	<b>(92,072,654)</b>	<b>354,790,189</b>

**Liquidity risk:**

Liquidity risk is the risk that the company will encounter difficulties in meeting the obligations associated with financial liabilities that are settled by transferring cash or another financial asset. Hidroelectrica has significant cash and cash equivalents, so it does not face liquidity risk.

The Company monitors the level of expected cash inflows from the collection of trade receivables, as well

as the level of expected cash outflows for the payment of loans, trade payables and other debts. Hidroelectrica aims to maintain a level of current bank accounts that exceeds the expected cash outflows for the payment of financial debts.

The following table shows the balance of sources of liquidity and payment obligations as at 31 December 2020:

	31 December 2020
<b>Receivables and similar accounts and other current assets</b>	368,425,386
<b>Cash and cash equivalents (incl. restricted cash )</b>	353,667,169
<b>Bank deposits</b>	1,730,071,123
<b>Headroom financial lines</b>	-
<b>Total</b>	2,452,163,678
<b>Suppliers and similar accounts and other current liabilities</b>	213,456,223
<b>Bank loans</b>	26,944,219
<b>Leasing</b>	21,013,966
<b>Total</b>	261,414,408

- **Interest's rate risk:**

Hidroelectrica has long-term loans with variable interest rates, which may expose the company to interest rate risk. The company considers that the potential impact is low due to the low level of loans.

	31 December 2020	31 December 2019
<b>Fixed interest rate instruments</b>		
<i>Financial assets</i>		
<b>Restricted cash</b>	10,257,471	10,257,471
<b>Bank loans</b>	1,730,071,123	1,736,855,286
<b>Total</b>	1,740,328,594	1,747,112,757
<b>Fixed interest rate instruments</b>		
<i>Financial assets</i>		
<b>Restricted cash</b>	(26,994,219)	(70,006,725)
<b>Bank loans</b>	(21,013,966)	(19,594,386)
<b>Total</b>	(47,958,185)	(89,601,111)

The Company has no financial assets and financial liabilities at a fixed interest rate recognized at fair value through profit or loss. Therefore, a change in interest rates at the reporting date would not affect profit or loss.

Sensitivity analysis of cash flows of variable interest rate instruments: possible reasonably increase (decrease) in interest rates by 50 basis points at the reporting date would have increased (decreased) the pre-tax profit with the amounts below (assumes that all other variables, in particular exchange rates, remain constant):



	Profit variation before tax (RON)	
	increase by 50 basic points	decrease by 50 basic points
<b>31 December 2020</b>		
<b>Related to variable interest rate instruments</b>	<b>(9,000)</b>	<b>0*</b>

\* Given the variable interest debt that is denominated only in EUR, the negative Euribor rates and the applied zero-floor ceilings, a decrease in interest rates would not have an effect on P&L.

- **Currency risk:**

The company is exposed to currency risk to the extent that there is an imbalance between the currencies in which it makes sales and purchases and in which the loans are denominated and the functional currency of the company. The functional currency of the company is the Romanian Leu (RON). The currencies in which the transactions are denominated are mainly RON. Certain debts are denominated in foreign currency. The company's policy is to use as much local currency as possible in the transactions it carries out. The Company does not use derivative instruments or hedging instruments.

	31 December 2020 (RON equivalent of the displayed currencies)			
	EUR	USD	CHF	HUF
<b>Cash and cash equivalents</b>	371,250	130,929	313,740	200,334
<b>Trade and other payables</b>	(69,930,303)	(158,951)	-	(134)
<b>Bank loans</b>	(26,944,219)	-	-	-
<b>Leasing</b>	(16,059,680)	-	-	-
<b>Net exposure</b>	(112,562,952)	(28,022)	313,740	200,200

**Other risks:**

- **HSE:**

Hidroelectrica's number one priority in terms of HSE is to avoid any accidents among personnel and partners operating within the company's perimeters, to act in a sustainable, ethical and environmentally responsible manner and to comply with all relevant legal requirements. In this regard, Hidroelectrica assessed the occupational safety and health risks and identified significant environmental issues. Continuous training of employees in occupational safety, environmental protection and emergencies is ensured. Also, taking into account the specifics of the activity and the nature of the production assets, Hidroelectrica has implemented intervention plans in case of accidental pollution as well as action plans in case of accidents at dams.

- **Cyber Risk:**

The COVID-19 crisis has shown how quickly cybercriminals can adapt, and the rise of digitalization has created new opportunities for intrusion, with ever-expanding cyber loss scenarios. Attackers innovate by using automatic scanning to identify security gaps, attacking poorly secured routers, even using realistic media content, modified, or falsified by artificial intelligence. Most private companies and public institutions, including Hidroelectrica, have adopted the work from home model during this period, remote access to the networks of these entities thus becoming a necessity to ensure compliance with physical distance. Thus, by eliminating physical interactions between employees, the risk of excessive spread of

the SARS-CoV2 virus was reduced, but the risk of exposure of IT&C infrastructures used to cyber-attacks has increased. In this context, Hidroelectrica pays special attention to managing this risk through a complex system that includes multiple lines of defense such as: hard / soft protection systems, redundancy, specific procedures, awareness training and preventive conduct of users of IT / OT infrastructure, etc. Work from home involves remote connection to networks in which information is circulated from the institutions and companies that have implemented this work model. Thus, within Hidroelectrica, measures and procedures have been established to allow employees to perform their duties remotely. These security procedures and policies have been adapted to maintain an optimal level of cyber security and reduce the risks posed by possible cyber security incidents. Also, the IT&C specialists from Hidroelectrica constantly monitor and continuously improve the security measures and procedures, carrying out initiatives meant to permanently strengthen the level of protection against cyber-attacks in line with the best systems and practices in the field.

- **GDPR Risk:**

The GDPR risk represents the risk for the rights and freedoms of individuals, having different degrees of materialization and gravity, as a result of a personal data processing that may generate damages of a physical, material or moral nature (e.g. discrimination, theft or fraud of identity, financial loss, compromising reputation). In the context of strengthening the related regulations, compliance requirements, but also increasing the exposure to cyber risk with increasing digitalization, Hidroelectrica pays special attention to the protection of personal data. In this sense, a dedicated department has been created within the organization, whose manager is named Data Protection Officer, with extensive responsibilities regarding:

- Informing and advising the company and the employees involved in the processing regarding their legal obligations on data protection;
- Monitoring compliance with data protection legislation and company data protection policies, including the allocation of responsibilities and awareness-raising and training of personnel involved in processing operations, as well as related audits;
- Providing on-demand advice on assessing the impact on data protection and monitoring its operation;
- Cooperation with the supervisory authority, but also assuming the role of contact point for the supervisory authority on issues related to processing and consultation on any other issue in the field.

At the same time, at Hidroelectrica's level there is a Regulation on the protection of personal data that is contributing to the fulfillment of the obligations provided by Regulation 679/2016 (EU), along with the preparation of specific internal trainings meant to increase the level of understanding and awareness among all employees of the company whose activity is exposed to this risk.

- **Climate change:**

In Hidroelectrica context, these changes come both with associated risks (uncertainty of long-term hydrological conditions) and with opportunities (generalized focus on clean energy). In this sense, Hidroelectrica's Strategy provides, inter alia, the development and extension of production capacities to other green energy sources (e.g. wind, solar), thus creating a natural internal hedging to secure production and mitigate imbalances. A significant step in this direction was represented by concluding the agreement for the full acquisition of the Crucea wind farm (108MW) held by Steag GmbH in Constanta County, a transaction concluded in the first quarter of the year. In the same time, Hidroelectrica continues its efforts

in identifying other opportunities to diversify and add new high quality production capacities, with the aim of remaining 100% green throughout this process.

- **The basis of production assets:**

The production capacities represent, together with the specialized personnel, the fundamental pillar in reaching the long-term objectives. The strategy applied by the company is that, for the capacities in operation, in stages, all the equipment and constructions should be modernized as the durations of normal use will be reached.

Physical integrity and maintenance in the optimal operating parameters of production capacities are ensured by promoting specific policies, aimed at assessing the technical condition of equipment, construction, maintenance programs and monitoring the behavior of constructions, modernization, and refurbishment programs, and through the continuous training of specialized employees. Mainly, the objectives pursued are to ensure a new life cycle of the equipment, to increase the degree of safety in operation, the reliability and availability of hydro units, and to achieve modern control systems, without permanent operating personnel.

- **Human capital:**

Hidroelectrica's ability to achieve its objectives depends on the capabilities and performance of employees, management, but also on the ability to attract and develop, to recognize and retain talented employees. Significant risk factors in terms of human capital are represented by: the long-term demographic decline, the general decrease in the appetite for technical and specialized schools, and the geographical dispersion of the company's production assets. Faced with these challenges, HDR has an ongoing series of programs / initiatives such as:

- managing an extensive framework for attracting and keeping talented, high-performing employees through: professional training courses, authorization in jobs specific to the energy sector, a motivating salary package and benefits paid according to CLA (retirement bonuses, awards for loyalty to Hidroelectrica);
- offering private scholarships to students especially from energy faculties but also to students from high schools with energy profile, organization of internship and apprenticeship at work, specific specialized studies;
- relocation / transfer support for employees from remote locations, established by the CLA in force (examples: granting seclusion bonus, accommodation facilities in Hidroelectrica locations, transport to and from work for employees who operate hydroelectric power plants, etc.);
- support for dual education (Hidroelectrica supports 200 students in dual vocational education from high schools with energy profile, who will obtain qualification as electricians or electromechanics for all branches of the company, will perform internships in hydroelectric power plants, to be employed at the end of studies);
- practice in hydroelectric power plants, performed by pupils and students, based on the practice agreements made with specialized universities / high schools;
- continuing the collaboration with some retirees in the critical centers of the company for the training of the new employees in their stage of on-the-job training (minimum 3 months).

- **Political and regulatory risk:**

Hidroelectrica operates in a field subject to a wide range of specific laws and regulations, which may undergo significant changes over time. The evolution of the socio-economic and political context, or changes of the national strategic directions, can determine political and regulatory changes with potential

significant impact on the company's operations. In this context, Hidroelectrica closely follows the changes of regulatory policies and supports a continuous and constructive dialogue with the relevant authorities to identify optimal solutions to achieve the objectives of all parties, avoiding or minimizing potential adverse effects on the company.

## **11.PROCESS MANAGEMENT. INTERNAL AUDIT**

### **Process management**

Procedures M02.001 Evaluation Modeling Process Map and Managerial Internal Control System and M02.010 Implementation evaluation process within Hidroelectrica establishes the analysis and responsibilities for the maintenance and development of the quality process management system through the Process Map tool, implementation and monitoring of the execution of each process included in the Process Map.

The compliance of the Hidroelectrica Process Quality Management System with the requirements of SR EN ISO 9001: 2015 is certified by SRAC through Certificate No. 325, valid until 21.06.2021.

In order to ensure the level of knowledge necessary for the proper understanding and execution of the responsibilities of the managers regarding the way of monitoring / analyzing the operations, regulation within the company, part of the Hidroelectrica management system, was developed a course and a set tests on the online E-Learning Hidroelectrica platform. Each manager should pass it annually.

The Office of Analysis, Monitoring Processes and Reporting, subordinated to the President of the Hidroelectrica's Directorate monitors, provides the necessary support, and reports compliance, effectiveness, and alignment with the Hidroelectrica's Management Strategy.

Company's / management-level goals include components for the development and maintenance of the management system at each individual department level, based on Hidroelectrica Policy. During the evaluation and targeting sessions, opportunities for improvement at the company / department level were identified and analyzed and the extent to which those were set in earlier periods.

Considering the performance indicator established by the Hidroelectrica Management Plan for the period 2019-2023 on the implementation / validation of the implementation in each year of a number of 4 standards according to the Order of the General Secretariate of the Government no. 600/2018 for the approval of the Code of internal managerial control of public entities, during 2020 the following standards were revised and confirmed as implemented: Standard 5 - Objectives, Standard 6 - Planning, Standard 7 - Performances , Standard 16 - Internal Audit.

Through the Income and Multi-Annual Expenses Budget were identified, analyzed, established, and provided the necessary resources for proper business processes within the company so that the goals, including process performance and compliance with electricity generation / delivery, can be achieved.

During the meetings of the Supervisory Board / Directorate, the implementation of the Hidroelectrica Budget was analyzed on each component, including the components with an impact on the proper functioning of the management system, and the necessary measures were taken when deficiencies were found.

## Internal Audit

The public internal audit activity in Hidroelectrica is carried out through the Internal Public Audit Department, subordinated to the Audit Committee of the Company's Supervisory Board, according to the procedures M09.001 Internal Audit Planning, M09.010 Implementation of internal audit mission and M09.090 Monitoring annual internal audit plan, with reference to the requirements established by Law No. 162/2017 on Statutory Audit, Law 672/2002 (updated) on Internal Public Audit and ISO 19011: 2018 - Guidelines on Audit of Management Systems and of OSGG no. 600/2018 updated for the approval of the Code of internal managerial control of public entities.

*(The requirements of these regulations are convergent and are found in the system procedures implemented by the Supervisory Board).*

The Public Internal Audit Department carries out insurance and advisory missions both at Hidroelectrica Executive level and at branches' level with the mission of increasing and protecting the value of the company and determining the effectiveness of the management system by providing objective risk-based assurance, counseling and support for company's management, following the achievement of the targets established by the Hidroelectrica Management Plan for 2020-2023.

During 2020, 10 insurance missions were carried out, following which the procedures regarding the audited processes were implemented and / or updated. For each of these processes, multiple meetings were held with both the employees of the executive and those of the Hidroelectrica branches responsible for their documentation and with the process owners, to ensure the standardized and unitary documentation.

Regarding the implementation of the new procedures necessary for the standardization and efficiency of the company's activities, a number of 55 informal counseling missions were carried out to assess the way in which the objectives were set, if they meet the SMART criteria (specific, measurable and verifiable) , necessary, realistic, with deadlines), identification of risks relevant to the company's activities, their assessment and taking measures to eliminate the risks specific to regulated activities.

The internal audit missions cover both the activities with specific financial accounting, and those with specific operational / quality / environment / HSE within Hidroelectrica, being carried out, efficiently coordinated by internal auditors within the department, because they have been certified for internal audit of quality management systems according to ISO 9001: 2015, ISO 14001: 2015 and ISO 45001 2018 in accordance with ISO 19011: 2018.

Considering the attributions of the Audit Committee presented at art. 65, paragraph 6, letter c of Law 162/2017, during 2020, meetings of the Audit Committee were organized, attended by the Manager of the Public Internal Audit Department, on which occasion the internal audit reports were presented and the activity of the department was analyzed.

The activity of Hidroelectrica's public internal audit department consisted, in 2020, in carrying out the presented audit missions, a real support in optimizing the way the processes are carried out, bringing value in a visible way. Also, in many situations, through the counseling activities, being ensured an environment of conciliation between the different organizational structures of the company.

## 12. IT ACTIVITY AND COMMUNICATIONS

Between January and December 2020, the IT Department continued the processes of digitizing the company and aligning IT services with the needs of users and the company's operational processes. Thus, it continues with the main directions to centralize IT services, optimize operational costs, strengthen IT security, establish new IT services and align IT services with the company's objectives and requirements.

The activity was focused on strengthening IT security measures, solving alarm warning issues, reconfiguring the voice / data communications system, improving desktop management platforms and collaborative support.

### **Important projects:**

- Completion of the acquisition contract for the licenses and maintenance services for the SAP ERP system;
- Initiation of the procurement contract for the IT security system, with completion in 2021;
- Initiation of the acquisition contract for Microsoft licenses, with completion in 2021;
- Completion of the purchase contract for printers' consumables;
- Initiation of the acquisition contract for the multifunctional printers, with completion in 2021.

### **Communication and data transmission systems:**

- Preparing documents, launch the acquisition and award of the contract on the Feasibility Study regarding the "Modernization of the microwave communications system of HPP Portile de Fier", an ongoing contract with S.C. MarcTel S.R.L.
- The necessary documentation were prepared and the acquisition was launched for the elaboration of a feasibility study regarding the investment objective "Integrated communication system UHE Târgu-Jiu"
- Commissioning of the OpenScape X8 telephone exchange, with the possibility of recording operational telephone conversations at the HPP Portile de Fier I dispatcher.
- Completion of the contract for the modernization of the Warning Alarm System. Replacement of workstations and MCEs with new equipment with Windows 10 operating system. Replacement of defective sirens and upgrade the Alarm System monitoring application to the version for Windows 10.
- Completion of the acquisition of portable and fixed radio stations in order to ensure local operational communications within the hydropower and navigation objectives (plants, power plants, dams and locks).
- Modernization of the UHE Tg Jiu communication infrastructure: the Layer 2 switches were replaced in the MIS Headquarters network with Layer 3 switches with Gigabit management and ports, the switches from the Pressure Node and the Control Room were replaced in HPP Tismana Subteran, Motru Dam.
- Modernization of the communication infrastructure to the energy objectives: the linux communication systems (CentOS) were replaced with Dell GX380 systems in the objectives: HPP Clocotiș, Baraj Vâja, HPP Vădeni, HPP Târgu Jiu and HPP Tismana Aval.
- Reconnection to the telephone network of the telephone unit from the Portile de Fier 2 lock by reinstalling functional ISDN boards and their interconnection equipment to the optical fiber between the lock tower PF2 and the control block HPP Portile de Fier 2.

**OT (Operational Technology) Activity:**

- Completion of the documents regarding the award of the contract for “Modernization of the SCADA system in the Portile de Fier dispatch” and starting the project implementation; monitoring the video-wall installation and virtualization of SCADA and HPMS servers.
- Completion of the documents regarding the award of the contract for “Modernization of the monitoring and diagnosis system of the Portile de Fier 1” the contract being at this moment in the phase of elaboration of the technical project.
- Participation in the completion of the technical analysis and documents on “Modernization of the 6.3KV Romanian side Portile de Fier 2 Sluice Stations”, project completed and put into operation.
- Operative remediation of faults in the PF1 metering and tele contouring system (8 incidents, faulty or blocked dial-up hubs or dial-up modems, blockages when reading meters on the Serbian side, replacement of communication line meters, replacement of auxiliary meters, repair of auxiliary meters , reconfigurations due to changes in the tele contouring network in the Serbian part.
- Starting the LN3D work according to “Technical project and execution details regarding the execution of LN3D maintenance works at the command / supervision installation in HPP Târgu Jiu and connections with the energy dispatcher” (work in progress).
- Increasing the availability of IT&C equipment within the UHE Târgu Jiu objectives by creating a 0.4 kV power supply system separated from power inverters in 5 locations: Cerna Dam, HPP Motru and 110kV Valea Mare Station, HPP Clocotiș and Bloc Tehnic Clocotiș, Tismana Subteran, Tismana Aval.
- Participation as members of the evaluation commission within the procurement procedure for the award of the contract having as object “Modernization and rehabilitation of equipment from HPP Tismana Subteran”.
- Participation as co-opted members in the commission of experts within the evaluation procedure for the award of the contract having as object “Re-technology HPD Vidraru ”.
- The virtualization process of the SCADA servers from the HS Bistrita HPPs was continued, so that at 3 new power plants the process was completed. A total of 17 servers were virtualized.
- The virtualization of the 10 SCADA servers and the 3 operating stations in the DLC system HPP Movileni was realized, a system implemented in 2007, with major hardware problems and frequent interruptions.
- Performing the alarm system maintenance contract-year 1: All MCEs have been replaced, ensuring the conditions for modernizing the system. This year, corrective maintenance work will be carried out, including the replacement of defective sirens with digital sirens (where technically and economically justified to take place).
- The evolutionary maintenance of the Technical Management application was completed, ensuring the IT support for the management of daily operating data (starting from the data entry by the personnel in the hydroelectric power plants, correction mechanisms at different levels, reports for different compartments, including SDME, and export in the Technical Management application from Hidroelectrica.

**IT Security and Cybersecurity Systems:**

- Implementation of restricting remote access in relations with third parties according to bilateral contracts, the IT Security Regulation and the SCADA Security Guide.

- Daily inspections and monitoring the operation of SCADA systems, weather and hydrological data acquisition, metering and telecontouring, diagnosis, microwave communications, wireless, alarm-warning, video surveillance.
- communication server upgrade in Târgu Jiu - Installation and configuration of Linux system used to integrate VPN links, provided by Telekom and Orange, in the Hidroelectrica's network;
- Design, implementation, and testing of software mechanism for power verification (220Vac) Jiu River flow measurement system in the section Lainici and alert by email.
- Permanent monitoring of active network equipment using the Nagios application. Alerts can be viewed in the application and in the email account.
- Permanent monitoring of VPN communication links with the objectives of UHE Târgu Jiu.
- Permanent monitoring of security alerts intrusion detection system (Snort) functional at the level of UHE Tg Jiu.

### 13. LITIGATIONS

The main disputes in which the company is involved on December 31, 2020, are the following:

***a) Litigation on file 3200/2/2018 against Ministry of Energy***

The dispute concerns the Concession Agreement no. 171/2004 regarding public assets.

Petitioner: Ministry of Economy, Energy and Business Environment

Defendant: Hidroelectrica SA

**Potential exposure: RON 373 million.**

The Ministry of Economy, Energy and Business Environment requested the following from the court:

- (i) Supplementing Hidroelectrica's consent to conclude an addendum to the concession contract, whereby the contract is modified so that:
  - The Ministry of Energy, as a concession provider, can unilaterally modify the amount of the royalty; and
  - amend the amount of the royalty at the value of the annual amortization of assets received under concession.
- (ii) Subsequently, the Ministry of Energy supplemented the action in court, requesting Hidroelectrica to pay RON 373 million, representing the difference between the amortization of the assets received in concession and the royalty paid for 2013-2018.

The action in court of the Ministry was initiated following an inspection and a report of the Court of Accounts at the Ministry of Economy, Energy and Business Environment. According to this report, the method of establishing the royalty for the concession agreement violate Law no. 15/1994 regarding the amortization of the fixed capital in tangible and intangible assets and the methodological application norms, applicable to the economic agents. According to the provisions of the mentioned law, the amortization of the concessional assets belongs to the owner, in this case, in charge of the Ministry's. This depreciation is recovered by royalty.

The company has as arguments against the request of the Ministry the provisions of Ordinance no. 81/2003 on the revaluation and depreciation of fixed assets in the patrimony of public institutions, according to which the assets belonging to the public domain are not subject to depreciation. This category also includes the goods granted by the Ministry to the Company. Thus, the value of the



depreciation that the Ministry has in its charge, as the owner of some concessional public domain assets, is invalid, consequently the value that should be recovered through the royalty is zero.

On November 6, 2019, the court appointed an independent expert to determine the amount of depreciation, namely the difference between the determined depreciation and the royalty paid by the Company. The court also approved an expert for Hidroelectrica.

The expert appointed by the Court, together with the expert appointed by the company, submitted to the file the accounting expertise report on January 14, 2021. The main conclusion of the report is that the fee alleged to be due by the company in accordance with Law no. 15/1994 and the methodological norms for the application of this law for the period 2013 - 2018 is zero, because the provisions of Law no. 15/1994 and of GD no. 909/1997 do not apply to public institutions. Also, the two experts concluded that the royalty calculated and paid between 2013-2018 by the company was in accordance with the provisions of the concession contract no. 171/2004 and is correct, there are no other differences.

The next term is 07.04.2021, when, most likely, the court will rule on the case.

Based on the arguments presented above, as well as the conclusions of the expert's report conclusions, which are favorable to the company, the management estimates that it will win this litigation and, consequently, did not register a provision in connection with this litigation.

#### **b) General tax inspection**

The litigation opened by Hidroelectrica for the annulment of the Decision for solving the preliminary fiscal appeal no. 406 / 18.12.2014 and the annulment of the Tax Decision no. F-MC 851 / 21.01.2014.

#### **Potential exposure: RON 214.4 million**

Hidroelectrica was under general fiscal inspection, the period subject to control being 01.01.2006 - 30.06.2012. ANAF issued the Tax Decision no. F-MC 851 / 21.01.2014 regarding additional fiscal payment obligations in the amount of RON 232,570,429, representing income tax, VAT, social contributions, and accessories, related. The company challenged this decision.

By the Decision for solving the preliminary tax complaint no. 406 / 18.12.2014, ANAF's General Directorate for Solving Complaints, partially upheld the appeal filed by Hidroelectrica, ordering the annulment of the Tax Decision for RON 18,185,217. Consequently, the obligations established by the Tax Decision were reduced to RON 214,385,212.

Given that Hidroelectrica was not insolvent at the date of the tax decision, it could be applied the enforcement procedure because the Tax Decision has enforceable title. According to the provisions of art. 148<sup>1</sup> of the Fiscal Procedure Code applicable at that time, the writ of execution could have been suspended or not commenced if Hidroelectrica SA should have submitted to the competent fiscal body a letter of bank guarantee, at the level of the established tax obligations, with a validity of at least 6 months from the date of issue.

In order to suspend the enforcement procedure, the Company submitted to ANAF letter of bank guarantee no. GI-16/0826 in value of RON 214,385,212. This letter was extended / renewed successively until August 2016.

The main aspects regarding the payment of the letter of bank guarantee are presented in point iv. below.

***i. The litigation filed by Hidroelectrica against the Decision for solving the preliminary fiscal appeal no. 406 / 18.12.2014 and the annulment of the Tax Decision no. F-MC 851 / 21.01.2014***

Hidroelectrica filed a complaint against Decision no. 406 / 18.12.2014 and requested in court the cancellation of the Tax Decision no. F-MC 851 / 21.01.2014. At present, file no. 3288/3/2015 instrumented by the Bucharest Court of Appeal is in the stage of evidence's administration, respectively the experts designated by the court are preparing the financial-accounting expertise report. The next term is May 12, 2021 for the administration of evidence, including the expertise report.

***ii. Decisions regarding the Tax Decision no. F-MC 851 / 21.01.2014 within the insolvency file of Hidroelectrica***

As intended to capitalize in the insolvency procedure the Tax Decision no. F-MC 851 / 21.01.2014, on 17.12.2014, ANAF registered in the insolvency file of Hidroelectrica a payment request, based on the provisions of art. 64 paragraph 6 of Law no. 85/2006 regarding the insolvency procedure. In accordance with the provisions of this text of law, the payment obligations born during the insolvency procedure are paid according to the resulting documents, not requiring registration with the creditors' group. ANAF claimed that, by issuing the respective taxation decision on 21.01.2014 (therefore, during the insolvency proceedings), the debt from the Tax Decision acquires the character of current debt, which is paid with priority, without registration in the Creditor's List.

In December 2014, the official receiver Euro Insol found that ANAF has no right over the requested debt neither during the procedure nor after its closure, considering the following:

- the receivable from the Tax Decision is not current (born during the insolvency proceedings), but previous to the procedure, as it targeted the debts established for the period 01.01.2006 - 20.06.2012;
- as is the case of a previous claim, it should be declared in the creditors' group within the term stipulated in Law no. 85/2006, in case of the Company, the term being 06.08.2012;
- failure to file the statement of claim within the legal term shall result in its revocation, in accordance with the provisions of art. 76 par. (1) of the Law no. 85/2006.

Against this measure of the Official receiver, ANAF has prepared an appeal.

By Civil Sentence no. 6458 / 17.07.2015 given by the syndic judge, the court rejected ANAF's appeal, validating with the decision the reasoning of the Official receiver and acknowledging that the claim for damages by ANAF does not exist.

Sentence no. 6458 / 17.07.2015 was appealed by ANAF. Bucharest Court of Appeal - 5th Civil Division, by Decision no. 135 / 10.03.2016, dismissed ANAF's appeal and maintained its final sentence as legal and sound.

***iii. The dispute regarding the challenge on enforcement filed by Hidroelectrica and ING Bank regarding the foreclosure carried out by ANAF***

On February 18, 2016, ING Bank issued in favor of ANAF the Letter of Guarantee No. GI-16/0826 amounting to RON 214,385,212 with validity until August 18, 2016.

By Decision no. 21 of August 18, 2016, the Supervisory Board approved the non-extension of the Letter of Guarantee and, if appropriate, the exercise of an appeal against any writs of execution that could be initiated by ANAF without a valid letter of bank guarantee.

On 18.08.2016 ANAF sent ING Bank a payment request to execute the letter of bank guarantee. On 25.08.2016, following the analysis of the conformity of the received request, ING Bank submitted to ANAF the note of refusal to pay the request. On 06.09.2016, ANAF started the foreclosure against ING Bank because of its refusal to comply with the payment request. Following the summons of foreclosure received, ING Bank paid to ANAF the amount of RON 214,385,212. On 06.09.2016, ANAF started the foreclosure against ING Bank because of its refusal to comply with the payment request. Following the summons of foreclosure received, ING Bank paid to ANAF the amount of RON 214,385,212. Also, Hidroelectrica paid the amount of RON 214,385,212 to ING Bank as a result of the Bank crediting the company's accounts with the amount of RON 214,385,212 based on the credit agreement no. 16271 / 09.02.2016, concluded to issue the letter of bank guarantee - as described in point v. below

Both ING Bank and Hidroelectrica SA filed a challenge on enforcement against the foreclosure initiated by ANAF.

On 06.03.2019, the Bucharest Tribunal-Civil Section V, by Civil Decision no. 641, cancelled the foreclosure carried out by ANAF. The decision mentions that the return of the foreclosure can be performed only by ING Bank, because it was under foreclosure, the fact that Hidroelectrica paid, in its turn, the amount executed concerns only the relations between Hidroelectrica and ING Bank generated by the credit agreement no. 16271 / 02.09.2016.

According to the motivating decision, communicated on 25.06.2019, the cancellation of the foreclosure performed by ANAF is motivated by the following:

- the conditions for the execution of the letter of bank guarantee by ANAF were not fulfilled;
- the request for payment made by ANAF to execute the letter of bank guarantee did not comply with the requirements of the letter of bank guarantee regarding the content of the request for payment.

The decision of the court, although final, could be challenged only by extraordinary means of withdrawal (appeal for annulment or review). Thus, ANAF formulated a request for review which is the object of file no. 18751/3/2019 pending before the Bucharest Tribunal. The court rejects the exception of the lateness of the request for review. Dismisses the request for review as inadmissible. Final.

***iv. The litigation opened by Hidroelectrica against ING Bank regarding the recovery of the amount paid following the foreclosure performed by ANAF***

By the address no. 100178 / 14.09.2016, ING Bank notified Hidroelectrica that following the payment made to ANAF, the bank credited the Company's accounts with the amount of RON 214,385,212 based on the credit agreement no. 16271 / 09.02.2016, concluded to issue the letter of bank guarantee. The amount not covered by the Company's existing cash in all accounts opened by Hidroelectrica at ING Bank will become an unauthorized loan and immediately due, so the bank requested the urgent payment of the amounts necessary to pay the unauthorized loan. Following the notification of ING Bank, Hidroelectrica paid the amount of RON 214,385,212.

As a result of the Civil Sentence no. 641, by which the court annulled the foreclosure performed by ANAF against ING Bank, Hidroelectrica requested the court to force ING Bank to reimburse the amount of RON 214,385,212, as well as the legal interests in value of RON 61,611,928, calculated between 09.14.2016 -

30.06.2019. Hidroelectrica's request is the subject of file no. 25111/3/2019 registered with the Bucharest Tribunal.

The company submitted this request considering the following:

- ING Bank did not comply with the contractual obligations mentioned in the credit agreement no. 16271 / 09.02.2016, by the fact that it gave effect to the ANAF's request to execute the letter of bank guarantee as the payment request made by ANAF was not in accordance with the requirements of the letter of bank guarantee regarding the content of the payment request (also presented by Decision No 641 - see point iv above);
- By canceling the foreclosure performed by ANAF against ING Bank, ING Bank is entitled to recover the amount from ANAF by returning the foreclosure. Consequently, Hidroelectrica does not owe ING the amount of RON 214,385,212. Thus, according to the Civil Code, art. 1341, Hidroelectrica has the right to be refunded this amount, as it was paid to ING to pay off an undue amount.

On 02.06.2020, the Bucharest Tribunal rejected the request to sue Hidroelectrica as unfounded by sentence no. 481 / 02.06.2020. Hidroelectrica filed an appeal.

On 01.02.2021, the Bucharest Court of Appeal admitted the appeal, annulled the appealed sentence and sent the case for retrial. According to the decision of the Court of Appeal, the sentence of June 2020 was annulled because this sentence was not motivated, so:

-The court of first instance, the Bucharest Tribunal, did not perform an analysis of Hidroelectrica's arguments and did not consider all the evidence submitted by Hidroelectrica.

- On the retrial, the Court of Appeal instructed the courts of first instance to analyze for each claim in the Hidroelectrica action all the arguments, defenses and evidence submitted by each party in the case.

At the moment, the first retrial term has not been set.

The company analyzed possible future events taking into account the following:

- The final decision of the Bucharest Court of Appeal, within the insolvency file of the company, according to which ANAF is deprived of the right to request the payment of the tax claim generated by the taxation decision (more information is presented in note 8 - point iii).
- in the situation where the court considers that the fiscal decisions are valid, the court will have to analyze the forfeiture of the rights of ANAF regarding the fiscal claim, in order to decide if the company owes the imposed amounts.

Considering the final decision of the Bucharest Court of Appeal according to which ANAF is deprived of the right to request the payment of the tax claim generated by the taxation decision, the company considers that the dispute is likely to end in favor of the company, and consequently recorded no provision.

***(c) Arbitral file no. ICC 20540/MHM***

Arbitral litigation regarding Contract no. 23.534 / H.700.116004, on the refurbishment of hydroelectric power plants located on the Lower Olt: Ipotesti , Draganesti, Frunzaru, Rusanesti and Izbiceni.

Petitioner: Hidroelectrica

Defendant: Voith Hydro Holding GmbH & CO KG („Voith”) and Andritz Hydro GmbH („Andritz”)

**Potential exposure: RON 28.3 million.**

Hidroelectrica asked the arbitral tribunal to issue a decision by which:

- (i) oblige the defendants to replace the defective works with others in accordance with the Contract or, alternatively, to pay the amount of RON 166 million, representing the contractual value of the defective works, plus the related interest;
- (ii) order the defendants to pay damages for the prejudice because of the breach of the object of the Contract, in the form of:
  - the retention by the Petitioner in full ownership the works with deficiencies; and
  - payment of damages for any prejudice suffered because of non-fulfillment of the object of the Contract, respectively (a) RON 83 million if the defendants will be obliged to replace the defective works or, otherwise, (b) RON 573 million.

Voith and Andritz applied to the arbitral tribunal for reconvening the following:

- (i) reject entirety the claims of the Company;
- (ii) require the Company to pay to Voith and Andritz the amount of RON 63.9 million representing a bank guarantee executed by the Company (RON 35.6 million), additional works (RON 17 million), equipment delivered by Voith and Andritz in value of RON 11.3 million plus due interest;
- (iii) alternatively, reject the Company's claims regarding the replacement of the works with deficiencies, the financial compensation and the reimbursement of the price of the works with deficiencies and, only with regard to the corroded parts and affected by the linear and round indications, order the repair, subject to the Company increasing repair costs compared to those that reparations would have recorded at the time of deficiency;
- (iv) grant the costs incurred in connection with arbitration and interest at 6% per year

In March 2018, the final pleadings of the parties took place. Subsequently, the Arbitral Tribunal asked the parties for a series of clarifications.

In August 2019, one of the three arbitrators was recused and replaced at the request of the Company, as he became, during the arbitration proceedings, an employee of the legal consultant of Voith and Andritz. Following the recusation, the parties provided the Tribunal with comments on the arbitrator's recusation and the possible resumption of the proceedings in the context in which the events leading up to the arbitrator's recusation could have been influenced by the violation of the arbitrator's principle of independence.

On 27.04.2020, the Arbitral Tribunal decided to reinstate the arbitration file and to organize a new arbitration hearing in order to present the case; presentation of quantum issues by the parties' experts; submitting questions to the Arbitral Tribunal on any matter it considers relevant to the case.

Status of the proceedings: The Court has closed the proceedings and is to rule on the merits. The company estimates that the Arbitration Decision will be communicated in the second quarter of 2021.

On December 31, 2020, the company registered a provision in the amount of RON 35.6 million (December 31, 2019: RON 35.6 million), at the level of the executed letter of guarantee. Taking into account the uncertainties generated by the complexity of the case, the Company estimates that the arbitral award will oblige both parties involved to pay damages. The company estimates that the registered provision would cover the value of such compensations.

**d) The arbitral file no. 20901/MHM**

Arbitral litigation regarding Contract no. 16636 / 31.10.1997 on the refurbishment and the increase of the power of the 6 hydroelectric units of HPP Portile de Fier I.

Petitioner: Hidroelectrica SA  
Defendant: ANDRITZ HYDRO AG („Andritz”)  
**Potential exposure: RON 72,5 million**

Hidroelectrica has asked the arbitral tribunal to issue a ruling by which:

1.A. Mainly: to order Andritz to pay the Company damages for the loss suffered as a result of failing to fulfill the object of the Contract, amounting to RON 1,582 million plus 6% interest per year, calculated up to the payment day. The amount also includes replacement work according to the Quantum MWH Replacement Program.

1.B. Alternatively, to the extent that Arbitral Tribunal considers that the Quantum MWH Replacement Program will satisfy the Company's right to a hydroelectric power plant in accordance with the contractual provisions, order Andritz to pay the Company the amount of RON 1,204 million plus the 6% interest per year, calculated up to the payment day.

In the counterclaim, Andritz asked the arbitral tribunal to force the Company to pay the amount of RON 72.5 million, representing costs incurred by Andritz to repair the damage caused by the cavitation.

During 2019, all the hearings scheduled within the arbitration procedure took place. In January 2020 and March 2020, the parties submitted their conclusions after the hearing.

In August 2020, by the final Arbitration Decision, the Tribunal ordered the following:

- Andritz is obliged to pay the company CHF 3,695,760 (RON 16.6 million) representing damages for non-fulfillment of certain guarantees of the cavity plus interest on arrears until the date of payment;
- Hidroelectrica is obliged to pay Andritz the amount of CHF 900,000 (RON 4.5 million) representing the bank guarantee executed by the company plus late payment interest until the date of payment.

On September 28, 2020, the company filed an action to cancel the Arbitral Decision at the Bucharest Court of Appeal. In the same action, the company requested again the payment by Andritz of the damages in value of RON 1,582 million. The new litigation is at an early stage.

The company did not register any provision and any assets in connection with the amounts decided by the Arbitral Decision and considers that the result of the retrial could be more favorable to the company than the one expressed by the Arbitral Tribunal, reason for which it filed the action for annulment.

***e) The arbitral file no. ICC 22482/MHM***

Arbitral litigation regarding Contract no. 2I / 50765 / 09.11.2001 on capital repairs and the modernization of the hydropower plant Portile de Fier II.

Petitioner: Andritz Hydro GmbH, Germany and Andritz Hydro GmbH, Austria (together „Andritz”)

Defendant: Hidroelectrica

**Potential exposure: RON 60.7 million**

Andritz requested the Arbitral Tribunal to order Hidroelectrica to pay the amount of RON 60.7 million plus the 6% interest per year, representing Andritz's works after Hidroelectrica's unilateral termination of the contract.

Hidroelectrica filed a counterclaim requesting RON 16.2 million plus interest, representing the difference between the advance paid by the Company and the interim payments to Andritz and unjustified by works executed according to the contractual provisions, plus the related interest.

In April 2018, the arbitral tribunal decided to divide the procedure in two stages

- a) Stage of exclusion on the lack of competence and admissibility of the action, exceptions filed by Hidroelectrica and motivating that Andritz did not fulfill the contractual steps regarding the pre-arbitration stage and that Andritz lost the right to these claims, considered to be current in the procedure of insolvency because it has not applied for payment of these amounts during the insolvency period; and
- b) Substance stage.

In its request, Andritz argues that Hidroelectrica's unilateral termination of the contract is not valid, as a result it has the right to collect the requested amounts. However, contract no. 21 / 50765 / 09.11.2001 and its unilateral termination were the subject of another arbitration case concluded in 2019. According to the arbitration decision issued in that case, the unilateral termination of the contract by Hidroelectrica was valid.

During 2019, the Arbitral Tribunal ruled on the stage regarding the exceptions invoked by the company in point a). The tribunal rejected its exceptions.

During 2020, the second round of the substance stage (point (b)) continued, in which the parties established the experts and witnesses to be examined. The hearings are scheduled between April 20 - 23, 2021. Following the hearings, the schedule for the remaining stages will be established - the presentation of the post-hearing briefs and the issuance of the arbitration award.

Considering the arbitral decision issued in connection with the unilateral termination of the contract by Hidroelectrica, the Company estimates that it will win the substance stage and, consequently, did not register a provision in connection with this litigation.

#### **f) Litigation regarding file 44443/3/2016 against Hidroconstructia SA**

Petitioner: Hidroconstrucția S.A.

Defendant: Hidroelectrica

**Potential exposure: RON 32,8 million**

Hidroconstructia SA filed claims in amount of RON 32.8 million, representing the equivalent of the costs generated by cessation of the construction works related to some of the investment projects under execution. The company has asked the court to reject Hidroconstructia's request, motivating the following:

- the claims made by Hidroconstructia does not represent costs of preserving the works during the period of their ceasing, but the costs incurred by Hidroconstructia before the insolvency of the Company;
- thus, as a claim before the insolvency proceedings, it should have been declared at the creditors' group within the preemptive term stipulated in the Law no. 85/2006, in the case of the Company the term being 06.08.2012; and
- failure to submit the claim in the legal term means Hidroconstructia is losing the right to request the collection of the debt.

In March 2018, the court of first instance (Bucharest Tribunal) rejected Hidroconstructia's request, the decision being challenged by both parties. Hidroelectrica contested because it was obliged to pay administrative fees.

In April 2019, the Bucharest Court of Appeal admitted the appeals filed by the parties and sent the case for retrial to the Bucharest Tribunal.

Hidroelectrica filed a appeal against this solution and an incidental appeal by Hidroconstructia. On November 3, 2020, the High Court dismissed the appeals as unfounded.

Therefore, the case is to be retried on the merits by the Bucharest Tribunal. So far, no trial has been set for retrial.

The company considers that the claims made by Hidroconstructia represent costs incurred before company's insolvency, costs that Hidroconstructia did not register in the credit group during the insolvency proceedings, thus losing its right to request payment of these amounts. Based on this argument, as well as based on the rejection of Hidroconstructia's request by the court in the first trial, the company estimates that it will win this dispute.

***g) File no. 40314/3/2013\* against Consortium Romelectro SA, Hidroconstructia SA and ISPH Project Development SA („Consortium”)***

The dispute concerns the execution contract no. 21DI/26.01.2004 on achieving the investment *Hydroelectric development of Jiu River on the sector Livezeni-Bumbesti*.

Petitioner: Consortium Romelectro SA, Hidroconstructia SA and ISPH Project Development SA

Defendant: Hidroelectrica

**Potential exposure: RON 88.4 million**

The Consortium asked the court the following:

- (i) the delivery of a court decision to be considered an addendum on the execution contract, having as object additional works executed by the Consortium from 2010 until beginning of litigation and establishing the value of the respective works in the amount of RON 88.4 million; and
- (ii) obliging Hidroelectrica to pay the amount of RON 88.4 million representing liabilities resulting from the execution of the works.

Subsequently, the claims in point (ii) have been split in two, being finally settled in the Hidroelectrica insolvency file, where the syndic judge decided to reject them. Therefore, the subject of the case is represented only by the court's decision that should be considered as addendum.

In November 2015, the court of first instance rejected the Consortium's request, the decision being contested by the Consortium.

In December 2016, the Court of Appeal upheld the appeal brought by the Consortium and referred the case back to the court.

After re-examining the substance, in April 2018, the court rejected the request of the Consortium.

By Decision no. 1571 / 29.03.2019, the Bucharest Court of Appeal quashed cancelled the decision from April 2018. As a consequence of the solution of cassation with detention, currently the Court of Appeal solves the request for summons as a court of first instance, with the administration of all the evidence necessary to resolve the issues of fact and law. During 2020, the Court approved the administration of the written evidence, mutual interrogations, and expertise in the field of hydrotechnical construction. At this date, the expertise report has not been submitted yet.



Hidroelectrica analyzed possible future events considering the following:

- in case the final decision of the court is unfavorable to the company, an additional act will be concluded according to the request mentioned in point (i) mentioned above;
- the consortium Romelectro - Hidroconstrucția - ISPH will initiate the foreclosure procedure of the amount of RON 88.4 million;
- the company will challenge the foreclosure procedure, arguing that the consortium has been revoked from the right to request this claim by the decision of the syndic judge, as described above.

In view of the favorable decisions in the substantive and appeal stages, as well as the winning of point (ii), the company estimates that it will win the litigation and, consequently, has not registered a provision in connection with this case.

#### ***h) Litigation with Beny Alex S.R.L***

Litigation regarding contracts:

- no. 129 / 02.09.2011 concluded by the company with HIDROSERV HATEG S.A., having as object the provision of deforestation services at HPD Raul Mare Retezat, Gura Apelor Dam: Ecologization and sanitation by deforestation of Gura Apelor reservoir; and
- the subcontracting contract concluded by HIDROSERV HATEG SA with Beny Alex no. 104 / 07.10.2011.

Petitioner: Beny Alex S.R.L.

Defendant: Hidroelectrica

**Potential exposure: RON 43.6 million.**

Beny Alex requested from the company the amount of RON 43.6 million representing additional works executed by this petitioner based on the contract concluded with Hidroserv subsidiary in 2011.

The court of first instance rejected the applicant's request as time-barred.

During 2020, the appeal declared by Benny Alex was admitted by the court of judicial control which cancelled in all the appealed sentence, rejected as unfounded the exception of the prescription of the material right to action and sent the case to the same court to continue the trial.

The next trial term is 26.04.2021, when the trial of the case on the merits will resume.

The company considers that the claims made by Beny Alex represent costs incurred during company's insolvency proceedings, costs which were not requested for payment during the insolvency proceedings, thus losing the right to request payment after the exit from the insolvency. Based on this argument, the company estimates that the court's decision will be favorable to the company and, consequently, has not registered a provision in connection with this dispute.

#### **The ongoing investigation of the Competition Council at Hidroelectrica**

There is an ongoing investigation at Hidroelectrica ordered based on the Order of the President of the Competition Council no. 1079 / 24.08.2018 having as object a possible violation of art. 6 paragraph (1) letter (b) 1 of the Competition Law no. 21/1996, with subsequent amendments and completions ("Competition Law") by Hidroelectrica S.A. on the market of production and sale of electricity in Romania by limiting the sale of electricity.

By court decision no. 22 / 03.09.2018 pronounced by the Bucharest Court of Appeal, an unexpected inspection was authorized at Hidroelectrica and at the Compania Națională de Transport a Energiei Electrice Transelectrica S.A. ("Transelectrica"), the Competition Council invoking the fact that, in 2017, the Romanian electricity market was characterized by an increase in the price of electricity on each of the centralized markets managed by OPCOM, especially in January, June and July 2017. In addition, the suspicions of the competition authority were based on the price increases registered on the balancing market, where, against the background of the large volume of energy selected for the increase, the prices registered very high hourly values in January and February 2017.

Thus, the request of the competition authority was based on a possible anti-competitive act committed by Hidroelectrica, consisting in limiting the sale of electricity on the market and sale of electricity in Romania, achieved by withdrawing available capacity or selling offers at prices above market (physical and / or financial withdrawal of capacity).

On September 5, 2018, based on the court decision authorizing the inspection, as well as the Order of the President of the Competition Council no. 1112 / 04.09.2018, the Competition Council inspected the headquarters of Hidroelectrica S.A. in Bucharest. The inspection took place over a single day, and no seals were required. At the end, the inspectors collected a series of documents in physical format, in electronic format, as well as scanned documents.

The analysis of the Competition Council prove that there are no facts to be sanctioned by the competition law and, together, the parties came to the conclusion that the commitment procedure is a procedure that satisfies all participants. Consequently, Hidroelectrica proposed, and the Competition Council accepted a series of guarantees (commitments) regarding the behavior in the energy market, the decision of the Plenum of the Competition Council should be drafted.

These commitments have a period of 3 years from the moment of assuming / accepting, and Hidroelectrica is in the procedure for selecting a monitoring agent who must report the compliance monthly to the competition authority.

## **14. NON-FINANCIAL DECLARATION FOR THE YEAR 2020**

### **14.1. The business model of the Hidroelectrica Group**

Hidroelectrica group comprises:

- the parent company S.P.E.E.H. Hidroelectrica S.A. having as main activity the production of electricity and the provision of ancillary services
- subsidiary Societatea de Servicii Hidroenergetice - Hidroserv S.A. having as main activity the provision of maintenance and repair services for hydropower assets

Hidroelectrica is the most important producer of electricity among the producing companies on the energy market, providing annually over 25% of the total production and being the main provider of ancillary services, at the level of NES.

The main activities of the company consist of:

- production of electricity in hydropower plants and the sale of electricity;
- performing ancillary services for the National Energy System;
- provide water management services from own accumulations by supplying raw water, debit adjustments, flood protection, debit insurance and other common water management services;
- ensuring navigation on the Danube by locking;
- in the hydroelectric installations on the internal rivers under the management of the company, Hidroelectrica performs the control and ensures the mitigation of the flood waves for the transit of the catastrophic flows. In situations where increased flows might endanger material assets and human lives through the National Emergency Committee, the Company contributes to a very important extent in limiting and removing these situations.

As a participant in the electricity market, the company operates based on the licenses granted by the National Regulatory Authority for Energy which are regularly updated as follows:

- License No.332 / 2001 for the commercial exploitation of power generation capacities, including the ancillary services, updated by ANRE Decision no.509 / 2017, valid until 24.07.2026.
- License No.932 / 2010 for the supply of electricity, updated by the ANRE Decision no. 768/2016, valid until 01.06.2020.
- License no. 2215/2020 for the supply of electricity, updated by ANRE Decision no. 718 / 6.05.2020, valid for 10 years.

As concerning the organizational structure, the company consists of 7 branches without juridical personality dispersed on the territory of the country, namely:

- SH Bistrița – 13 Locotenent Drăghiescu Street, Piatra Neamț;
- SH Cluj - 1 Taberei Street, Cluj Napoca;
- SH Curtea de Argeș – 82-84 Basarabilor Street, Curtea de Argeș;
- SH Hațeg - 23 Nicolae Titulescu Blvd, Hațeg;
- SH Porțile de Fier - 2 I.C. Bibicescu Street, Drobeta Turnu Severin;
- SH Râmnicu Vâlcea - 11 Decebal Street, Râmnicu Vâlcea;
- SH Sebeș - 9 Alunului Street, Sebeș.

### **Mission**

To create value through the production and marketing of electricity in hydropower plants, in a responsible manner to the community and the environment, in terms of quality and performance.

### **Vision**

Strengthen leadership position in power generation and ancillary services, complying the principles of sustainable development.

### **Values**

Performance, Integrity, Creativity, Teamwork and Social Responsibility

The main objective of Hidroelectrica is the sustained increase of the company's value through:

- optimizing the cost base and operational optimization;
- optimizing the operation of production capacities;
- making cost-effective investments;
- development at regional level;
- listing the company on the stock exchange.

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

In fulfilling its mission, Hidroelectrica is based on a management system according to the standards in quality, environment, safety and health management, continuously monitored and adapted / optimized, as well as focused on identifying, implementing and monitoring the applicable requirements, the Plan-Perform-Check-Act cycle and risk-based thinking.

Hidroelectrica is a sole shareholder in S.S.H. Hidroserv S.A.

### **Societatea de Servicii Hidroenergetice-Hidroserv S.A.**

Societatea de Servicii Hidroenergetice - Hidroserv S.A registered with the Trade Register Office attached to the Bucharest Tribunal under no. J40 / 9762 / 05.08.2013, a company formed by the merger of the 8 Hidroserv Repair and Service Branches (established by RGD No. 857/2002), a subsidiary with legal personality.

S.S.H. Hidroserv S.A. has as main purpose the provision of repair services and other service activities, for hydro-aggregates, although the main object of activity included in the Constitutive Act, NACE code 3511, is "production of electricity " and the secondary objects of activity consist of a series of related service activities in several domains to support the main object of activity.

The operational activity of the company is carried out in 7 offices with the status of "Hydropower Services and Repairs Sections", without legal personality.

### **Share Capital of Societatatea de Servicii Hidroenergetice Hidroserv S.A.**

The subscribed paid-in share capital of Societatea de Servicii Hidroenergetice Hidroserv S.A.. is in value of RON 70,576,810, representing RON 10,599,240 cash contribution and RON 59,977,570 in-kind contribution, divided into 7,057,681 registered shares issued in dematerialized form, each having a par nominal value of 10 lei / share.

The share capital is entirely owned by S.P.E.E.H. Hidroelectrica S.A.

Considering the negative evolution of the economic-financial indicators, the Board of Directors of Hidroserv requested the insolvency of the company, and the Syndic Judge, by concluding the meeting, pronounced on 10.10.2016, within the file no. 36365/3/2016, pending before the Bucharest Tribunal-Civil Section VII, ordered the opening of insolvency proceedings according to the provisions of art. 71, paragraph 1 of Law no. 85/2014 on insolvency prevention and insolvency proceedings with the retention of the right to administer the company and based on art. 45, letter d) of Law no. 85/2014 appointed as official receiver C.I.T.R. BUCHAREST BRANCH S.P.R.L, reported to art. 87 paragraph 1, letter d) of Law no. 85/2014.

Based on art.139 of Law 85/2014, is confirmed the reorganization plan of Hidroserv S.A. proposed by the official receiver CITR FILIALA BUCURESTI SPRL on 24.06.2020.

With the Decision of the Ordinary General Meeting of Shareholders on 08.09.2020, Mr. Tosa Dan Cosmin was appointed as special administrator of the S.S.H. Hidroserv S.A., to represent the interests of S.S.H. Hidroserv S.A. and of the shareholder Hidroelectrica, to determine the organizational and operational measures.

Thus, the organizational and operational measures are provided by the special administrator in order to comply with the reorganization plan.

Among the obligations of the special administrator is the duty to prepare a monthly Report on the status of the procedure correlated with the provisions of the Reorganization Plan, relevant events of the procedure, including but without limitation, data and information on the debtor's condition, measures and actions taken during the insolvency procedure as well as proposals regarding development, reports that will be endorsed by the principals.

#### **14.2. Environmental issues**

##### **Policies adopted for the protection of the environment**

Environmental protection activity in Hidroelectrica is organized in accordance with the legal environmental requirements and ISO 14001: 2015 Environmental Management Systems.

The compliance of the Hidroelectrica Environmental Management System with the requirements of SR EN ISO 14001: 2015 is certified by SRAC through Certificate No 95 valid until 21.06.2021. The implementation of the SR EN ISO 14001: 2015 requirements lead to the control of significant environmental aspects and the increase of the degree of compliance with the applicable legal requirements and other requirements to which the organization has subscribed.

Environmental protection is a priority issue for Hidroelectrica. The company's strategic goal is to increase the value of the company by optimizing the operation of production capacities and operational control, cost-effective investments, and regional expansion, observing the applicable environmental legislation. These actions are carried out with a rational and responsible use of resources to prevent and reduce the impact on the environment.

For the purposes of this guideline, starting with 2019, a new procedure has been implemented for the assessment of environmental impacts and environmental aspects corresponding to Hidroelectrica's activities, in order to identify and control significant environmental aspects, "P\_S13.211. Environmental impact assessment and establishing significant environmental aspects", a procedure applicable to all activities carried out, both in the executive and in the company's branches.

Hidroelectrica's management, aware of the major influence of the environment on habitats and organisms in general, and on human health in particular, is constantly concerned by compliance with legal obligations in the field of environmental protection applicable to the activity, compliance with regulatory obligations, minimizing the impact on the environment due to the activities carried out and the prevention of accidental pollution of water and other environmental factors, including achieving efficient waste management.

It was also concerned with ensuring good cooperation with environmental authorities and other

stakeholders.

To achieve certain standards in line with the international environmental protection requirements, the environmental component of the integrated management system had the following directions of action:

- Enhanced environmental responsibility through direct involvement, training and continuous improvement in the field of environmental protection of all personnel;
- Preventing and combating water and soil pollution through measures related to the operation and maintenance of equipment in a first stage and through technological change in the future;
- applying environment-friendly solutions in new investment works, upgrades, refurbishment and restoration of the natural environment after completion of the works;
- efficient waste management resulting from own activity;
- initiating and developing partnerships with all stakeholders concerned with environmental protection;
- improving communication with interested public by increasing transparency and encouraging dialogue.
- continuously improving the environmental component of the Hidroelectrica Integrated Management System.

### Environmental policy outcomes

Hidroelectrica acts responsibly and is actively engaged in projects that aim to protect and improve natural environmental conditions, as well as to reduce the pollution of the environment and pollution sources in the areas where it operates.

At the same time, under the goal "Hydropower - clean environment for all", Hidroelectrica's activities are based on the proactive approach of environmental protection and the involvement and motivation of all personnel in assuming a responsible attitude towards the environment and the social community.

### Regulatory acts

#### Environmental permits 2020

At the end of 2020, Hidroelectrica had a number of 196 environmental permits for hydropower facilities, which needed to be authorized, of which 23 facilities were in the process of renewing the permit. All environmental permits for Hidroelectrica assets are issued without compliance programs.

The operating conditions imposed by the environmental permits refer to the monitoring of environmental factors, respectively monitoring of quality indicators for wastewater or turbinated water, the noise level at the site, specifying other requirements for compliance with environmental legislation applicable to the activity. During 2020 there were no exceedances of the legal limits of the measured indicators.

### Environmental protection works

In order to comply with legal obligations and to control significant environmental issues, actions were carried out with an environmental protection component, the value of which amounted to RON 2,464 thousand, including taxes paid for obtaining regulatory documents. This amount represents 22.5% compared to the values spent in 2019 for the same types of works, the decrease being mainly caused by the COVID 19 pandemic and the lockdown period.

The most important categories of actions / works with environmental protection character performed in 2020 were:

- Flood prevention works, consisting of cleaning grate and unclogging, mainly in HPB Bistrița, HPB Hațeg and HPB Curtea de Argeș, representing 27.5% of the total value of environmental works;
- Waste management actions, both those generated from its own activity and the waste collected from the retention fronts and water intakes, were carried out in all branches of the company, representing 62.7% of the total value of environmental protection works;
- Works for the prevention of water pollution and for water treatment carried out by HPP Porțile de Fier, HPB Bistrița and HPB Sebeș, representing 7.1% of the total value of environmental protection works;

In 2020, no environmental events were registered.

### Environmental risks and management approaches

For environmental risk and other identifiable risks besides documented processes, were initiated workshops and awareness sessions and risk assessment tools should be implemented in the next period.

The significant environmental aspect is the pollution of water with oil, which can occur both through own activity and through works performed with third parties. In order to avoid such situations and to limit their consequences when they occur, at the level of the workplaces, numerous actions are taken: endowment with absorbent materials, prophylactic checks, training of personnel and participation in simulations in case of accidental pollution, etc.

At the hydro-aggregate operation level, other significant environmental aspects are:

- Variation of water level in the lake;
- Management of large waters;
- Accidents at the dam and piers;
- Extra filtration / Infiltrations;
- Fires and explosions;
- Faults that may occur at laboratory equipment, electrical installations that may cause fire, explosions, wastes;
- Use, handling and storage of toxic and dangerous substances;
- Generation and storage of hazardous waste;
- Storage and disposal of waste within the hydropower facility;
- Change in land use by third parties;
- Site organizations executed with third parties.

All these environmental aspects are controlled by different internal or external regulations:

- internal procedures, such as those related to waste management, or those related to exercises on how to act in emergency situations;
- programs on how to organize and conduct preventive maintenance at installations;
- operating regulations, daily operating schedule;
- various plans, such as: Flood Protection Plan, Fire Protection, Prevention and Control of Accidental Pollution;
- monitoring planning, special UCCH programs, prophylactic checks;
- regulations on annual training, on-the-ground training, including simulation, on requirements in procedures, etc.;

- internal working instructions;
- requirements specified in applicable regulatory or applicable environmental legislation.

## Biodiversity

The concept of biodiversity or biological diversity was first defined in the context of the adoption of a new international environmental instrument at the 1992 UNCED Earth Summit in Rio de Janeiro. It represents the diversity of life on earth and involves four levels of approach: diversity of ecosystems, species diversity, genetic diversity and ethnocultural diversity.

The increased interest in the development of protected area networks in Romania has made in recent years a large part of the accumulation lakes under Hidroelectrica to be declared natural avi-fauna protected areas. Branches that have water storage reservoirs - avi-fauna protected areas are: Bistrita, Curtea de Argeș, Hateg, Portile de Fier, Râmnicu Vâlcea, Slatina. Thus, 52 plants have work points located in Special Protection Areas (SPAs).

In the same context, 38 of the hydro-energetic facilities have components (central, dam, hydrotechnical node, energetic socket, secondary sewage, utility roads, etc.) located in Sites of Community Importance (SCIs) and 21 facilities are located in National Parks (NP).

The exploitation and maintenance activities of the facilities are carried out in consultation with the custodians and in accordance with the requirements regarding conservation of biodiversity, detailed in the regulations specific to each protected area.

## Key Performance Indicators for Environmental Issues

- No. of Accidental Pollution Prevention and Control Plans (APPCP) required to be developed or revised / no. APPCP scheduled for development or review = 1
- No. of objectives holding environmental permit required to be notified / no. of visas obtained / year = 1
- No. of requirements implemented, monitored and reported / No. of requirements of the regulatory act that need to be implemented, monitored, and reported = 1

## Obligations on decommissioning and site restoration

Order no. 119 of February 11, 2002 "for the approval of the Procedure for transition to conservation, post-use or abandonment of dams" stipulates that the procedures for post-use and abandonment of dams should be performed by the owners of dams under certain conditions provided by law.

The owners of dams are defined by the Emergency Ordinance no. 244 of November 28, 2000 (republished) on the safety of dams and represents legal persons of any title, which have in custody, ownership and / or under administration a dam.

Post-use refers to the dams that have reached the final level, which have fulfilled their normal operating stage, and which can still be used for purposes other than those for which they were built. Post-use



requires the implementation of a set of measures and works to ensure the new functionality of the dam in a safe way and protecting the population and the environment. The necessary measures and works are carried out both by the care of the dam owner or administrator, and by the post-user, by changing the use.

The transition to post-use of dams is proposed by the dam owners and is approved by order of the minister under the subordination, coordination or under whose authority the unit that owns the dam is, based on the approval of the Ministry of Waters and Environmental Protection.

After the execution of the works provided in the post-use project, once they are received, the handing-over of the works between the former owner and the post-user is carried out, following the legal procedures of handing-over the objective.

Abandonment refers to completed or unfinished dams, with or without normal obsolete life, which can no longer be operated or post-used due to technical impossibility or excessively high costs and which, at the same time, represent a potential danger to the population and environment. The abandonment requires the implementation of a set of measures and works for the decommissioning of the dam, the ecological reconstruction of the area and the proper ensuring of the flow of liquid and solid flows, including the maximum ones, in the initially barred section. The necessary measures and works are carried out by the care of the dam's owner or administrator and must ensure the flow conditions existing prior to the execution of the dam.

The commencement of dam abandonment operations takes place:

- following the request of the owners of the dams, when they find that the necessary performance requirements cannot be met according to the law, the respective dams presenting an unacceptable associated risk;
- as a result of the disposition of the control bodies, following expertise that show that the dams have an unacceptable associated risk, constituting a real danger for the population and the environment;
- following accidents, when the conclusions of the expertise expressly specify the abandonment due to the very high cost of the necessary restorations, as well as the non-fulfillment of the performance requirements and safety criteria etc.

The reception of the decommissioning and ecological reconstruction works is carried out by representatives of the dam owner and of the central or local public administration, which takes over the respective area, by concluding a handover-takeover report.

The Romanian State through the Ministry of Economy and Trade, later through the Ministry of Energy, currently the Ministry of Economy, Energy and Business Environment, holds the property right over the hydropower facilities (dams, pier, locks, water storage reservoirs) and the lands on which they are located belong to public domain and which are the object of the concession contract mentioned above. The company has the right to use these assets for a period of 49 years, starting with the date of signing the concession contract (2004) for the purpose of operation, rehabilitation, modernization, refurbishment, as well as construction of new hydropower facilities according to investment programs. At the end of the concession contract, the Company transfers to the State the assets resulting from the rehabilitation, modernization, refurbishment, or construction carried out on the concession assets.

According to the concession contract, the Company has the right during the contract to abandon or deactivate assets that are part of the public domain with the consent of the grantor.

The company considers that, in accordance with the legal provisions and the practices in the field, the abandonment occurs in extreme situations, when the dams become an unacceptable risk with effect on the environment and the population. Given that these buildings have complex functions, in addition to producing electricity including flood protection, water supply, irrigation, etc., post-use is the usual way in which these buildings will be used by central or local public administration, after which can no longer be used for energy purposes.

The necessary works for post-use are established by technical documentation prepared based on expertise on assess regarding the safety of the dam at that time, performed by experts certified by Ministries and certified / approved by the Ministry of Environment, Waters and Forests.

Also, the abandonment works are carried out based on a special documentation prepared with the water management permit, the environmental protection agreement, and the local and central public administration approval, as the case may be. These documents and approvals will establish the activities necessary for carrying out the abandonment.

Given that the rate of degradation and life-cycle of a dam varies significantly from case to case (some can reach hundreds of years), as well as the complexity and variety of works that may be required for post-use or abandonment, which depend of the actual situation of each dam at the time of post-use or abandonment, the works and costs that may be required cannot be reliably estimated on such a long time. Also, there are significant uncertainties regarding the evolution of the degree of degradation and determination of the real life cycle of a dam, these being dependent on natural phenomena (floods, landslides, earthquakes, etc.) and the behavior over time of the construction itself.

Also, the Company estimates that until the end of the concession contract (33 years remaining) it is unlikely that situations will occur that require the transfer to post-use or abandonment of public assets or own assets such as dams and hydroelectric power plants and locks on the front of dams that have a significant impact on the financial statements (other than those in current assets described in the Financial Statements in Note 5), given the long life of the dams, which can be significantly extended over 100 years by maintenance and improvements.

Consequently, the Company recognizes decommissioning provisions when management has made the decision to abandon an asset or move it to post-use. The provisions are recognized based on costs resulting from the technical documentation prepared by specialists in the field employed by the Company.

### **14.3. Issues of Safety and Health at Work (SHW) and Emergency Situations (ES)**

#### **Adopted policies**

The company's main objectives for the conduct of SHW, Environment and ES activities in 2018 are as follows:

- increasing the compliance with the applicable legislation and other requirements of SHW, Environment and ES assumed by Hidroelectrica;
- controlling the risks of injury and professional illness, significant environmental aspects associated with

the work done in the company and the risks of fire.

Occupational safety and health works in Hidroelectrica are organized in accordance with the requirements of the Health and Safety at Work Act 319/2006 and the standard SR ISO 45001: 2018 Occupational health and safety management systems.

The compliance of the Occupational Health and Safety Management System of Hidroelectrica with the requirements of SR ISO 45001: 2018 is certified by SRAC by certificate no. 250, valid until 21.06.2021.

Security activity and health at work, a preventive character, is based on Prevention and Protection Plan, drawn up in each branch and the executive. By implementing the measures foreseen in the prevention and protection plan for 2020, it was meant to observe the legal provisions regarding the safety and health at work.

In order to ensure the information, participation and consultation of employees in the elaboration and implementation of decisions on safety and health at work, the Occupational Safety and Health at Work is organized and functions both at the company's level and at the level of each branch of Hidroelectrica.

With regard to emergency situations, there is a constant concern at the company level for the efficiency of actions to prevent and increase the response capacity of the personnel in case of emergency.

### Results of the policy

Compliance with the legal requirements in the fields of SWH, Environment and ES of the activities carried out within Hidroelectrica has been controlled by the competent authorities in respect of the hydropower objectives as follows:

- 36 inspections of the National Environmental Guard following which 37 measures were established;
- 9 inspections of the Territorial Labor Inspectorates following which 8 measures were initiated and 2 verbal warnings were applied;
- 24 inspections of the authorities: Inspectorates for Emergency Situations, Institutions of the Prefect of Buzău and Dâmbovița, ABA Buzău-Ialomița, SGA Buzău, SGA Dâmbovița, following which 39 measures and 12 warnings were established.

During 2020, no events were registered regarding Occupational Safety and Health.

The Expenditure Program for the implementation of prevention and protection plans in the Hidroelectrica subunits also includes measures whose value is highlighted in the maintenance / investment / endowment works.

Degree of achievement of the expenditure program: 74.42%, as follows:

- Technical measures for prevention and protection (includes the value of acquisitions initiated in 2020): 29.36%;
- Organizational measures for prevention and protection: 35.70%;
- Hygienic-sanitary measures: 646.53%.

With regard to the health aspects at work, following the periodical medical examination of Hidroelectrica employees, no professional diseases related to the profession were detected and reported. Common illness (without professional determination) has been directed to family doctor or specialist.

The overall risk of injury and professional illness in Hidroelectrica in 2020 was 2.99. The overall level of risk, both at consolidated level and at the level of each branch and executive, falls below the acceptable risk level of 3.5.

Within the collaboration relations but also for the fulfillment of their attributions in the field of information, the representatives of the Inspectorates for Emergency Situations distributed brochures and leaflets that were used by the branches in carrying out trainings and awareness among the employees.

In the first part of 2020, until the establishment of the state of emergency on the Romanian territory and subsequently of the state of alert every month, on the first day of Wednesday, the sirens are activated within the warning-alarm systems, existing at the level of Hidroelectrica branches. This activity is carried out within the exercise for testing and verifying the system for notification, warning and alarm in civil protection situations organized at national level by the General Inspectorate for Emergency Situations.

In order to keep the alarm systems in good working order, and to comply with the regulations in the field of civil protection, Hidroelectrica has concluded a contract for maintenance services.

In accordance with the legal requirements in the fields of sustainable water management and emergency situations, for the elaboration, respectively the updating of the Action Plans in case of accident at the dams under Hidroelectrica managed, contacts are underway for drawing up these plans. Some of them are in the process of approval / approval by the authorities, and those completed during 2020 are:

- Action plans in case of accident at Hidroelectrica dams on Superior Olt River Basin;
- Action plans in case of accident at Hidroelectrica dams on Middle and Inferior Olt River Basin;
- Action plans in case of accident at Hidroelectrica dams on Dâmbovița, Ialomița, Buzău, Olt and Siret River Basin;
- Action plans in case of accident at Hidroelectrica dams on Crișul Repede River Basin.

In 2020, there were no emergency events within Hidroelectrica.

#### **Occupational Health and Safety Risks and Action Plans**

In Hidroelectrica, are assessed risks for all jobs by Occupational Safety and Health Department. For this assessment was used the Method of assessment of the risks of accidents and occupational diseases at work, developed by INCDPM - revised 2003 edition, endorsed by Ministry of Labour.

#### **14.4. Issues concerning human rights and fighting corruption and bribery**

##### **Adopted policies and results**

Hidroelectrica has a permanent concern to prevent and fight human rights and abuses, as well as to establish and develop tools to fight corruption and bribery.

## The Code of Ethics

The Code of Ethics approved by the Supervisory Board on October 13, 2016 is a guide for the management and employees of the company regarding professional conduct and ways to solve business ethics issues. Every year, the Human Resources Department reports to the Department of Public Internal Audit which informs the Supervisory Board about implementing the Code of Ethics on the following issues:

- Training on Code of Ethics

*Each Hidroelectrica employee will carry out in the first quarter of each year an updating course on the content of the Code of Ethics and will take a test to verify his/her knowledge.*

The test in 2020, in the context of the COVID-19 pandemic, was carried out between August and September. For newly hired employees, the verification was represented by written test on the date of employment, within the general introductory training - Organizational culture.

In order to verify the knowledge, was prepared the set of questions and the verification test for the testing was on the employees' e-learning platform regarding the information related to the Code of Ethics in force.

The verification of the employees regarding the Code of Ethics was supported using Hidroelectrica e-learning platform (employees took the test on the Code of Ethics on the e-learning platform) and by written test.

- *Monitoring the declarations of non-existence of the conflict of interests for the employees from the Procurement Department and the Supply Trading Department, Chapter IV Organizational commitments in Hidroelectrica, point.5.5 Conflicts of interests, letter g) of the Code.*
- *Gifts received according to the provisions of the Code of Ethics, Chapter IV Organizational commitments in Hidroelectrica, point 5.1 Gifts, from Code.*

The Code of Ethics also establishes rules regarding gifts that may or may not be received by a Hidroelectrica employee.

- a) Offering gifts is often part of local culture and traditions. Offering gifts in business relationships can contribute to the company's reputation and establish good business relationships. The pecuniary value of these gifts must not exceed RON 250.*
- b) No gift of any kind - regardless of value - must be accepted outside the company's premises.*
- c) If a gift is offered exceeding the limit value mentioned above and it cannot be refused, then this situation must be notified to the Human Resources Department, specifying the organization or person from whom the gift was received, the nature of the business relationship with the person in question and its content.*
- d) Any form of gift at the expense of the company must not exceed RON 250 and is clearly not granted in order to influence the existing business relationship or to be created with Hidroelectrica.*
- e) The management and employees of the company must not offer or accept gifts in circumstances that can be interpreted from the outside as being able to influence a business decision or as a case of bribery.*

Actions carried out by the Human Resources Department provided in the Code of Ethics for recruitment, employment and personal promotion and monitoring of kinship degrees in 2020:

### **Collecting statements on employment / promotion in Hidroelectrica:**

All newly recruited or promoted employees, participants in a recruitment / promotion in Hidroelectrica following the approval of the Code of Ethics, declared before employment / promotion:

- if they are married or are in a relationship of family or affinity up to third degree with a member of the Supervisory Board, respectively of the Board of Directors;
- if they are married or have a relationship of affinity up to third degree with the employee with whom they have direct relationships of subordination;
- if the criminal prosecution / trial was ordered against it.

The monitoring of the family relationship for the incompatibilities regarding the conflict of interests was carried out during 14.01.2020-01.03.2020.

Also, on the company's website are posted the income statements of all employees with leading positions.

### **Integrity Plan**

Hidroelectrica's integrity plan for 2019 is approved by the company's management and is posted on the website.

### **Risks and management administration**

The risks of corruption are treated by the company in accordance with the Decision no. 599/2018 for the approval of the Standard Methodology for Corruption Risk Assessment within Central Public Authorities and Institutions. Thus, at the company level, the following risks were identified as risks of corruption:

- Corruption (bribery);
- Conflicts of interest;
- Fraud within the organization.

For each of the above risks, intervention measures have been established to reduce and monitor these risks, respectively:

- Implement internal procedures and controls to prevent or identify risk at an early stage;
- Assets' protection measures.

### **14.5. Social and personnel connected aspects**

#### **Policies adopted and results**

In the field of human resources, the company has the following objectives:

- Ensuring the personnel needs both in number and category and in the budget of income and expenditure on living expenses;
- Increasing motivation and employee involvement;
- Employee development through continuous improvement of knowledge and skills;
- Implementing a cultural change in Hidroelectrica

### **Equality of gender**

Equality of treatment between men and women has been a fundamental principle of the European Union since its establishment. In 1957, the principle of equal pay for equal work became part of the Treaty of Rome. Since then, the European institutions have repeatedly reiterated this principle, promoting it as an essential value of the EU. The Commission's "Strategic Commitment to Equal Opportunities for Women and Men 2016-2019" was created as a reference framework, highlighting the need to step up efforts at all levels to develop policies for improving gender equality. It also supports the European Pact for Gender Equality 2011-2020.

Hidroelectrica also took actions in 2019 to ensure gender equality, a principle by which men and women receive equal pay, having equal rights in the organization.

Thus, starting in 2018, a new salary system based on the Mercer international methodology has been implemented, establishing salaries for different positions by assessing the positions according to five dimensions (impact, communication, innovation, knowledge and risks), which can be filled by a transparent procedure, regardless of whether the subject is a man or a woman, the principle of competence being the only one counting.

Hidroelectrica does not restrict anyone right to take up a job by taking part in the recruitment, selection and promotion process, even if 14% of all employees are women, 86% of the company's employees are men because many of the workplaces in the operation of the plants are in non-accessible, isolated areas with a continuous underground working program. However, of the total number of women in the company, 22.3% work in hydroelectric power plants, and the rest work in offices.

Of the total number of women, 12.21% have managerial positions in Hidroelectrica (head of office, head of section, head of department, head of hydroelectric power plant, top management: department manager, branch office manager).

The average age of the employees is 49.74 years on 31.12.2020. Rejuvenation measures are taken by granting private scholarships for pupils and students and in no case by restricting the participation in competitions of any person, regardless of whether they are aged between 40-50 years.

### **Non-discrimination based on trade union and religious affiliation**

Hidroelectrica fights discrimination of all kinds through all its actions.

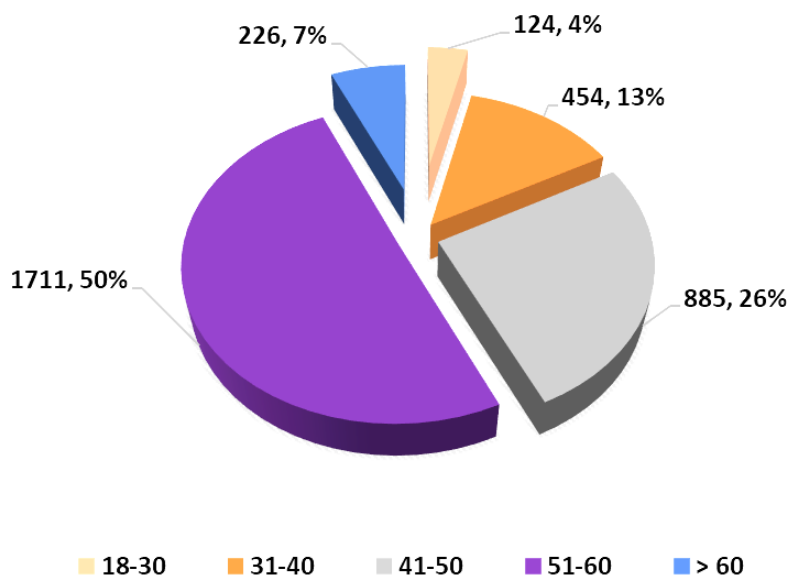
The Labour contract stipulate free days which are also paid for employees of a religion other than the Orthodox majority, according to the legislation in force.

The collective agreement respects the trade union activity of its employees. Those who have leadership positions in the trade union, benefit of paid free days, for performing union activities. It also respects the right of the union to have regular meetings of its governing bodies. Only in 2020, there were 4 regular meetings of the leadership of the Hidrosind union in Bucharest or in other cities in the country, totaling 11 days for trade union activities. In each branch, employees with eligible trade union positions, benefit from a day / week dedicated to providing trade union activities within or outside the unit.

Some trade union leaders have participated in competitions, and now occupy leading positions in company without any discrimination.

### Hidroelectrica's employees' structure on 31.12.2020

Average age = 49,74 years old



Employees' structure on 31.12.2020		
Age groups	Average age / Categories	No. of employees
<30 years	27,2	124
31 – 40 years	36,3	454
41 – 50 years	46,3	885
51 – 60 years	55,0	1711
>60 years	62,4	226

### Social Dialogue

Employees of the company are members of the trade union over 95%. Their interests are defended by Hidrosind Trade Union representative at the Hidroelectrica's level.

The Collective Labor Agreement is concluded with the social partner, Hidrosind. Trade union and employees are consulted about the main actions that take place in the organization: restructuring / reorganization, preparing revenues and expenditure budget, distribution of profits to employees, trails based on regulations / protocols concluded between the employer and trade union.

Employees' recruitment, selection and performance assessment procedures are approved by the administration along with the Hidrosind. For transparency, a trade union representative is member in each committee for all competitions that take place in the organization, whether internally or externally.



The bonuses, promotion, salary increase is based on the regulation / protocol concluded by the employer and the Hidrosind trade union.

The internal regulation is drawn up in compliance with labor legislation and is drafted together with the trade union, even though the Labor Code only provides consultation of the trade union in this case.

The collective labor agreement provides for substantial rights granted to employees in case of collective or individual dismissal (maximum 24 salaries of employee, depending on seniority in the organization). We should mention that over 55% of employees can benefit from maximum compensation, given that they have been working for more than 20 years in the organization.

### **Social Benefits for Employees through the collective labor agreement**

At the level of the organization, a joint administration-trade union committee is operational, which observes the compliance of the clauses stipulated in the collective agreement. In special, well-justified cases, or based on social inquiries, the commission proposes to the management of the company to provide material assistance to employees, their family members, or former employees (pensioners).

Gifts for children (up to 18 years of age) on Christmas Day, June 1<sup>st</sup>, women's day on March 8<sup>th</sup>, gift vouchers for the birthday of each employee, meal vouchers for each employee, depending on the number of working days in the month, benefits at the birth of a child, marriage, the death of an employee or member of the family, transport to and from the workplace, mobile phone, car for the most important positions, training and professional development, personal authorization, salary bonuses (Easter, Christmas) and company's day (Energy Day - July 20).

The fact that the company provides attractive salaries, benefits and working conditions is reflected in the extremely low fluctuation of personnel registered in 2020 (aprox. 6%).

### **Equal Chances: The Professional Contest "TROFEUL ENERGETICIANULUI"**

The "Trofeul Energeticianului" professional contest is hosted annually by Hidroelectrica, enrolling in the series of events celebrating on the July 20th - Energy Day. This competition gives equal opportunities to all employees who practice the profession of power engineer, both in Hidroelectrica and the subsidiary Hidroserv, to participate in the contest. The only condition to enroll and earn in this professional competition is competence.

Given the situation of the COVID-19 Pandemic, in 2020 the professional contest "Trofeul Energeticianului" was not organised.

### **Hidroelectrica, a project-oriented company**

The Human Resources Department together with the Project Management Department has started in 2018 the acquisition of consultancy services for the implementation of an optimization project on the organizational structure approved by the Directorate with Decision 1417 / 20.10.2017 with the approval of the Supervisory Board according to the Decision No. 45/2017, in the view of Hidroelectrica's operation as a "project oriented organization" (POO).

It aims to improve management, decision-making, communication and leadership, strengthen leadership in the company's production, maximize profit, observe the principles of sustainable development, optimize costs, increase managerial team cohesion and teamwork project, ensuring the transition from a formal, hierarchical approach to a project-based approach and introducing the concept of continuous learning.

The management of the company and employees from the activities of development, refurbishment, project management, design, were trained in the field of project and program management.

Being a project of cultural change, regarding its stages, the union was consulted and will be involved in its implementation.

### **Social Responsibility Programs: Scholarships for Pupils and Students**

One of the strategic directions of the company is to provide qualified personnel for the Hidroelectrica professions, to cover the necessary positions in all fields of activity. In view of increasing the average age of employees and the fact that the training of a hydropower specialist requires a long period and professional training, Hidroelectrica carries out social responsibility programs aimed for the younger generation, which represent a future alternative to the needs of the companies.

Private scholarships represent the Social Responsibility program started in 2003 and designed to support talented, ambitious young students with very good school results and clearly defined career goals by providing financial support during university studies based on a contract and assuring a place for practice. This facilitates the easier integration of future specialists into the organization, as it takes a long time to know the production process and the complexity of hydropower installations.

In 2020, Hidroelectrica continued the selection for the 50 private scholarship, 20 for pupils and 30 for students. The value of a private scholarship is RON 600 / month for pupils and RON 1000 / month for students, 10 months per school year. The budget for 2020 was RON 420,000.

### **Hidroelectrica supports and is involved in dual education**

Hidroelectrica shareholders approved in 2019 the company's involvement and support for dual education, by setting up seven classes in the seven locations where the company has branches, for a cycle of 3 school years (2020-2023).

The decision is a strategic one and aims to ensure qualified personnel to cover the necessary positions in the specific fields of Hidroelectrica activity. The amounts allocated to support students enrolled in the form of dual education for a cycle of 3 school years (2020-2021 / 2021-2022 / 2022-2023) amount to RON 3,397,796.

Hidroelectrica participates in the qualification of students, during three years of studies, in the fields: *electrician, electrical and energetic equipment and electromechanical machinery and industrial installations.*

During the 3 years of study, Hidroelectrica will provide monthly scholarships in amount of RON 500 for each student enrolled in the educational program, will ensure the examination of occupational medicine and compulsory medical tests in order to perform internships within the hydropower objectives and will

provide equipment work and protection for students from the next 7 high schools:

- *Vasile Sav Technological High School from Roman (44 km from Piatra Neamt), for Bistrita Branch;*
- *Ramnicu Valcea Energy College, for the Ramnicu Valcea Hydroelectric Branch;*
- *Cluj Napoca Energy Technical College or Traian Vuia Technical College, Oradea, for the Cluj Hydroelectric Branch;*
- *Ferdinand I High School from Curtea de Arges, which needs accreditation, for Curtea de Arges Hydroelectric Branch;*
- *“SEBES” Technological High School and / or Independenta Sibiu, for the Sebes Hydroelectric Branch;*
- *Domnul Tudor High School from Drobeta Turnu Severin, which needs accreditation, for the Portile de Fier Hydroelectric Branch;*
- *IC Brateanu National College from Hateg, which needs accreditation for the electromechanical profession, for the Hateg Hydroelectric Power Plant Branch.*

#### 14.6. Image and promotion

The company's reputation is closely linked to the image that the company promotes abroad, an aspect with a significant impact on the business' environment and among the general public (potential customers).

The public relations actions in 2020, carried out mainly in order to improve the public image of the company, aimed at:

- participation in conferences / seminars / events in the fields of interest, among which we mention two events, following which Hidroelectrica was awarded prizes: the 17<sup>th</sup> edition of the event “Gala ZF 2020 - Romanians going global. The most valuable Romanian executives working abroad. The most valuable companies in Romania” (November 19, 2020, Ziarul Financiar), at the Hidroelectrica event winning the second place in the category “The most valuable company in Romania” and the third edition of “Financial Intelligence AWARDS GALA” (November 25, 2020, Financial Intelligence), in which Hidroelectrica won the award for "Outstanding investment results in modernization".
- interviews with Mr. Bogdan Badea - President of Hidroelectrica Directorate in specialized publications: Investenergy (April 2020), Financial Intelligence (May 2020), Economica.net (November 2020).
- visit of H.E. Mr. Adrian Zuckerman, US Ambassador to Romania, at the Portile de Fier.
- online campaign to promote the energy supply for household consumers (November-December 2020).
- marking important events related to the company's activity in 2020 by producing and sending press releases (21 press releases).

#### 14.7 Hidroelectrica's policy on donations and sponsorships

As a company operating in the energy sector, Hidroelectrica is aware of its responsibility to the communities in which operates. Through sponsorship / donation actions carried out according to the legal provisions in force, Hidroelectrica wants to contribute to a better life of local communities starting from the company's values: integrity, team spirit, social responsibility, creativity, performance.

### Areas of primary interest

#### Environment protection:

- Hidroelectrica acts responsibly and is actively involved in projects aimed at protecting and improving natural environmental conditions, as well as reducing environmental pollution and pollution sources in the areas where it operates.
- At the same time, under the desideratum “Hydro energy - clean environment for all”, the activities carried out by Hidroelectrica are based on the proactive approach of environmental protection and on the involvement and motivation of all employees in assuming a responsible attitude towards the environment and the social community.

#### Health

- Hidroelectrica supports the medical and health field, public or private hospitals or other medical institutions through sponsorships / donations for equipment, procurement of services, projects in the field etc.
- Hidroelectrica also sponsors various national programs, organizations, other entities that support the performance of medical treatments / medical interventions for people with such needs. These sponsorships can also be granted directly to individuals in need of such treatments / medical interventions (through the patronage contract).

#### Education and research

- Hidroelectrica supports the education and professional training of young people (especially in the energy field), the formation of a practical experience for students and young specialists, as well as the intensification of the activity in the alternative training systems.
- Educational institutions (e.g. schools, high schools, universities, etc.) and / or academic communities, as well as other educational, education and research activities, including participation in national / international scientific competitions / conferences, are also supported. Private scholarships may also be awarded.

#### Sport

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

### Other domains of interest

#### *Social / humanitarian / philanthropic.*

Social solidarity is part of the core of the company's business model.

Hidroelectrica supports social activities related to:

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

### *Local Communities*

Hidroelectrica can grant sponsorships that help supporting and developing local community projects and strengthen company-community relationships.

### *Culture*

The company supports the cultural activities promoting our country's culture in the field of national heritage and modern identity. The cultural sectors can be: music (local / international events / concerts, musical artists at the beginning of career or already well-known, etc.), painting, sculpture, theater, cinema, photography, digital art, multimedia etc.

### **Granting sponsorships / donations**

From 2020 budget, 11 sponsorships were granted to the medical field - 7 medical institutions, with emergency units, in the total amount of RON 10,033,000 and to the National Red Cross of Romania, as well as three educational projects, in the amount total of RON 912,000.

Bogdan-Nicolae BADEA  
Chairman of Directorate

Marian BRATU  
Member of Directorate

Răzvan-Ionuț PAȚALIU  
Member of Directorate

Radu-Cristian POP  
Member of Directorate

Cristian VLĂDOIANU  
Member of Directorate

## 15. ABBREVIATIONS

HPD - Hydropower development

ANRE - National Energy Regulatory Authority

REB – Revenue and Expenditure Budget

NACE - Classification of Activities in the National Economy

CLA – Collective Labor Agreement

HPP - Hydroelectric Power Plant

LPHPP - Low Power Hydroelectric Power Plant

HA – Hydroaggregate

HE - Hidroelectrica

GH – Government’s Decision

RGD – Romanian Government’s Decision

INTRADAY - " within a day "

SHPP – Small Hydropower Plant

OPCOM - Operator of the Romanian Electricity Market

OTC - Centralized Market with continuous double negotiation of bilateral electricity contracts

PCCB - Centralized Market of Bilateral Contracts (EA – extended auction, CN – continuous negotiation)

PCSU – Centralized Market for Universal Service

IDM - Intra-daily market

NDM – Next Day Market

SCADA - Surveillance, Control and Data Acquisition System

NES – National Energetic System

HPB - Hydropower Plant Branch

HSW – Health and Safety at Work

ES – Emergency Situations

MCB - Monitoring constructions’ behavior