

**S.P.E.E.H. HIDROELECTRICA S.A.**  
**Two-tier Company**



**INDIVIDUAL FINANCIAL STATEMENTS**  
**For year ended on**  
**December 31, 2020**

**Prepared in accordance with**  
**the Minister of Finances Order no. 2844/2016 regarding approval of**  
**the Accounting Regulations in accordance with**  
**International Financial Reporting Standards**

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**S.P.E.E.H. HIDROELECTRICA S.A. a two-tier company**  
**INDIVIDUAL STATEMENT OF THE FINANCIAL POSITION**  
ON DECEMBER 31, 2020  
*(All amounts are expressed in RON, unless otherwise stated)*

|  | <b>Note</b> | <b>31 December<br/>2020</b> | <b>31 December<br/>2019</b> |
|--|-------------|-----------------------------|-----------------------------|
| <b>Assets</b>                            |             |                             |                             |
| <b>Fixed assets</b>                      |             |                             |                             |
| Tangible assets                          | 5           | 13,895,331,745              | 14,695,506,367              |
| Intangible assets                        |             | 3,356,406                   | 3,441,762                   |
| Investments in branches                  | 26c)i)      | 28,755,463                  | -                           |
| Restricted cash on long-term             |             | 10,257,471                  | -                           |
| Other assets                             | 8           | 220,299,606                 | 216,775,597                 |
| <b>Total fixed assets</b>                |             | <b>14,158,000,691</b>       | <b>14,915,723,726</b>       |
| <b>Current assets</b>                    |             |                             |                             |
| Inventories                              | 6           | 59,652,132                  | 70,883,042                  |
| Trade receivables                        | 7           | 354,790,189                 | 327,536,263                 |
| Bank deposits                            | 9           | 1,730,071,123               | 1,736,855,286               |
| Restricted cash                          |             | -                           | 10,257,471                  |
| Cash and cash equivalents                | 10          | 343,409,698                 | 222,976,476                 |
| Other current assets                     | 8           | 13,635,197                  | 8,196,391                   |
| <b>Total current assets</b>              |             | <b>2,501,558,339</b>        | <b>2,376,704,929</b>        |
| <b>Total assets</b>                      |             | <b>16,659,559,030</b>       | <b>17,292,428,655</b>       |
| <b>Equity and liabilities</b>            |             |                             |                             |
| <b>Equity</b>                            |             |                             |                             |
| Share capital                            | 11          | 4,484,474,670               | 4,482,393,310               |
| Adjustment of inflation to share capital | 11          | 1,028,872,000               | 1,028,872,000               |
| Public patrimony                         |             | 45,285,243                  | 39,619,341                  |
| Revaluation reserve                      | 11          | 6,094,876,693               | 6,458,435,638               |
| Other reserves                           | 11          | 777,064,462                 | 687,946,734                 |
| Retained earnings                        |             | 2,096,478,511               | 2,398,100,713               |
| <b>Total equity</b>                      |             | <b>14,527,051,579</b>       | <b>15,095,367,736</b>       |
| <b>Liabilities</b>                       |             |                             |                             |
| <b>Long-term liabilities</b>             |             |                             |                             |
| Loans                                    | 12          | -                           | 26,445,661                  |
| Leasing                                  |             | 14,630,302                  | 14,529,615                  |
| Deferred income                          | 14          | 144,648,335                 | 155,794,499                 |
| Deferred tax liabilities                 | 15          | 686,745,949                 | 708,991,968                 |
| Employees' benefits                      | 16 B        | 101,516,423                 | 101,206,714                 |
| Provisions                               | 18          | 620,019,785                 | 582,561,094                 |
| Trade receivables                        | 13          | -                           | 13,737,548                  |
| <b>Other liabilities</b>                 | 17          | 8,915,178                   | 14,096,461                  |
| <b>Total long-term liabilities</b>       |             | <b>1,576,475,972</b>        | <b>1,617,363,560</b>        |

*(to be continued on next page)*

**S.P.E.E.H. HIDROELECTRICA S.A. a two-tier company**  
**INDIVIDUAL STATEMENT OF THE FINANCIAL POSITION**  
ON DECEMBER 31, 2020  
*(All amounts are expressed in RON, unless otherwise stated)*

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|   | Note | 31 December<br>2020   | 31 December<br>2019   |
|---|------|-----------------------|-----------------------|
| <b>Current liabilities</b>              |      |                       |                       |
| Current long-term loans                 | 12   | 26,944,219            | 43,561,064            |
| Current leasing                         |      | 6,383,664             | 5,064,771             |
| Trade payables                          | 13   | 194,325,808           | 161,425,822           |
| Debts related to contracts with clients | 19   | 73,660,217            | -                     |
| Tax on current profit                   |      | 81,406,169            | 181,676,152           |
| Deferred revenues                       | 14   | 5,528,446             | 36,997,921            |
| Employees' benefits                     | 16 A | 62,733,623            | 32,019,137            |
| Provisions                              | 18   | 85,918,918            | 98,756,293            |
| Other current liabilities               | 17   | 19,130,415            | 20,196,199            |
| <b>Total current liabilities</b>        |      | <b>556,031,479</b>    | <b>579,697,359</b>    |
| <b>Total liabilities</b>                |      | <b>2,132,507,451</b>  | <b>2,197,060,919</b>  |
| <b>Total equity and liabilities</b>     |      | <b>16,659,559,030</b> | <b>17,292,428,655</b> |

The accompanying notes represent integral part of these financial statements.

**Bogdan BADEA**  
Chairman of  
Directorate

**Marian BRATU**  
Member of  
Directorate

**Radu POP**  
Member of  
Directorate

**Cristian VLADOIANU**  
Member of  
Directorate

**Razvan PATALIU**  
Member of  
Directorate

**Marian Fetita**  
Manager of Accounting Department

Prepared by,  
**Gabriela Vasilescu**  
Head of Reporting, Control and Planning Department

**S.P.E.E.H. HIDROELECTRICA S.A. two-tier company**

**INDIVIDUAL STATEMENT ON PROFIT OR LOSS AND OTHER ELEMENTS OF THE OVERALL RESULT**

FOR THE YEAR ENDED ON DECEMBER 31, 2020

(All amounts are expressed in RON, unless otherwise stated)

|   | <b>Note</b> | <b>2020</b>            | <b>2019</b>            |
|---|-------------|------------------------|------------------------|
| <b>Revenues</b>   |             |                        |                        |
| Sales of electricity  | <b>19</b>   | 3,828,344,400          | 4,142,446,993          |
| Other operating revenues  | <b>21</b>   | 22,093,980             | 34,761,548             |
| <b>Total Revenues</b>   |             | <b>3,850,438,380</b>   | <b>4,177,208,541</b>   |
| <b>Operating Expenses</b>   |             |                        |                        |
| Electricity purchased   | <b>20</b>   | (15,383,268)           | (25,774,982)           |
| Depreciation and impairment of tangible and intangible assets                         | <b>6</b>    | (764,919,566)          | (737,517,895)          |
| Resumption of adjustments for the depreciation of tangible and intangible assets, net | <b>6</b>    | (177,106,070)          | 34,528,626             |
| Value adjustments of trade receivables and other receivables, net                     | <b>7, 8</b> | (16,128,005)           | (1,116,983)            |
| Stock value adjustments   |             | (27,434,354)           | (247,132)              |
| Salaries and other emoluments   | <b>16 C</b> | (470,535,648)          | (396,670,837)          |
| Expenses with turbinated water  |             | (307,076,999)          | (327,629,039)          |
| Materials and consumables   |             | (9,379,347)            | (9,576,551)            |
| Maintenance and repairs   |             | (133,482,165)          | (101,776,664)          |
| Changes in provisions   | <b>18</b>   | (31,463,037)           | (325,353,206)          |
| Other operating expenses  | <b>22</b>   | (224,146,937)          | (310,799,736)          |
| <b>Total Operating Expenses</b>   |             | <b>(2,177,055,396)</b> | <b>(2,201,934,399)</b> |
| <b>Operating Profit</b>   |             | <b>1,673,382,984</b>   | <b>1,975,274,142</b>   |
| Financial income  | <b>23</b>   | 111,340,993            | 113,776,305            |
| Financial expenses  | <b>23</b>   | (2,369,417)            | (7,824,347)            |
| <b>Net financial result</b>   |             | <b>108,971,576</b>     | <b>105,951,958</b>     |
| <b>Profit before income tax</b>   |             | <b>1,782,354,560</b>   | <b>2,081,226,100</b>   |
| Income tax  | <b>15</b>   | (330,779,177)          | (694,689,582)          |
| <b>Net profit</b>   |             | <b>1,451,575,383</b>   | <b>1,386,536,518</b>   |
| <b>Other elements of the overall result</b>   |             |                        |                        |
| Revaluation reserve adjustments, net of tax   | <b>11</b>   | (24,357,466)           | (52,014,420)           |
| <b>Other elements of the overall result</b>   |             | <b>(24,357,466)</b>    | <b>(52,014,420)</b>    |
| <b>Total overall result</b>   |             | <b>1,427,217,917</b>   | <b>1,334,522,098</b>   |

The accompanying notes represent integral part of these financial statements.

|                            |                          |                          |                           |                          |
|----------------------------|--------------------------|--------------------------|---------------------------|--------------------------|
| <b>Bogdan BADEA</b>        | <b>Marian BRATU</b>      | <b>Radu POP</b>          | <b>Cristian VLADOIANU</b> | <b>Razvan PATALIU</b>    |
| Chairman of<br>Directorate | Member of<br>Directorate | Member of<br>Directorate | Member of<br>Directorate  | Member of<br>Directorate |

**Marian Fetita**

Manager of Accounting Department

Prepared by,

**Gabriela Vasilescu**

Head of Reporting, Control and Planning  
Department

**S.P.E.E.H. HIDROELECTRICA S.A. two-tier company**  
**INDIVIDUAL STATEMENT OF CHANGES IN EQUITY**  
FOR THE YEAR ENDED ON DECEMBER 31, 2020  
*(All amounts are expresses in RON, unless otherwise stated)*

|  | Share capital        | Adjustment from<br>IAS 29 | Public<br>patrimony | Reserves from<br>revaluation | Other reserves     | Retained<br>earnings   | Total                  |
|--|----------------------|---------------------------|---------------------|------------------------------|--------------------|------------------------|------------------------|
| <b>Balance on January 12019</b>  | <b>4,482,393,310</b> | <b>1,028,872,000</b>      | <b>39,619,341</b>   | <b>6,859,132,234</b>         | <b>583,885,429</b> | <b>3,565,623,133</b>   | <b>16,559,525,447</b>  |
| <b>Overall result</b>  |                      |                           |                     |                              |                    |                        |                        |
| Profit of the year   | -                    | -                         | -                   | -                            | -                  | 1,386,536,518          | 1,386,536,518          |
| <b>Other elements of the overall result</b>  |                      |                           |                     |                              |                    |                        |                        |
| Revaluation reserve adjustments  | -                    | -                         | -                   | (52,014,420)                 | -                  | -                      | (52,014,420)           |
| <b>Total other elements of the overall result</b>  | -                    | -                         | -                   | <b>(52,014,420)</b>          | -                  | -                      | <b>(52,014,420)</b>    |
| <b>Total overall result</b>  | -                    | -                         | -                   | <b>(52,014,420)</b>          | -                  | <b>1,386,536,518</b>   | <b>1,334,522,098</b>   |
| <b>Transactions with the Company's<br/>shareholders</b>  |                      |                           |                     |                              |                    |                        |                        |
| Dividends distributed  | -                    | -                         | -                   | -                            | -                  | (2,798,679,809)        | (2,798,679,809)        |
| <b>Total transactions with shareholders</b>  | -                    | -                         | -                   | -                            | -                  | <b>(2,798,679,809)</b> | <b>(2,798,679,809)</b> |
| <b>Other changes of equity</b>   |                      |                           |                     |                              |                    |                        |                        |
| Establishing legal reserves  | -                    | -                         | -                   | -                            | 104,061,305        | (104,061,305)          | -                      |
| Resume of the revaluation reserve to<br>retained earnings because of depreciation<br>and disposal of tangible assets | -                    | -                         | -                   | (348,682,176)                | -                  | 348,682,176            | -                      |
| <b>Balance on 31 December 2019</b>   | <b>4,482,393,310</b> | <b>1,028,872,000</b>      | <b>39,619,341</b>   | <b>6,458,435,638</b>         | <b>687,946,734</b> | <b>2,398,100,713</b>   | <b>15,095,367,736</b>  |

The accompanying notes represent integral part of these financial statements.

**S.P.E.E.H. HIDROELECTRICA S.A. two-tier company**  
**INDIVIDUAL STATEMENT OF CHANGES IN EQUITY**  
FOR THE YEAR ENDED ON DECEMBER 31, 2020  
*(All amounts are expressed in RON, unless otherwise stated)*

|  | Share capital        | Adjustment from IAS 29 | Public patrimony  | Reserves from revaluation | Other reserves     | Retained earnings      | Total                  |
|--|----------------------|------------------------|-------------------|---------------------------|--------------------|------------------------|------------------------|
| <b>Balance on 1 January 2020</b>   | <b>4,482,393,310</b> | <b>1,028,872,000</b>   | <b>39,619,341</b> | <b>6,458,435,638</b>      | <b>687,946,734</b> | <b>2,398,100,713</b>   | <b>15,095,367,736</b>  |
| <b>Overall result</b>  |                      |                        |                   |                           |                    |                        |                        |
| Profit of the year   | -                    | -                      | -                 | -                         | -                  | 1,451,575,383          | 1,451,575,383          |
| <b>Other elements of the overall result</b>  |                      |                        |                   |                           |                    |                        |                        |
| Revaluation reserve adjustments  | -                    | -                      | -                 | (24,357,466)              | -                  | -                      | (24,357,466)           |
| <b>Total other elements of the overall result</b>  | <b>-</b>             | <b>-</b>               | <b>-</b>          | <b>(24,357,466)</b>       | <b>-</b>           | <b>-</b>               | <b>(24,357,466)</b>    |
| <b>Total overall result</b>  | <b>-</b>             | <b>-</b>               | <b>-</b>          | <b>(24,357,466)</b>       | <b>-</b>           | <b>1,451,575,383</b>   | <b>1,427,217,917</b>   |
| <b>Transactions with the Company's shareholders</b>  |                      |                        |                   |                           |                    |                        |                        |
| Dividends distributed  | -                    | -                      | -                 | -                         | -                  | (2,003,281,336)        | (2,003,281,336)        |
| <b>Total transactions with shareholders</b>  | <b>2,081,360</b>     | <b>-</b>               | <b>-</b>          | <b>-</b>                  | <b>-</b>           | <b>-</b>               | <b>2,081,360</b>       |
| <b>Transactions with the Company's shareholders</b>  | <b>2,081,360</b>     | <b>-</b>               | <b>-</b>          | <b>-</b>                  | <b>-</b>           | <b>(2,003,281,336)</b> | <b>(2,001,199,976)</b> |
| <b>Other changes of equity</b>   |                      |                        |                   |                           |                    |                        |                        |
| Establishing legal reserves  | -                    | -                      | -                 | -                         | 89,117,728         | (89,117,728)           | -                      |
| Resume of the revaluation reserve to retained earnings because of depreciation and disposal of tangible assets | -                    | -                      | -                 | (339,201,479)             | -                  | 339,201,479            | -                      |
| Increase of public patrimony   | -                    | -                      | 5,665,902         | -                         | -                  | -                      | 5,665,902              |
| <b>Balance on 31 December 2020</b>   | <b>4,484,474,670</b> | <b>1,028,872,000</b>   | <b>45,285,243</b> | <b>6,094,876,693</b>      | <b>777,064,462</b> | <b>2,096,478,511</b>   | <b>14,527,051,579</b>  |

The accompanying notes represent integral part of these financial statements.

|  |   |   |   |   |
|--|---|---|---|---|
| <b>Bogdan BADEA</b><br>Chairman of<br>Directorate        | <b>Marian BRATU</b><br>Member of<br>Directorate | <b>Radu POP</b><br>Member of<br>Directorate   | <b>Cristian VLADOIANU</b><br>Member of<br>Directorate | <b>Razvan PATALIU</b><br>Member of<br>Directorate |
| <b>Marian Fetita</b><br>Manager of Accounting Department |   | Prepared by,<br><b>Gabriela Vasilescu</b><br>Head of Reporting, Control and Planning Department |   |   |

**S.P.E.E.H. HIDROELECTRICA S.A. two-tier company**  
**INDIVIDUAL STATEMENT ON CASH FLOWS**  
FOR THE YEAR ENDED ON DECEMBER 31, 2020  
*(All amounts are expressed in RON, unless otherwise stated)*

|   | Note   | 2020                 | 2019                 |
|---|--------|----------------------|----------------------|
| <b>Cash flows from operating activities:</b>                                    |        |                      |                      |
| <b>Net profit</b>   |        | 1,451,575,383        | 1,386,536,518        |
| <i>Adjustments for non-cash items:</i>  |        |                      |                      |
| Depreciation of tangible assets   | 5      | 763,685,529          | 735,399,336          |
| Depreciation of intangible assets   |        | 1,234,037            | 2,118,559            |
| Value adjustments of tangible assets, net                                       | 5      | 177,106,070          | (34,528,626)         |
| Expenses from revaluation of tangible assets, net                               |        | (28,755,463)         | -                    |
| Expenses with value adjustments of trade receivables and other receivables, net | 7, 8   | 16,225,914           | 1,116,983            |
| Expenses for value adjustments for inventories                                  |        | 27,434,354           | 247,132              |
| Loss from assignment of tangible assets   | 21, 22 | 15,511,038           | 253,525              |
| Resumption of investment subsidies  | 21     | (5,498,205)          | (5,526,866)          |
| Unrealized losses from exchange rate variation                                  | 23     | 1,086,834            | 2,439,132            |
| Interest income   | 23     | (61,978,099)         | (86,126,778)         |
| Interest expenses   | 23     | 679,690              | 344,101              |
| Income tax  | 15     | 330,779,177          | 694,689,582          |
|   |        | <b>2,689,086,259</b> | <b>2,696,962,598</b> |
| <b>Changes in:</b>  |        |                      |                      |
| Trade receivables   |        | (41,904,330)         | 119,604,215          |
| Other assets  |        | (10,538,325)         | (2,089,492)          |
| Inventories   |        | (16,203,444)         | (1,129,263)          |
| Trade payables  |        | 7,840,766            | 1,056,293            |
| Deferred revenues   |        | (31,451,532)         | 11,299,759           |
| Employees' benefits   |        | 31,024,195           | 5,501,770            |
| Provisions  | 18     | 24,621,316           | 247,015,770          |
| Other liabilities   |        | 68,074,679           | (1,584,845)          |
| <b>Cash generated from operating activities</b>                                 |        | <b>2,720,549,584</b> | <b>3,076,636,805</b> |
| Interest paid   |        | (679,690)            | (344,101)            |
| Income tax paid   |        | (453,295,179)        | (655,370,658)        |
| <b>Net cash from operating activities</b>                                       |        | <b>2,266,574,715</b> | <b>2,420,922,046</b> |
| <b>Cash flow used in the investment activity:</b>                               |        |                      |                      |
| Acquisitions of tangible assets   |        | (160,125,572)        | (136,162,035)        |
| Acquisitions of intangible assets   |        | (1,148,681)          | (1,245,327)          |
| Proceeds from the sale of intangible assets                                     |        | 436                  | 1,780,362            |
| Interest earned   |        | 63,762,262           | 100,938,562          |
| Payments for deposits with an initial maturity of more than 3 months            |        | (3,210,000,000)      | (9,246,000,000)      |
| Proceeds from deposits with original maturities longer than 3 months            |        | 3,215,000,000        | 9,991,000,000        |
| <b>Net cash used in investment activity</b>                                     |        | <b>(92,551,555)</b>  | <b>710,311,562</b>   |

*(to be continued on next page)*



**S.P.E.E.H. HIDROELECTRICA S.A. two-tier company**  
**INDIVIDUAL STATEMENT ON CASH FLOWS**  
 FOR THE YEAR ENDED ON DECEMBER 31, 2020  
*(All amounts are expressed in RON, unless otherwise stated)*

|  | Note | 2020                   | 2019                   |
|--|------|------------------------|------------------------|
| <b>Cash flow from financing activity:</b>                  |      |                        |                        |
| Cash contributions to share capital                        | 11   | 415,110                | -                      |
| Loan's reimbursement                                       | 12   | (44,149,341)           | (43,258,011)           |
| Leasing payments   |      | (6,614,371)            | (5,064,771)            |
| Dividends paid   | 11   | (2,003,281,336)        | (2,935,698,041)        |
| <b>Net cash from financing activity</b>                    |      | <b>(2,053,629,938)</b> | <b>(2,984,020,823)</b> |
| <b>Net increase /decrease in cash and cash equivalents</b> |      | <b>120,433,222</b>     | <b>147,212,785</b>     |
| Cash and cash equivalents on 1 January                     | 10   | 222,976,476            | 75,763,691             |
| <b>Cash and cash equivalents on 31 December</b>            | 10   | <b>343,409,698</b>     | <b>222,976,476</b>     |

The accompanying notes represent integral part of these financial statements.

| <b>Bogdan BADEA</b>        | <b>Marian BRATU</b>      | <b>Radu POP</b>          | <b>Cristian VLADOIANU</b> | <b>Razvan PATALIU</b>    |
|----------------------------|--------------------------|--------------------------|---------------------------|--------------------------|
| Chairman of<br>Directorate | Member of<br>Directorate | Member of<br>Directorate | Member of<br>Directorate  | Member of<br>Directorate |

**Marian Fetita**

Manager of Accounting Department

Prepared by,

**Gabriela Vasilescu**

Head of Reporting, Control and Planning  
Department

## 1. REPORTING ENTITY AND GENERAL INFORMATION

### a. General information on the entity

These financial statements are individual financial statements of the "Societatea de Productie a Energiei Electrice in Hidrocentrale Hidroelectrica S.A". (The "Company" or "Hidroelectrica SA").

Hidroelectrica SA is registered with the Trade Register Office under no. J40/7426/2000, having a sole registration number 13267213. The main headquarters of the Company are in Romania, Bucharest, 15-17 Ion Mihalache Blvd., Tower Center Building, 11-14<sup>th</sup> floors, sector 1.

SPEEH Hidroelectrica SA's main object of activity is represented by the production and supply of electricity by exploiting the hydrological potential in compliance with the legislation in force, performing trade activities corresponding to the object of activity approved by the constitutive act, based on the production license no. 332/24.07.2001, for the commercial exploitation of the power generation capacities, including ancillary services, updated by the ANRE Decision no. 509/2017, valid until 24.07.2026, and the electricity supply license no. 932/27.05.2010 for supply of electricity, updated by the ANRE Decision no. 768/ 2016, valid until 01.06.2030. All these decisions granted by ANRE are updated on a regular basis.

As of December 31, 2020, the Company's shareholders are the Romanian State which holds through the Ministry of Economy, Energy and Business Environment 359,009,551 shares (December 31, 2019: 358,842,926 shares), representing 80.06% of the share capital, and *Fondul Proprietatea* which holds 89,437,916 shares (December 31, 2019: 89,396,405 shares) representing 19,94% of the share capital.

The company has 7 branches without legal personality, as follows: SH Bistrita, SH Curtea de Arges, SH Cluj, SH Hateg, SH Portile de Fier, SH Ramnicu Valcea, SH Sebes.

The company is currently administered in two-tier system, by the Supervisory Board and the Directorate. Between 20.06.2012- 21.06.2016 the Company was in insolvency procedure to reorganize the activity under the EURO INSOL S.P.R.L official receiver.

The Company is considering making an initial public offering ("IPO"). At this moment, the schedule of the IPO has not been established, but will be decided together with the consultants (after the completion of their selection) and the shareholders of the Company.

On 31 December 2018 and 31 December 2019 Hidroelectrica SA holds the following investments:

| Subsidiary     | Activity                           | Registered office                   | % participation as on 31 December 2020 | % participation as on 31 December 2019 |
|----------------|------------------------------------|-------------------------------------|--|--|
| Hidroserv S.A. | Energy (maintenance, construction) | services repair, Bucharest, Romania | 100%                                   | 100%                                   |

Hidroserv SA has entered the insolvency proceedings in October 2016. Hidroelectrica SA lost control of Hidroserv SA in February 2018 following the decision of the syndic judge to wave the management right over Hidroserv SA and assign it to the official receiver.

On 31 December 2020 SSH Hidroserv is still under insolvency proceedings, but a Reorganization Plan was approved by the Creditors' Meeting in the meeting held on 10.06.2020, a plan which was confirmed, according to the law, by the syndic judge through the interim decision on 24.06.2020.

The syndic judge confirmed the reorganization plan with the OGMS Decision no. 2 / 08.09.2020, appointing the Special Administrator of the debtor S.S.H Hidroserv S.A., thus the Company regained control over the subsidiary S.S.H Hidroserv S.A. (see note 26 c) i)).

#### **b. Legal framework**

The activity in the energy sector is regulated by the National Regulatory Authority for Energy ("ANRE") - established as an autonomous public institution by Government Ordinance ("GO") no. 29/1998, amended by Law no. 99/2000 - and has, inter alia, the following responsibilities:

- Implementing the mandatory national regulatory system for the energy sector in order to guarantee efficiency, competition, transparency in this sector, together with consumers' protection;
- Issuing or suspending operating licenses for existing entities involved in the energy sector or those that will occur, aiming at creating a competitive environment within the electricity markets;
- Elaboration the methodology and criteria for calculating tariffs in the energy sector and the framework contracts for the sale, purchase and delivery of electricity to final consumers.

Based on GEO 114/2018, ANRE Order 10/2019 and ANRE Order 216/2019, the Company delivered to electricity suppliers of last resort at a regulated price between March 1, 2019 - December 31, 2020. The price of energy delivery and the regulated quantity are determined by ANRE, according to its own methodology. In 2020, the Company delivered a quantity of 3.1 TWh electricity at the regulated average price of RON 108.15 / MWh, representing approximately 21% of the total electricity produced during the year. In 2019, the Company delivered a quantity of 1.6 TWh electricity at the regulated price of RON 111.61 / MWh, representing approximately 11% of the total electricity produced during the year. Both in 2020 and in 2019, the electricity produced, minus the quantities mentioned above, was traded at market price.

#### **c. Company's main activities**

##### **Production of electricity and ancillary services**

The company produces electricity by operating a total of 187 hydroelectric and micro hydropower plants, the main production capacity being Portile de Fier I, representing approximately 30% of the total electricity produced.

The electricity produced is mainly sold to electricity suppliers and entities that trade electricity on wholesale electricity markets.

The Company provides ancillary services to the national energy system operator, Transelectrica. Ancillary services mean providing Transelectrica with production capacity in a certain period of time, so as to allow the system operator to achieve permanent balancing of the energy system. The market transactions of the ancillary services are concluded following the auctions organized by Transelectrica.

##### **Providing electricity to final consumers**

The company, as supplier of electricity, operates on the competitive market (wholesale or retail).

Trading on the wholesale competitive market is transparent, public, centralized and non-discriminatory. Wholesale market participants can trade electricity based on bilateral contracts concluded on the OPCOM (Market Operator) markets.

Prices can be freely negotiated by the parties on the competitive retail market.

## **Green certificates**

As a producer of electricity from renewable sources (hydroelectric production in refurbished micro hydropower plants with an installed capacity of at most 10MW and an operating life of at least 15 years from the date of commissioning), Hidroelectrica SA benefits from green certificates by the support scheme with 17 accredited hydropower plants for 2020.

As a supplier of electricity, the Company is obliged to purchase a number of green certificates equal to the rate between the value of the mandatory annual quota for the purchase of green certificates for respective year and the amount of electricity supplied to final consumers. ANRE establishes the mandatory annual quotas for the acquisition of green certificates based on the quantities of electricity from renewable sources and the final consumption at national level.

### **d. COVID-19 Impact**

Company's financial performance and financial position were not significantly affected by the COVID-19 pandemic. Based on the information available, the Company does not anticipate a significant negative impact on its operations due to the COVID-19 pandemic.

## **2. BASES FOR PREPARATIONS**

### **2.1 Accounting bases**

The individual financial statements were prepared in accordance with the Order of the Minister of Public Finance no. 2844/2016 for the approval of the Accounting Regulations in accordance with the International Financial Reporting Standards, as amended ("OMFP No. 2844/2016"). According to OMFP no. 2844/2016, International Financial Reporting Standards are standards adopted according to the procedure presented in European Commission Regulation No 1606/2002 of the European Parliament and of the Council dated 19 July 2002 regarding the application of international accounting standards. (IFRS adopted by European Union). OMFP no. 2844/2016 also includes additional provisions compared to the IFRS provisions adopted by the EU, the Company identifying in its specific case the provisions related to the accounting of public patrimony and green certificates (see accounting policies 3. (h) and (s)).

The individual financial statements were authorized for issue by the Directorate and endorsed by the Supervisory Board on 01.04.2021. These statements will be submitted to shareholders for approval in the general meeting scheduled for May 2021.

Details of the Company's accounting policies are included in Note 3.

### **2.2 Functional currency and presentation currency**

These individual financial statements are presented in Lei (RON), which is the Company's functional currency. All amounts are in RON, unless otherwise indicated.

### **2.3 Comparative situations**

The financial statements prepared on 31 December 2020 present comparability with the financial statements of the previous financial year, except for the following :

- presentation of revenues from late payment penalties related to contracts with clients. For the financial year ended 31 December 2020, they are presented in financial income (RON 20,598,866), while for the financial year ended 31 December 2019 they are presented in other operating income (RON 14,523,775). Comparative figures were not restated because the impact is not considered significant;
- presentation of revenues from the sale of green certificates. For the financial year ended 31 December 2020, they are presented in revenues from the sale of electricity (RON 17,522,895), while for the financial year ended 31 December 2019 they are presented in other financial revenues (RON 27,605,995). Comparative figures were not restated because the impact is not considered significant;
- the separate presentation in the individual situation of the financial position of the debts related to the contracts with the clients in the amount of RON 73,660,127. As of December 31, 2019, the debts related to the contracts with the clients in the amount of RON 31,459,606 were presented as "Deferred income". Comparative figures were not restated because the impact is not considered significant.

## **2.4 Use professional estimates and judgments**

For the preparation of these financial statements, the management has developed professional judgments, estimates and assumptions that affect the application of the Company's accounting policies and the reported amounts of assets, liabilities, income, and expenses. The actual results may differ from these estimates.

Estimates and assumptions are periodically reviewed. Revisions of estimates are recognized in the period in which the estimate was revised and in affected future periods.

### **a) Significant professional considerations**

Information on professional judgment for applying the accounting policies which have most significant effects on the amounts recognized in the separate financial statements are presented below:

#### **a1) Concession**

In November 1998 was issued the Law no. 213/1998, which regulates the status of the public domain. This law stipulates that the ownership of the public patrimony belongs to the State or the local authorities which can lease or concession the goods that are under public property. In accordance with the provisions of Law no. 213/1998 and Law no. 219/1998, the Ministry of Economy and Trade (subsequently the Ministry of Energy, at present Ministry of Economy, Energy and Business Environment) has leased to the Company, in the name of the State, the hydroelectric installations (dams, piers, locks, water luster) and the lands on which they are located. Thus, in December 2004, the Concession Agreement no. 1 was concluded between the Ministry of Economy and Trade (concession provider) and the Company (concessionaire) for all tangible assets under public patrimony in the balance as on 31 December 2003 for a period of 49 years.

The main terms of the Concession Agreement no. 171 / 27.12.2004 supplemented with addendum no. 1 / 17.10.2013, no. 2 / 27.05.2015 and no. 3 / 26.02.2016 are the following:

- The 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 assets that represent the object of the contract;
- The Company has the right to use these assets for a period of 49 years, starting with the date of signing the concession agreement by both parties, for the purpose of operation, rehabilitation, modernization, refurbishment, and construction of new hydropower facilities according to investment programs;
- The Company pays an annual royalty of 1/1000 of the annual net income from the production of electricity and the provision of ancillary services, calculated according to the quantities actually sold;

- Upon termination of the contract, certain assets that were used by the concessionaire during the concession will be returned to the concession provider, as presented below;
- The Company has the obligation to use the assets in accordance with the provisions of the concession contract and the operating license.

The concession agreement defines the following types of assets:

- Return assets - the assets returning as full right, free of charge and free of encumbrances to the concession provider, upon termination of the concession agreement. Return assets are the assets that made the object of the concession, mentioned in Annex no. 7 to the Government Decision no. 1705 / 29.11.2006 for the approval of the centralized inventory of assets belonging to public domain, as well as those resulting from the investments made during the concession agreement.

The Company has identified that the return assets in the Company's accounting records are those that resulted from the investments made during the concession contract in connection with the assets mentioned in Annex 7 to the Government Decision no. 1705 / 29.11.2006. The Company depreciates these assets for the duration representing the minimum between the duration of the concession agreement and the useful life of the respective assets.

- Taking-over assets - assets of the public domain nature (lands and buildings, technical installations, and cars, as well as fixed asset in progress of public assets) made during the concession agreement which, upon termination of the concession agreement, can be returned to the concession provider, insofar the latter shows its intention to take over the respective assets in return for a compensation payment equal to the net accounting value. Takeover goods are assets that belong to the concessionaire and were used during the concession period.
- Own assets - the assets which, upon termination of the concession agreement, remain the property of the concessionaire. There are considered own assets (constructions, technological equipment, machines, machines and work installations, measuring instruments and control devices, means of transport, furniture, office equipment, equipment for protection of human and material values and other tangible assets) assets which belonged to the concessionaire and were used by the concessionaire during the concession period, with the exception of the takeover assets; these assets are amortized over the estimated useful life.

In the analysis of the application of IFRIC 12 "Service Concession Agreements", the Company considered the following characteristics of public-private service concession agreements in the analysis of the concession agreement concluded with the Ministry of Economy, Energy and Business Environment:

- a) The concession provider controls or regulates the type of services that the concessionaire must provide within the infrastructure, to whom it must provide and at what price;
- b) The concession provider controls - through ownership, right of benefit or otherwise - any significant residual interest in the infrastructure at the end of the term of the agreement.

The company concluded that do not fall under the scope of IFRIC 12 because it does not meet characteristic a) above.

The Company recognizes the royalty related to the concession agreement in Other operating expenses.

## ***a2) Leasing and modernization of return goods***

In the analysis of the application of IFRS 16 "Leasing contracts" on the concession contract presented above, the Company considered the following criteria to determine whether this contract contains a leasing:

- a) The lessee has the right to obtain all the economic benefits from the use of the identified asset;

- b) The lessee has the right to dispose of the use of the identified asset.

The company concluded that both criteria are met, consequently the concession contract contains a lease by which the Ministry of Economy, Energy and Business Environment transferred to the Company the right to control the use of public domain assets in exchange for a royalty. According to the provisions of IFRS 16, the Company determined the value of the asset related to the right of use and the value of the leasing related to this contract as null, because future lease payments are variable and depend on the revenues obtained by the Company.

Regarding the modernizations performed on the return goods, the Company concluded that they represent modernizations of the leasing asset for which the Company has the quality of "accounting owner", in the sense that these modernizations serve the purpose of the Company, as lessee, to use the assets in the leasing system. As a result, the Company recognized the modernizations on the return goods as tangible fixed assets.

The Company considers that the aspects presented below represent indications that the Company is the "accounting owner" of the modernizations carried out:

- a) The Ministry of Economy, Energy and Business Environment, as lessor, does not reimburse the cost of modernizations to the Company, as lessee. Thus, the financing of the modernizations works is made entirely from Hidroelectrica's own sources, the Company being responsible for covering the costs;
- b) The Company is not obliged to make improvements on the return goods. Decisions regarding the modernization projects on the return goods are taken by the Company, depending on the needs and purpose of using the return goods;

The refurbishments are carried out on the Company's risk and responsibility and are not available to the lessor until the end of the contract.

### ***a3) Cash generating units (CGU)***

A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of cash inflows generated by other assets or groups of assets.

Following the analysis, the Company concluded that all the assets of the power plants under license for electricity production represent a single cash-generating unit (mainly based on the fact that the license stipulates Company's obligation to maintain the availability of these production capacities), and obsolete power plants, as well as historical investment objectives for hydropower schemes with social functions that have been approached since the design concept as having only a secondary energy function, are distinct cash-generating units.

### ***a4) Obligations regarding the disassembly and restoration of the site***

Order no. 119 on February 11, 2002 for the approval of the "Procedure for transition to conservation, post-use or abandonment of dams" stipulates the procedures for post-use and abandonment of dams to be performed by the owners of dams under certain conditions provided by law. The company has no other legal or contractual obligations to disassemble and restore the site than those arising from Order no. 119, presented in the paragraphs below.

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

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, protection of the population and the environment. The necessary measures and works are carried out both by the care of the dam's owner or administrator, and by the post-user, by changing its use.

The transition to post-use of dams is proposed by the dam owners and is approved by order of the minister under which 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 completed, the protocol for the works is handed between the former owner and the post-user, following the legal procedures for handover-takeover report of 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 decommissioning 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 custode of dam or administrator and must ensure the flow conditions existing prior to the execution of the dam.

Beginning of operations for dam abandonment 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 authorities, following performed expertise that show that the dams present an unacceptable associated risk, representing a real danger for the population and 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 owner of dam 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, embankments, locks, accumulation lakes) and the lands on which they are located belong to public domain representing the object of the concession contract mentioned above. The Company has the right to use these assets for a period of 49 years.

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 concession provider.

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 an expertise assessing the safety of the dam at that time, carried on 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 drawn up 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 lifespan 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 on 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 in such a long time from the present time. Also, there are significant uncertainties regarding the evolution of the degree of degradation and determination of the real life of a dam, these depending on natural phenomena (floods, landslides, earthquakes, etc.) and the behavior of the construction itself over time.

The Company estimates that until the end of the concession contract (33 years remaining) the probability of situations requiring the transfer to post-use or abandonment of public domain assets or hydroelectric power plants owned by the Company (other than those in current assets described in Note 5) is reduced, given the long life of dams, which can be extended over 100 years through maintenance and improvement works.

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

#### ***a5) Electricity sale-purchase contracts***

In the normal course of business, the Company concludes contracts for the sale-purchase of electricity on the centralized markets managed by OPCOM:

- spot contracts: transactions on the market for the next day and intra-day;
- regulated contracts with on-time delivery;
- unregulated contracts with delivery on time: bilateral contracts concluded on the centralized market of bilateral electricity contracts (PCCB) and on the centralized market with continuous double negotiation of bilateral electricity contracts (OTC);
- and spot transactions on the balancing market, settled through Transelectrica, the transmission and ancillary services operator.

According to IFRS 9 "Financial Instruments", a sale-purchase contract of a non-financial item (including electricity) may be classified and recognized as a financial instrument. According to paragraph 2.4 of IFRS 9, in the situation where the sale-purchase contracts of non-financial items can be settled net in cash or in another financial instrument, or through the exchange of financial instruments, they fall within the scope of IFRS 9. The standard is excepting from this rule the contracts initiated and continued for the purpose of receiving or delivering a non-financial element in accordance with the requirements of the entity regarding the purchase, sale, or use ("the exception provided by IFRS 9").

The management performed an analysis of the types of sale-purchase contracts of electricity described above to determine the extent to which these contracts fall within the scope of IFRS 9.

#### *Spot transactions*

Spot transactions, having as final goal the balancing of electricity market, are contracts that cannot be settled otherwise than by delivering quantities of electricity on short term. Consequently, management considers that these contracts are subject to the exception provided by IFRS 9.

#### *Regulated contracts*

The regulated contracts are concluded for quantities and prices established by ANRE, representing electricity intended for the domestic consumers of the last resort suppliers, and do not allow unilateral termination, but termination limited to force majeure, bankruptcy or ANRE's order. For this reason, the management considers that these contracts are subject to the exception provided by IFRS 9, as they do not offer the option of termination with net cash settlement.

#### *Unregulated contracts – PCCB*

Unregulated contracts with term delivery on PCCB allow unilateral termination, as an act of will of the parties, with partial payment of undelivered quantities, and not by net cash settlement.

These contracts may be terminated in cases of non-fulfilment of the contractual terms by one of the parties (a) with partial payment of the undelivered quantities, in the case of electronic tender procedures on PCCB, or (b) with payment of the difference between the contracted price and the market price on the termination date, applicable to the undelivered quantity (net cash settlement). However, the termination situations do not intervene through an act of will of the parties but represent unforeseen events.

As these contracts do not offer the option of termination with net cash settlement, management applies the exception provided by IFRS 9.

#### *Unregulated contracts – OTC*

Unregulated contracts with on time delivery on the OTC market do not allow unilateral termination, but only termination as a result of termination (failure to fulfil obligations, bankruptcy, force majeure). The causes of termination do not reflect an act of will of the parties, but unforeseen events; consequently, the management considers that these contracts are subject to the exception provided by IFRS 9, as they do not offer the option of termination with net cash settlement.

Based on the detailed analysis above, the Company does not recognize assets or liabilities at the beginning of electricity sale-purchase contracts, but only sale-purchase transactions with electricity deliveries.

### **b) Assumptions and uncertainties due to estimates**

Information on assumptions and uncertainties due to estimates that could cause significant adjustments in the following year is included in the following notes:

- Note 3 a) and b) - estimates regarding the useful lives of tangible and intangible assets;
- Note 5 - assumptions regarding the determination of the revalued value of tangible assets;
- Note 5 - assumptions regarding the determination of the recoverable value of current assets;
- Notes 18 and 25.1 - recognition and measurement of provisions and contingent liabilities;

- Note 8 - assessment of the recoverability of the receivables in dispute;
- Note 12 - evaluation of the obligations regarding the benefit plans and other long-term benefits of the employees: the main actuarial assumptions;
- Notes 3 d), 7 and 27 b) - determination of expected credit losses for trade receivables;
- Note 18 - estimates regarding the calculation of decommissioning provisions;
- Note 2.6 - estimates regarding the calculation of usage rights;
- Note 28 - COVID-19 - influences on the Company's activity.

### ***Determining fair values***

Company's certain accounting policies and the disclosure requirements are necessary to establish fair value for both financial and non-financial assets and liabilities.

In determining the fair value of an asset or liability, the Company uses market data, to the extent possible. Fair values are classified within the different levels of the fair value hierarchy based on the input data used in valuation techniques, as follows:

- Level 1: quoted (unadjusted) prices on active markets for identical assets or liabilities;
- Level 2: input data, other than quoted prices included in Level 1, which are observable for an asset or liability, either directly (e.g. prices) or indirectly (e.g. price derivatives);
- Level 3: input data for an asset or liability that is not based on observable market data (unobservable input data).

If the input data used for establishing the fair value of an asset or liability can be classified at different levels of the fair value hierarchy, then the fair value is fully classified in the fair value hierarchy level corresponding to the lowest level of the data input for the entire evaluation.

The Group recognizes transfers between the levels of the fair value hierarchy at the end of the reporting period in which a change has occurred.

## **2.5 Basics of evaluation**

The financial statements are based on the principle of continuity of activity. Financial statements are prepared on a historical cost basis, except for tangible assets that are measured at fair value using the revaluation method.

## **3. SIGNIFICANT ACCOUNTING POLICIES**

The Company has consistently applied the following accounting policies for all periods presented in these financial statements.

### **(a) Tangible assets**

#### ***(i) Recognition and evaluation***

Tangible assets are initially recognized at cost, which includes the purchase price and other costs directly attributable to the acquisition and bringing of the asset to the location and condition necessary for its use. Subsequent to initial recognition:

- land, constructions, equipment and other tangible assets are measured at revalued amounts less cumulative depreciation and any impairment losses
- tangible fixed assets under construction are valued at cost less any impairment losses.

Borrowing costs attributable directly to the acquisition, construction or production of an asset that require a substantial amount of time to be used are capitalized as part of the cost of the asset. In determining the amount of eligible costs of capitalization during a period, any investment income generated by such funds is deducted from the borrowing cost. All other borrowing costs are registered as expense over the period they are incurred. Funding costs are represented by interest and other financial charges on loans contracted by an entity.

The initial cost of an intangible asset includes the estimated initial cost of dismantling and extracting it out of the records as well as restoring the location on which immobilisation is located when these amounts can be reliably estimated and the Company has an obligation with regard to dismantling, relocation of the tangible assets and restoration of the site.

Revaluations are performed with regularly so that the carrying amount should not differ materially from that which would have been determined by using fair value at the end of the reporting period.

When revaluing a tangible asset, cumulative depreciation is eliminated from the gross carrying amount of the asset and the net amount is adjusted to the revalued amount of the asset.

Spare parts, spare equipment and service equipment are classified as tangible assets if they are expected to be used in more than one period or may be used only in connection with an item of tangible asset.

Any profit or loss on the disposal of a tangible asset is recognized in profit or loss account.

*(ii) Subsequent expenditure*

Subsequent expenditures are capitalized only if it is probable that the future economic benefits associated with the expenses will enter the Company.

*(iii) Depreciation*

Depreciation is calculated to reduce the cost of tangible assets, less the estimated residual value, using the straight-line depreciation method over their estimated useful life, and is recognized in profit or loss account. Assets purchased under finance leases are amortized over the shorter of the lease term and their useful life, unless there is reasonable assurance that the Company will acquire ownership before the lease term is terminated. Land and fixed assets are not amortized.

The estimated useful lives for intangible assets are as follows:

| <b>Category</b>  | <b><u>Duration of useful life (years)</u></b>     |
|--|---|
| Construction and special installations   | 65 - 97   |
| Special constructions and installations that represent return goods according to the concession contract | the remaining duration of the concession contract |
| Equipment  | 25 - 47   |
| Equipment and systems of measurement and control   | 15 - 23   |
| Means of transport   | 16 - 24   |
| Other fixed assets   | 15 - 23   |

The depreciation method, useful lives and residual values are reviewed at each reporting date and adjusted accordingly, if appropriate.

## **(b) Intangible assets**

### *(i) Recognition and evaluation*

Intangible assets acquired by the Company that have useful life durations are measured at cost less cumulative depreciation and losses.

### *(ii) Subsequent expenditure*

Subsequent expenditures are capitalized only when they increase the future economic benefits embodied in the asset to which they refer. All other expenses, including internally generated goodwill and trademarks, are recognized in profit or loss when incurred.

### *(iii) Depreciation*

Depreciation is calculated to lower the cost of intangible assets less the estimated residual value using the straight-line method over their estimated useful life, and is recognized in profit or loss.

The estimated useful lives for software and licenses are 3-5 years.

The depreciation method, useful lives and residual values are reviewed at each reporting date and adjusted accordingly if appropriate.

## **(c) Financial instruments**

### *(i) Recognition and Initial evaluation*

Commercial receivables are recognized when they are generated. All other financial assets and liabilities are initially recognized when the Company becomes part of a contractual arrangement relating to an instrument.

Cash and cash equivalents include balances of cash, demand deposits and deposits with a maturity of up to three months from the date of incorporation that have a insignificant exposure to the risk of changes in fair value, being used by the Company for the management of short-term commitments.

A financial asset (unless a trade receivable does not have a significant financing component) or a financial liability is initially measured at fair value plus, for an item that is not measured at fair value through profit or loss ("FVTPL"), transaction costs are directly attributable to its acquisition or issue. A commercial loan without a significant financing component is initially valued at the transaction price.

### *(ii) Classification and subsequent evaluation*

#### **Financial assets**

At initial recognition, a financial asset is classified as being measured at amortized cost or FVTPL.

Financial assets are not reclassified after their initial recognition, unless the Company changes its business model for the management of financial assets, in which case all the financial assets affected are reclassified on the first day of the first reporting period as a result of the change in the business model.

A financial asset is measured at amortized cost if the following two conditions are met and is not designated as FVTPL:

- assets are held in a business model whose objective is to hold assets for the purpose of collecting contractual cash flows; and
- its contractual terms give birth at specified times to cash flows, representing only the principal and interest payable on the principal.

*Financial assets at amortized cost*

- These assets are subsequently measured at amortized cost using the effective interest method. The amortized cost is reduced by depreciation adjustments. Interest income, foreign exchange profit and losses, impairment adjustments are recognized in profit or loss account. Any profit or loss on derecognition is recognized in profit or loss account.

*Financial liabilities - classification, subsequent evaluation and profit or losses*

Financial liabilities are classified as financial liabilities at amortized cost using the effective interest method. Interest expense and foreign exchange profit or losses are recognized in profit or loss. Any profit or loss on derecognition is recognized in profit or loss.

**(iii) De-recognition**

*Financial assets*

The company derecognizes a financial asset only when the contractual rights to the cash flows of the asset expire or when it transfers the financial asset, respectively when it transfers all contractual rights to receive cash flows through a transaction in which all risks and benefits assimilated for holding the asset are transferred or in which the Company neither transfers nor retains substantially all the risks and rewards of ownership, nor does it retain control over the financial asset.

The Company may conclude transactions in which it transfers assets recognized in the statement of financial position, but retains, in whole or in substance, all the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognized.

*Financial liabilities*

The company derecognizes a financial liability when its contractual obligations are terminated, canceled, or expires. Also, the Company derecognizes a financial liability when its terms are changed and cash flows of the changed debt are substantially different, in which case a new financial liability is recognized at its fair value, based on the amended terms.

When derecognizing a financial liability, the difference between the accounting value and the value paid (including any non-monetary assets transferred or liabilities assumed) is recognized in profit or loss account.

**(iv) Compensation**

Financial assets and financial liabilities are offset and the net amount is presented in the statement of financial position only when the Company has a legal right to offset these amounts and intends to settle them on a net basis or to realize the asset and to pay simultaneously the debt.

**(d) Share capital**

Ordinary shares are classified as equity. The company recognizes the changes in the share capital under the conditions provided by the legislation in force and after their approval by the General Meeting of Shareholders and registration with the Trade Register.

**(e) Depreciation**

**(i) Non derivative financial assets**

The Company recognizes an adjustment for expected credit losses ("ECL") for financial assets measured at amortized cost.

Trade receivables loss adjustments are always valued at an equal ECL value in a lifetime.

In determining whether the credit risk of a financial asset has increased significantly since initial recognition and on ECL estimation, the Company uses reasonable and sufficient, information available at no cost or

unreasonable effort. These include quantitative and qualitative information and analysis that are based on the Company's historical experience and on the correct loan assessment, including forecasted information. The Company considers that the credit risk of a financial asset is increasing significantly if it has an outstanding maturity of more than 90 days.

- the debtor is unlikely to pay all his obligations to the Company without the Company taking actions such as the performance of the guarantee (if any); or
- the financial asset has a maturity longer than 180 days.

ECL over the lifetime represents the expected credit losses that will result from all implicit events during the expected life of a financial instrument.

The 12-month ELC represents the part of the ECL that results from the events of non-fulfillment of the obligations related to a financial instrument that may occur within 12 months from the reporting date (or a shorter period if the expected life of the instrument is longer less than 12 months).

#### *ECL Evaluation*

The ECL is a credit loss estimate that is determined by evaluating a series of possible outcomes. Credit losses are measured at the present value of all cash deficits (the difference between the cash flows due to the entity under the contract and the cash flows the Company expects to receive).

#### *Impaired financial assets due to credit risk*

At each reporting date, the Company analyses whether financial assets measured at amortized cost are impaired because of credit risk. A financial asset is impaired as a result of credit risk when one or more events have occurred having a negative impact on the estimated future cash flows of that financial asset.

Evidence that a financial asset is impaired includes observable data on the following events:

- (a) significant financial difficulty of the debtor;
- (b) a breach of contract, for example failure to fulfil obligations or an event leading to non-repayment at maturity;
- (c) restructuring a financial asset of the Company under conditions that the Company would not normally have considered;
- (d) it is probable that the debtor will enter insolvency or bankruptcy or some other form of financial reorganization; or
- (e) the disappearance of an active market for that financial asset due to financial difficulties.

#### *Presentation of adjustments for ECL in the statement of financial position*

Impairment losses on financial assets measured at amortized cost are deducted from the gross accounting value of the assets.

#### *Removing from the balance sheet*

The gross accounting value of a financial asset is removed from the balance sheet if the Company no longer has any means of recovering it (usually at the debtor's bankruptcy).

#### ***(ii) Non-financial assets***

At each reporting date, the Company reviews the amounts of non-financial assets (other than inventories and deferred tax assets) to determine whether there are any impairment indices. If such indices exist, the recoverable amount of the asset is estimated.

The recoverable amount of an asset or a cash-generating unit represents the maximum between the value to be used and fair value less sale costs. The value in use is based on the expected future cash flows at present value using a pre-tax discount rate that reflects current market assessments of value of money in time and the risks specific to the asset or cash-generating unit.

An impairment loss is recognized when the carrying amount of an asset or a cash-generating unit exceeds its recoverable amount.

Impairment losses are recognized in profit or loss, except for tangible assets presented at revalued amount, in which case the impairment loss is recognized in overall income and decreases the revaluation reserve in equity to the extent of the recognized revaluation surplus, and the remaining impairment loss is recognized in profit or loss.

Impairment loss is reversed only if the carrying amount of the asset does not exceed the carrying amount that would have been calculated, net of depreciation and amortization, if the impairment loss would have not been recognized.

**(f) Foreign exchange transactions**

Foreign currency transactions are converted into functional currency by applying exchange rates on the transaction date.

Monetary assets and liabilities denominated in foreign currency are converted into functional currency at the exchange rate on the reporting date communicated by the National Bank of Romania. Non-monetary assets and liabilities measured at fair value in a currency are converted into the functional currency at the exchange rate on the date when the fair value was determined. Exchange rate differences are recognized in profit or loss account. Non-monetary items denominated in a currency which are measured at historical cost are not converted into functional currency.

**(g) Inventories**

Inventories are made up of consumables, spare parts and other materials, mainly consisting of materials for maintenance and repair of hydropower plants.

The cost of inventories is determined using the average cost method. The cost of inventory includes all acquisition costs and other expenses related to bringing inventory to the location and status.

Inventories are valued at the minimum cost and net realizable value. Net realizable value represents the estimated sale value less the estimated completion costs and the expenses incurred for the sale.

**(h) Patrimoniul public**

The public patrimony represents the value of the assets that belong to the public domain and that have been financed from budgetary sources (public funds). The value financed from budgetary sources of these assets is recognized initially in deferred revenues, and later as an element assimilated to the own capitals in the public patrimony at the moment of reception and commissioning of the assets. According to GD 1705/2006, these assets will be transferred to the inventory of the institutions from whose sources they were financed, at the end of the economic life, based on a normative act adopted in this respect. According to OMFP 2844/2016, the entities that have not completed the legal procedures for the transfer of assets of the nature of the public patrimony, are highlighted separately in their equity, in accounts of elements assimilated to equity.

**(i) Reserves from revaluation**

The difference between the revalued amount and the net accounting value of tangible assets is recognized as a revaluation reserve in equity.

If the carrying amount of an asset is increased as a result of revaluation, that increase is recorded and accrued in equity at revaluation reserves. However, the increase is recognized in profit or loss to the extent that it offsets a decrease with the same amount of the asset, previously recognized in profit or loss.



If the carrying amount of an asset is reduced as a result of a revaluation, that decrease is recognized in profit or loss. However, the decrease is recognized in equity on revaluation reserves if there is a balance in the revaluation reserve for that asset.

The revaluation reserve is transferred to retained earnings in an amount corresponding to the use of the asset (as depreciation) and at disposal of the asset.

**(j) Dividends**

Dividends are recognized as liability in the period in which their distribution is approved .

**(k) Provisions**

A provision is recognized if, following a prior event, the Company has a legal or constructive obligation, that can be reliably estimated and it is probable that an outflow of economic benefits will be required to settle that obligation. Provisions are determined by updating expected future cash flows using a pre-tax rate that reflects current market assessments of time value of money and debt-specific risks. Depreciation of the update is recognized as financial expense.

**(l) Contingent assets and liabilities**

A contingent liability is:

- a) a potential obligation arising from previous events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not entirely controlled by the Company; or
- b) a current obligation arising from previous events, but not recognized because:
  - i. It is unlikely that the settlement of the obligation will require resource outflows incorporating economic benefits; or
  - ii. Obligation's value cannot be measured with enough reliability.

Contingent liabilities are not recognized in the financial statements but are presented in the notes, unless the possibility of resource outflows incorporating economic benefits is not unlikely.

A contingent asset is a potential asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events that are not entirely controlled by the Company.

A contingent asset is not recognized in the financial statements but is presented when an economic benefit is probable.

**(m) Leasing**

When initiating a contract, the Company assesses whether that contract is or includes a leasing contract. A contract is or contains a leasing contract if that contract gives the right to control the use of an identified asset, for a certain period of time, in exchange for an equivalent value.

*The company as a lessee*

At the date of commencement or modification of a contract containing one or more leasing components, the Company allocates the equivalent value in the contract to each leasing component based on the individual selling price of the leasing component.

At the beginning of a leasing contract, the Company recognizes an asset related to the right of use and a debt arising from the leasing contract. The cost of the right-to-use asset is initially measured at cost, which includes the initial amount of the debt arising from the lease, adjusted for any lease payments made on or before the

commencement of the lease, less any incentives received under the lease.

Subsequent to initial recognition, rights to use assets are measured at cost less accumulated depreciation and any accumulated impairment losses. Use rights assets are depreciated on a straight-line basis over the term of the lease, unless the lease transfers ownership of the asset before the end of the lease term or the cost of the use right asset reflects that the Company will exercise a purchase option. In this case, the asset related to the right of use is depreciated over the useful life, determined similarly by tangible assets. Also, the asset related to the right of use is periodically depreciated, if applicable, and adjusted for certain revaluations of the debt arising from the leasing contract.

The debt arising from the leasing contract is initially recognized at the updated value of the lease payments at the beginning of the contract. Lease payments are updated using the default interest rate in the lease if this rate can be determined immediately. If this rate cannot be determined immediately, the Company uses the marginal lending rate.

Leasing payments included in the valuation of the debt arising from the leasing contract include :

- Fixed lease payments, including fixed fund payments, less any lease incentives receivable;
- Variable payments that depend on an index or a rate, initially evaluated based on the index or rate at the beginning of the contract;
- The amounts expected to be payable by the Company based on guarantees related to the residual value;
- The exercise price of a call option if the Company has reasonable assurance that it will exercise the option;
- Leasing payments related to an optional contract extension period if the Company has reasonable certainty that it will exercise the extension option;
- Payments of penalties for terminating the leasing contract if the Company has the reasonable certainty that it will terminate the leasing contract.

The debt arising from the lease is subsequently measured at amortized cost using the effective interest method and is revalued when there is a change in future lease payments resulting from a change in an index or rate used to determine those payments, changes in the Company's estimates of the amounts expected to be due in accordance with the residual value, when the Company changes its assessment of the likelihood of exercising a purchase, extension or termination option or when a review of a fixed lease payment in substance.

When the debt arising from the lease is revalued, the Company recognizes the amount of the debt's revaluation as an adjustment of the asset related to the right of use. If the carrying amount of the asset is reduced to zero and there is a further reduction in the valuation of the liability, the Company recognizes any amount remaining from revaluation in profit or loss.

The company presents the assets related to the use rights in the tangible assets' category, and the debts deriving from the leasing contracts at the Leasing category in the statement of financial position.

#### *Short-term contracts and leases of low-value assets*

The Company does not recognize any assets with respect to the right to use the assets and any liabilities arising from leases related to short-term contracts (with a lease term less than or equal to 12 months) and leases of low value assets (less than 5,000 USD). For these leases, the Company recognizes the lease payments for operating expenses on a straight-line basis over the term of the lease.

## (n) Income

The Company recognizes revenues from contracts with clients in accordance with IFRS 15.

According to this standard, income is recognized when or as the client gains control over the goods or services provided, at the value that reflects the price that the Company expects to be entitled to receive in exchange for these goods and services. Revenues are recognized at the fair value of the services provided or the goods delivered, net of VAT, excise duties and other taxes related to the sale.

|   | <b>Nature and fulfillment of contractual obligations</b>   | <b>Recognition of income under IFRS 15</b>   |
|---|--|--|
| <b>Sale of electricity</b>                      | Invoices for sales of electricity produced are issued at the end of the month for energy delivered in the current month.   | <p>Revenues are recognized as time passes (monthly), as the customer receives and consumes simultaneously the benefits provided by the Company's performance as the Company provides. The determining factor is the fact that the production and delivery of electricity is simultaneous because the electricity is not stored.</p> <p>Advance payments received from customers for future energy sales obligations are recognized in customer contracts.</p>  |
| <b>Providing electricity to final consumers</b> | Invoices for the supply of electricity are issued monthly based on meter readings and based on estimates for the delivered electricity in case no readings have been made, communicated by the distribution operators.   | <p>Revenues are recognized as time goes by, as the client simultaneously receives and consumes the benefits provided by the Company, as the Company provides. The determining factor is the fact that the production and consumption of electricity is simultaneous because the electricity is not stored.</p> <p>Revenues related to the supply of electricity to final consumers include the transmission rate and the distribution rate. These services are provided by the transmission operator and the distribution operators.</p> <p>The company analyzed the quality of electricity supplied in transactions to final consumers in terms of re-invoicing the cost of transmission and distribution provided and concluded that it has the quality of principal</p> |
| <b>Ancillary services</b>                       | <p>The ancillary services are made available by the Company to the system operator, Transelectrica, of some production capacities for a certain interval. The rate charged for these services is variable and depends on the production capacity provided and the duration of the interval in which they are provided.</p> <p>Invoices for ancillary services are issued monthly, for services provided in the previous month.</p> | Income is recognized as time passes because the client receives and consumes the benefits provided by the Company performance as the Company performs.   |

**(o) Income and financial expenses**

Financial income and expenses of the Company include mainly:

- interest income;
- interest expenses;
- profit or losses on exchange rate differences regarding financial assets and liabilities;
- impairment losses on financial assets (other than trade receivables).

Liability costs that are not directly attributable to a purchase, construction or production of long-term assets are recognized in the income statement using the effective interest method.

Profit and losses on foreign exchange differences are carried forward to a net basis.

**(p) Employees' benefits**

*(i) Short-term employees' benefits*

Employees' short-term benefits are valued on an unrealized basis and are recognized as an expense as related services are provided. A liability is recognized at the amount that is expected to be paid if the Company has a present legal, constructive, or implicit obligation to pay the respective amount for services previously provided by the employee and the liability can be estimated credibly.

*(ii) Defined benefit plans*

The net liability of the Company for defined benefit plans is calculated separately for each plan by estimating the amount of future benefits that employees have earned in the current and prior periods, by updating this amount at their present value.

The calculation of defined benefit obligations is performed annually by a qualified actuary using the projected credit unit method.

Revaluations of net debt related to defined benefits, including actuarial profit and losses, are recognized immediately in other overall income. The Company determines net interest expense (income) with the due net interest on the defined benefit of the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period, at the net debt at respective date, taking into account any changes in net debt on defined benefit over the period because of contributions and benefits payments. Net interest expense and other expense related to defined benefit plans are recognized in profit or loss account.

When the benefits of a plan are changed or when a plan is reduced, the resulting changes in benefits that relate to past service or profit or loss as a result of the discount are recognized immediately in profit or loss account. The Company recognizes the profits and losses from the settlement of a defined benefit plan when the settlement occurs.

*(iii) Other long-term benefits for employees*

The Company's net liability for employees' long-term benefits represents the amount of future benefits earned by employees in exchange for services rendered in the current period and in prior periods. These benefits are updated to the present value. Revaluations are recognized in profit or loss account in the period in which they occur.

*(iv) Benefits on terminating the employment contract*

The benefits on the termination of the employment contract are recognized as expense at the earliest date when the Company no longer has any real possibility of giving up the offer and the date on which the Company recognizes the restructuring costs. If the benefits are not expected to be settled in less than 12 months from the reporting date, they are updated to their present value.

**q) Income tax**

Income tax expense comprises current tax and deferred tax. Income tax expense is recognized in profit or loss account unless it relates to items recognized directly in equity or other overall income items, case when the tax is recognized directly in equity or other overall income.

The Company determined that the interest and penalties related to the income tax, including the fiscal treatment uncertainties, do not meet the definition of the income tax, and therefore they are recorded as provisions.

**(i) Current tax**

Current tax comprises the tax that is expected to be paid or received for the taxable income or tax loss realized in the current year, as well as any adjustments for tax paid or received in respect of previous years. It is determined using tax rates adopted or largely adopted at the reporting date.

**(ii) Deferred tax**

Deferred tax is recognized for temporary differences between the carrying amount of assets and liabilities used for the purpose of financial reporting and the tax base used to calculate the tax. Deferred tax is not recognized for:

- temporary differences arising on the initial recognition of assets and liabilities arising from transactions that are not business combinations and do not affect profit or loss on accounting or tax purposes;
- temporary differences arising from investments in subsidiaries, associates or jointly controlled entities, to the extent that the Company may exercise control over the temporary reversal period and are unlikely to be reversed in the foreseeable future.

Deferred tax assets are recognized for unused tax losses, unused tax credits and deductible temporary differences, only to the extent that future taxable profits are likely to be used to cover them. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that the related tax benefit is no longer probable.

Deferred tax is calculated based on tax rates that are expected to be applied to temporary differences when reversed, using tax rates adopted or largely adopted at the reporting date.

The deferred tax assessment reflects the tax consequences that arise from the way the Company expects to recover or settle the carrying amount of its assets and liabilities at the reporting date.

Deferred tax assets and liabilities are offset only if certain criteria are met.

**(r) Grants**

Grants are recognized in the statement of financial position as deferred revenue when there is reasonable assurance that they will be received and the Company will comply with the grants' conditions, if any. Grants are recognized in profit or loss at the time of recognition of related costs (for example, depreciation of fixed assets from subsidies or consumption of inventory acquired from subsidy

**(s) Green certificates**

The company highlights the green certificates received through the cost support scheme (which is 0). On sale, green certificates are recognized in the profit or loss account at the minimum trading value.

**(t) Investment in subsidiaries**

Investments in subsidiaries are valued at cost, less impairment losses .

**u) Related parties**

A related party is a person or entity that is affiliated with the entity that prepares the financial statements:

- (a) A person or close member of the family of that person is related to an entity that reports whether that person:
- i) owns control or has joint control over the reporting entity;
  - ii) has significant influence on the reporting entity; or
  - iii) is a member of management of the reporting entity or a parent-company of the reporting entity;
- (b) A company is related to an entity that reports whether it meets one of the following conditions:
- i) the entity and reporting entity are members of the same group (which means that each parent-company, subsidiary or member subsidiary is related to the others entities);
  - ii) an entity is an associate or joint venture of the other entity (or associate or joint venture of a member of the group to which the other entity belongs);
  - iii) both entities are joint ventures of the same third party;
  - iv) an entity is a joint venture of a third party and the other entity is an associate of the third party;
  - v) entity is a post-employment benefit plan for the employees of the reporting entity or of an entity related to the reporting entity. If the reporting entity itself represents such a plan, employers who fund the plan are also linked to reporting entities;
  - vi) the entity is controlled or jointly controlled by a person identified in paragraph (a);
  - vii) the person identified in paragraph (a) letter i) has significant influence on the entity or is part of the key management personnel of the entity (or the management of a parent-company entity of the entity);
  - viii) the entity or any member of a group to which it belongs shall provide reporting entities or the parent-company of the entity reporting service related to the key management personnel of that respective entity.

A reporting entity is exempted from the disclosure requirements as in IAS 24.18 on related party transactions and open balances, including engagements, with:

- a) Government, which has control, joint control or has significant influence on the reporting entity; and
- b) Another entity that is related because the same government has control, joint control, or significant influence both on the reporting entity and on the other entity.

**v) Subsequent events**

Events that occurred after the reporting date that provide additional information about the conditions that existed at these reporting dates (events that determine adjustments to the financial statements) are reflected in the individual financial statements. Events occurring after reporting dates that provide information about conditions that arise after reporting dates (events that do not result in adjustments to the financial statements) are disclosed in the notes to the financial statements when they are important. When the principle of continuity of activity assumption is no longer appropriate during or after the reporting period, the financial statements are not prepared on a principle of continuity.

**4. ADOPTION OF NEW STANDARDS AND AMENDMENTS TO EXISTING STANDARDS**

**A. Initial application of amendments to the standards in force for the current reporting period**

The following amendments to the existing standards are in force for the annual period beginning on 1 January 2020:

- *Amendments to IAS 1 “Presentation of Financial Statements” and IAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors” - Definition of Materiality ;*

- Amendments to IFRS 3 “Business Combinations” - Definition of an enterprise (applicable to business combinations whose acquisition date begins on or after the first annual reporting period on or after January 1, 2020 and asset acquisitions taking place from or after that period);
- *Amendments to IFRS 9 “Financial Instruments”, IAS 39 “Financial Instruments: Recognition and Measurement” and IFRS 7 “Financial Instruments: Presentation Requirements”* - Reform of the interest rate benchmark - effective for annual periods beginning on or after 1 January 2020);
- *Amendments to IFRS 16 Leases: Leases under Covid 19 (applicable for annual periods beginning on or after 1 June 2020);*
- *Amendments to the References to the Conceptual Framework of IFRS Standards (applicable for annual periods beginning on or after 1 January 2020).*

The adoption of the new amendments to the existing standards did not have a significant impact on the Company's individual financial statements.

## **B. New standards not yet in force**

The following standards, amendments to the standards and interpretations have been issued, but are not yet in force for the annual period beginning on January 1, 2020. The Company does not intend to adopt these standards before entering into force.

The Company expects that the adoption of the financial reporting standards below in future periods will not have a significant effect on the Company's financial statements.

### **(i) Standards and Interpretations adopted by the EU**

- *Reform of the interest rate benchmark - Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)*

The amendments address issues that may affect financial reporting as a result of the reform of the interest rate benchmark, including the effects of changes in contractual cash flows or hedging relationships resulting from the replacement of an interest rate benchmark with an alternative benchmark. The amendments provide for practical derogations from certain requirements of IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16:

- changes in the basis for determining the contractual cash flows of financial assets, financial liabilities and liabilities arising from leasing contracts; and
- hedging accounting.

#### *Changing the basis for determining cash flows*

The amendments will cause an entity to account for the change in the basis for determining the contractual cash flows of a financial asset or debt provided by the reform of the interest rate reference index by updating the effective interest rate of the financial asset or debt.

As of December 31, 2020, the Company has loans in the amount of RON 26,944 thousand with the interest rate determined according to EURIBOR, which will be subject to reform. The Company estimates that the change in the interest rate benchmark according to the above amendments will not have a significant impact on the Company's financial results.

#### *Risk hedging accounting*

The company does not apply hedge accounting.

*Presentation of information*

The amendments will cause the Company to present additional information regarding the exposure to risks resulting from the reform of the reference index of the interest rate and the related risk management activities.

*Transition*

The company intends to adopt these amendments starting January 1, 2021, the date of entry into force. The application will not affect the amounts reported for 2020 or previous periods.

**(ii) Standards and interpretations that have not yet been adopted by the EU**

*Onerous contracts - The cost of performing a contract (Amendments to IAS 37)*

- Amendments set out the costs that an entity includes in determining the cost of performing a contract for the purpose of assessing the extent to which the contract is onerous. Amendments shall apply for annual periods beginning on or after 1 January 2022 to contracts existing on the date on which the amendments are first applied. At the date of initial application, the cumulative effect of the application is recognized in the form of an adjustment to the initial balance of retained earnings or other equity components, as appropriate. Comparative figures are not restated.
- Other new standards or amendments to existing standards that are not expected to have a significant impact on the Company's financial statements: Amendments to IAS 1 Presentation of Financial Statements: Classification of short-term and long-term debt (applicable for annual periods beginning with or after January 1, 2023);
- Amendments to IFRS 3 Business Combinations: Conceptual framework references (applicable for annual periods beginning on or after 1 January 2022);
- Amendments to IAS 16 Tangible assets: Proceeds from the sale of production obtained before bringing an asset to the location and condition necessary for its use (applicable for annual periods beginning on or after January 1, 2022);
- Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Presentation of Accounting Policies (applicable for annual periods beginning on or after January 1, 2023);
- Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: Definition of accounting estimates (applicable for annual periods beginning on or after January 1, 2023);
- Amendments to various standards due to "IFRS Improvements (2018-2020 cycle)";
- IFRS 14 Deferred accounts related to regulated activities (applicable for annual periods beginning on or after January 1, 2016). The European Commission has decided not to issue the approval process for this interim standard and to wait for the final standard; and
- Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in associates and joint ventures: Sale of or contribution of assets between an investor and its associates or joint ventures - the effective date has been deferred indefinitely, until the research project on the equivalence method is completed.



## 5. Intangible assets

|   | Land and<br>landscaping | Construction<br>and special<br>equipment | Machines,<br>equipment,<br>and other<br>fixed assets | Tangible<br>fixed assets<br>in progress | TOTAL                 |
|---|-------------------------|--|--|---|-----------------------|
| <b>GROSS ACCOUNTING VALUE</b>                                   |                         |  |  |   |                       |
| <b>Balance on 1 January 2019</b>                                | <b>744,622,233</b>      | <b>10,244,596,793</b>                    | <b>2,598,998,885</b>                                 | <b>5,071,680,539</b>                    | <b>18,659,898,450</b> |
| Additions   | 129,000                 | 8,123                                    | -  | 141,447,698                             | 141,584,821           |
| Transfers from tangible assets in progress                      | 3,754,606               | 67,531,525                               | 135,049,460  | (206,335,591)                           | -                     |
| Transfers from tangible assets in progress in intangible assets | -                       | -  | -  | (4,012,669)                             | (4,012,669)           |
| Decrease revaluation reserve                                    | -                       | (48,574,886)                             | (3,439,534)  | -                                       | (52,014,420)          |
| Outputs   | (1,324,641)             | (3,809)                                  | (2,667)  | -                                       | (1,331,117)           |
| <b>Balance on 31 December 2019</b>                              | <b>747,181,198</b>      | <b>10,263,557,746</b>                    | <b>2,730,606,144</b>                                 | <b>5,002,779,977</b>                    | <b>18,744,125,065</b> |
| <b>CUMULATED DEPRECIATION</b>                                   |                         |  |  |   |                       |
| <b>Balance on 1 January 2019</b>                                | <b>14,964</b>           | <b>-</b>                                 | <b>-</b>   | <b>-</b>                                | <b>14,964</b>         |
| Depreciation expense  | 31,345                  | 397,149,337                              | 338,218,654  | -                                       | 735,399,336           |
| Cumulative depreciation of outflows                             | -                       | -  | (1,364)  | -                                       | (1,364)               |
| <b>Balance on 31 December 2019</b>                              | <b>46,309</b>           | <b>397,149,337</b>                       | <b>338,217,290</b>                                   | <b>-</b>                                | <b>735,412,936</b>    |
| <b>CUMULATED VALUE ADJUSTMENTS</b>                              |                         |  |  |   |                       |
| <b>Balance on 1 January 2019</b>                                | <b>508,455</b>          | <b>58,949,688</b>                        | <b>3,455,597</b>                                     | <b>3,285,631,654</b>                    | <b>3,348,545,394</b>  |
| Value adjustments made in profit or loss                        | -                       | 2,793,763                                | 17,357   | 20,234,024                              | 23,045,144            |
| Transfers from tangible assets in progress                      | -                       | 938,039                                  | 75,533,399   | (76,471,438)                            | -                     |
| Transfer from tangible assets in progress in intangible assets  | -                       | -  | -  | (822,252)                               | (822,252)             |
| Value adjustments reversed in profit or loss                    | (461,463)               | (39,291,666)                             | (11,320,725)   | (6,488,670)                             | (57,562,524)          |
| <b>Balance on 31 December 2019</b>                              | <b>46,992</b>           | <b>23,389,824</b>                        | <b>67,685,628</b>                                    | <b>3,222,083,318</b>                    | <b>3,313,205,762</b>  |
| <b>NET ACCOUNTING VALUE</b>                                     |                         |  |  |   |                       |
| <b>Balance on 1 January 2019</b>                                | <b>744,098,814</b>      | <b>10,161,644,845</b>                    | <b>2,595,543,288</b>                                 | <b>1,786,048,885</b>                    | <b>15,287,335,832</b> |
| <b>Balance on 31 December 2019</b>                              | <b>747,087,897</b>      | <b>9,843,018,585</b>                     | <b>2,324,703,226</b>                                 | <b>1,780,696,659</b>                    | <b>14,695,506,367</b> |

**S.P.E.E.H. HIDROELECTRICA S.A. two-tier company**  
**EXPLANATORY NOTES TO INDIVIDUAL FINANCIAL STATEMENTS**  
FOR THE YEAR ENDED ON DECEMBER 31, 2020  
*(All amounts are expresses in RON, unless otherwise stated)*

|   | Land and landscaping | Construction and special equipment | Machines, equipment, and other fixed assets | Tangible fixed assets in progress | TOTAL                 |
|---|----------------------|------------------------------------|---|-----------------------------------|-----------------------|
| <b>GROSS ACCOUNTING VALUE</b>                                   |                      |                                    |   |                                   |                       |
| <b>Balance on 1 January 2020</b>                                | <b>747,181,198</b>   | <b>10,263,557,746</b>              | <b>2,730,606,144</b>                        | <b>5,002,779,977</b>              | <b>18,744,125,065</b> |
| Additions   | 1,666,805            | 1,454,794                          | 6,330,481                                   | 182,709,804                       | 192,161,884           |
| Transfers from tangible assets in progress                      | -                    | 406,460,972                        | 182,769,475                                 | (589,230,447)                     | -                     |
| Transfers from tangible assets in progress in intangible assets | -                    | -                                  | -   | (1,114,421)                       | (1,114,421)           |
| Reclassification spare parts                                    | -                    | -                                  | 12,732,331                                  | (23,260,257)                      | (10,527,926)          |
| Decrease revaluation reserve                                    | -                    | (22,962,340)                       | (1,395,125)                                 | -                                 | (24,357,465)          |
| Outputs   | (99,621)             | (183,395)                          | (198)                                       | (15,227,824)                      | (15,511,038)          |
| <b>Balance on 31 December 2020</b>                              | <b>748,748,382</b>   | <b>10,648,327,777</b>              | <b>2,931,043,108</b>                        | <b>4,556,656,832</b>              | <b>18,884,776,099</b> |
| <b>CUMULATED DEPRECIATION</b>                                   |                      |                                    |   |                                   |                       |
| <b>Balance on 1 January 2020</b>                                | <b>46,309</b>        | <b>397,149,337</b>                 | <b>338,217,290</b>                          | <b>-</b>                          | <b>735,412,936</b>    |
| Depreciation expense  | -                    | 430,705,523                        | 332,980,006                                 | -                                 | 763,685,529           |
| Cumulative depreciation of outflows                             | -                    | -                                  | (198)                                       | -                                 | (198)                 |
| <b>Balance on 31 December 2020</b>                              | <b>46,309</b>        | <b>827,854,860</b>                 | <b>671,197,098</b>                          | <b>-</b>                          | <b>1,499,098,267</b>  |
| <b>CUMULATED VALUE ADJUSTMENTS</b>                              |                      |                                    |   |                                   |                       |
| <b>Balance on 1 January 2020</b>                                | <b>46,992</b>        | <b>23,389,824</b>                  | <b>67,685,628</b>                           | <b>3,222,083,318</b>              | <b>3,313,205,762</b>  |
| Value adjustments made in profit or loss                        | -                    | 6,181,385                          | 4,136,336                                   | 373,403,060                       | 383,720,781           |
| Value adjustments reversed in profit or loss                    | (46,992)             | (85,268)                           | (2,906,959)                                 | (203,541,237)                     | (206,580,456)         |
| <b>Balance on 31 December 2020</b>                              | <b>-</b>             | <b>29,485,941</b>                  | <b>68,915,005</b>                           | <b>3,391,945,141</b>              | <b>3,490,346,087</b>  |
| <b>NET ACCOUNTING VALUE</b>                                     |                      |                                    |   |                                   |                       |
| <b>Balance on 1 January 2020</b>                                | <b>747,087,897</b>   | <b>9,843,018,585</b>               | <b>2,324,703,226</b>                        | <b>1,780,696,659</b>              | <b>14,695,506,367</b> |
| <b>Balance on 31 December 2020</b>                              | <b>748,702,073</b>   | <b>9,790,986,976</b>               | <b>2,190,931,005</b>                        | <b>1,164,711,691</b>              | <b>13,895,331,745</b> |

***Tangible fixed assets put into operation.***

The Company's tangible assets include mainly special constructions, namely hydropower plants, pumping stations, micro-hydropower stations, locks, and hydro-aggregates, equipment, and installations. The company manages 187 production capacities with an installed capacity of 6,372.172 MW and 5 pumping stations with an installed capacity of 91,5 MW.

Impairment adjustments of land, constructions, installations and equipment on balance as of December 31, 2020 in the amount of RON 98,442,484 represent mainly impairment adjustments for investments HPP Racovita (RON 66 million), HPP Agigea (RON 11 million), HPP Izvoarele (RON 7 million), as well as the value of the constructions and technological equipment related to the micro hydropower plants that were taken over from Electrica SA and from the I.R.E. Deva in 2002 based on GD 554/2002, having a technical condition unsuitable for operation, in an advanced state of physical and moral degradation and which are not included in the maintenance program or in the investment program for the following periods. The micro-hydropower plants that have been taken over are not in working order or need significant repairs. Also, these micro hydropower plants are no longer included in the production license.

During 2020, the investments that were operational but were not handed over HPD Movileni, HPD Retezat, HPP Subcetate, HPD Robesti were put into operation. Consequently, the amount of RON 42,188,781 was transferred

from depreciation adjustments of investments under execution in cumulative depreciation of tangible assets. The transfer of this amount was made by influencing the profit and loss accounts "Depreciation expense" and "Value adjustments reversed in profit or loss", the effect on net profit being zero.

During 2019, the HPP Racovita investment was put into operation. Following this, the adjustments related to the HPP Racovita in the amount of RON 76,471,438 in depreciation adjustments of tangible assets and the amount of RON 822,252 in depreciation adjustments of intangible assets were transferred from depreciation adjustments to investments under execution.

During 2020, the Company performed a detailed technical analysis on the HPP Izvoarele, determined by the deterioration of the supply, based on which it was concluded that the hydropower plant can no longer be operated. Consequently, the Company adjusted the value of the hydropower plant entirely by decreasing the revaluation reserve related to the assets of HPP Izvoarele by RON 24,357,465 and by value adjustments constituted in the situation of profit or loss in the amount of RON 7,367,032.

#### *Use rights in connection with leasing contracts*

Tangible fixed assets include assets related to rights to use, mainly in connection with the Company's headquarters and the car fleet in the amount of RON 20,689,017 as of December 31, 2020 (RON 19,443,798 as of December 31, 2019) classified in Special constructions and installations and Machinery, equipment and other fixed assets.

#### *Revaluation of tangible assets*

The lands and landscaping, the special buildings, and installations, as well as the cars, equipment and other fixed assets were revalued by an independent appraiser on December 31, 2018. The revaluation of fixed assets is performed every 3 years.

#### *Evaluating the fair value*

The fair values of tangible assets are included in Level 3. Given that the Company had the last revaluation at 31 December 2018, the Company no longer presented in these financial statements the valuation methods used to determine fair values for revaluation of land, buildings and special, machinery, equipment and other fixed assets, as well as significant unobservable input data used. This information is presented in the financial statements for the years 2018 and 2019.

The company estimates that the net book value of tangible assets accounted for using the revaluation method does not differ substantially from the fair value at the balance sheet date, considering recent macroeconomic indicators.

#### ***Tangible fixed assets in progress***

As of December 31, 2020, the Company has investments in progress with a gross accounting value of RON 4,556,656,831 (December 31, 2019: RON 5,002,779,977) for which it has registered impairment adjustments in the amount of RON 3,391,945,141 (December 31, 2019): RON 3,222,083,318).

The main investment objectives registered in current assets refer to the following investment projects - hydropower facilities: Bumbesti - Livezeni, Siriu - Surduc, Rastolita, Cornetu-Avrig, Pascani, Cerna Belareca, Cosmesti-Movileni, Valea Sadului, Fagaras Hoghiz, Runcu Firiza, Cerna-Motru-Tismana, Bistra.

These ongoing investments mainly include investments with complex functions, represented by historical investment objectives regarding hydropower development schemes with social functions (described below) that were intended from the beginning as having only a secondary energy function.

At these investment objectives, the complex functions of rational and safe water management, include:

- Mitigation of flood damage;
- Protection of population, localities and agricultural lands;
- Water supply to riparian localities;
- Ensure the water supply for the population and industry;
- Ensuring flow for irrigation, during periods of drought;
- Retain solid flow in the dead volume of the accumulation;
- Other social functions.

The social functions described above are specific to public authorities, whose purpose is not to obtain profit. In fact, many of these investments belonged over time to the National Agency "Romanian Waters" [Agentia Nationala "Apele Romane"], the governmental agency that has as its object the area's planning and water management. Hidroelectrica SA is a company constituted under the Law 31/1990 on the Commercial Companies and is not a non-profit organization. In addition, Hidroelectrica no longer benefits from public funds to complete such social investments which, by continuing their financing, would violate the ultimate objective of maximizing shareholders' profit.

The "historic" hydro-energetic projects were initiated mainly between 1982-1989, following a succession of State Council Decrees and the financing was made with public money, through the ministries involved, the investment holders. After 1989, some of these projects were carried out by the Romanian Waters, financed by public funds, until Hidroelectrica SA had taken them over. The economic and energetic conditions have significantly changed compared to those of the 1980s and 1990s, especially due to the disappearance of the centralized state investment fund, the beneficiaries of the complex works have ceased the financing of the specific works within the hydropower projects, the costs of these works remaining only in the obligation of Hidroelectrica SA.

After Hidroelectrica S.A. insolvency, in June 2012, and in view of the future listing of the company's shares, the Official Receiver has chosen as a priority the strong orientation of the company towards profit and the judicious use of money funds.

In 2017, the Company has contracted services to estimate the cost of abandoning, preserving, and safely of works at complex investment, in accordance with the provisions of the Supervisory Board Decisions issued in 2016 (see note 18)

In 2018, after receiving responses from the Ministry of Public Finance regarding the fiscal implications of the abandonment of some ongoing investment projects that were financed and the Special Energy System Development Fund, by an internal decision, was appointed a new working commission that resumed the financial analysis and drafted a grounding note in order to present to Hidroelectrica's management the results and conclusions of this analysis, based on which the management decided to abandon certain investment objectives, as presented below and in Note 18.

The company performed a detailed analysis of ongoing investments and determined and registered impairment losses both on December 31, 2020 and in previous periods, thus:

- a) unprofitable investment objectives for which the abandonment decision was taken and for which value adjustments were registered to their total gross value. The gross value of the abandoned investments is RON 591,786,338 as of December 31, 2020 (2019: RON 591,786,338). Both on 31 December 2020 and on 31 December 2019, the net accounting value of these fixed assets is zero. For these, the Company has created provisions for decommissioning and site restoration (see Note 18).

| <b>Project</b>         | <b>Objective</b>      | <b>Gross accounting value</b> | <b>Value adjustment</b> |
|------------------------|-----------------------|-------------------------------|-------------------------|
| Borca - Poiana Teiului | Treapta Galu          | 8,478,952                     | 8,478,952               |
| Cosmești – Movileni    | Treapta Cosmești      | 94,929,736                    | 94,929,736              |
| Surduc - Siriu         | Treapta Ciresu-Surduc | 17,340,805                    | 17,340,805              |
| Fagaras-Hoghiz         | Fagaras - Hoghiz      | 174,949,578                   | 174,949,578             |
| Runcu – Firiza         | Runcu Firiza          | 88,025,270                    | 88,025,270              |
| Dambovita – Clabucet   | Dambovita - Clabucet  | 34,761,486                    | 34,761,486              |
| Valea Sadului-Vadeni   | Valea Sadului-Vadeni  | 165,209,205                   | 165,209,205             |
| Others                 |                       | 8,302,916                     | 8,302,916               |
| <b>Total</b>           |                       | <b>591,786,338</b>            | <b>591,786,338</b>      |

- b) investments for which the recoverable amount is less than the net accounting value (other than those from point a) above). For these, the depreciation adjustments as of December 31, 2020 are in the amount of RON 2,775,733,578 (2019: RON 2,556,234,941). The difference between the balance on 31 December 2020 and that on 31 December 2019 mainly represents the updating of recoverable amounts for which the Company used the assumptions presented below, resulting in a net expense with value adjustments in the amount of RON 280,204,558, as presented in the table below.
- c) advances for tangible fixed assets with a gross accounting value of RON 24,390,970 (December 31, 2019: RON 24,390,970), paid in connection with the HPP Portile de Fier II Refurbishment project in the amount of RON 15,573,927 (December 31, 2019: 15,573,927 RON), and advances paid in connection with the HPD Cornetu-Avrig project, HPP Caineni step to UCM Resita, insolvent company - RON 8,817,043 (December 31, 2019: RON 8,817,043), amounts for which the Company fully recorded impairment adjustments.
- d) On December 31, 2019, the Company recorded value adjustments in the amount of RON 49,671,069 at the level of cumulative depreciation of assets that functioned but were not received, in gross amount of 326,459,332 on December 31, 2019. During 2020, the Company received functional assets in gross accounting value of RON 311,231,508, respectively disposed of functional assets of RON 15,227,824. Thus, on December 31, 2020, the Company no longer registers functional and unreceived assets. During 2020, the Company registered until the moment of receiving / disposing the assets value adjustments related to depreciation in the amount of RON 7,745,537. Thus, the total of the value adjustments reversed at the time of commissioning / disposal of functional assets is RON 57,416,606. The value adjustments in the amount of RON 42,188,781 related to the assets transferred to the assets put into operation were transferred to the accumulated depreciation by affecting the profit and loss accounts "Depreciation expense" and "Reversed value adjustments in profit or loss", the effect in the net profit being zero. The value adjustments in the amount of RON 15,227,824 related to the disposed assets were reversed, at the same time the Company recorded a disposed expense in "Other operating expenses", the effect on net profit being zero. (see also pages 39-40).

The investment objectives from point b) above include, among others, the Bumbesti - Livezeni hydropower development, with a net accounting value of RON 554,313,269 as of December 31, 2020 (December 31, 2019: 466,209,116), for which the works were suspended in 2017 due to the cancellation of building and environmental permits because of the loss of the dispute with non-profit environmental protection organizations based on the need to reassess the effects of the project in relation to the status of protected natural area of the area where the works . The project was started in 2003, and later in 2005 the protected area was established National Park Defileul Jiului.

Currently, the Company is in the process of obtaining the building permit and the environmental agreement for the continuation of the works, being undertaken a series of actions including the elaboration by an external consultant of the environmental documentation necessary to obtain the environmental agreement, including

the initiation of the environmental procedure, environmental impact assessment, so that the legal procedures specific to the reauthorization of the project can be followed. During 2020, the following steps were completed: obtaining / extending the urbanism certificates, finalizing the impact assessment study on the water bodies (SEICA) and submitting it to the National Authority of Romanian Waters. Also, the elaboration of the report on the environmental impact and the appropriate assessment study was resumed based on the new legislation and the instructions sent to the Company during 2020. Subsequently, these studies will be submitted to public debate to establish their final form, based on which the competent authorities will issue the environmental agreement.

The management considers that so far, no problems have been identified that would lead to the conclusion that the authorizations have not been obtained. Consequently, the recoverable value of the project was determined considering as the estimated date of commissioning of the project - January 2024.

#### *Determining the recoverable values*

The determining the recoverable amounts of the ongoing investments mentioned in point b) above was based on a series of assumptions related to the forecasted cash flows.

The significant assumptions used in estimating the recoverable amount are presented below. The values assigned to the assumptions were based on both historical data and available information on future prices, and management's assessment of future trends:

- the estimated costs for the completion of the projects and the distribution in time of the respective cash flows and the date of commissioning;
- the capacities related to each investment used to determine the forecasted revenues;
- the estimated revenues in the impairment test related to these capacities are based on a percentage of 100% of the project energy;
- information regarding the electricity prices in the period 2021 - 2050 based on reports prepared by external consultants, the average annual nominal growth rate for the period 2021 - 2050 is of 3%;
- price growth rate of 2% after 2050;
- EBITDA margin based on the historical performances of the Company - 72%;
- investment recovery period of 50 years;
- average discount rate before tax of 8.9%.

The results of the impairment test are presented in the table below :

| <b>Project</b>                   | <b>Gross accounting value<br/>31 December 2020</b> | <b>Accumulated value<br/>adjustment on<br/>31 December 2020</b> | <b>Value adjustment<br/>constituted /<br/>(reversed) in 2020</b> |
|----------------------------------|--|---|--|
| HPD Bumbesti-Livezeni            | 770,145,550  | 215,832,281   | (93,164,247)   |
| HPP Racovita                     | 360,581,513  | 360,581,513   | 9,578,652  |
| HPD Rastolita                    | 698,606,465  | 605,821,427   | 132,469,284  |
| HPD Siriu-Surduc                 | 751,333,612  | 498,103,368   | 68,394,628   |
| HPD Pascani                      | 368,642,298  | 368,642,298   | 45,051,868   |
| HPD Cerna-Belareca               | 317,889,599  | 317,889,599   | 80,361,918   |
| Movileni                         | 127,584,004  | 127,584,004   | 32,924,977   |
| Bistra                           | 51,977,366   | 6,921,577   | 4,587,478  |
| Cerna Motru Tismana - stage II   | 72,937,408   | 72,937,408  | -  |
| Refurbishment Portile de Fier II | 45,265,051   | 45,265,051  | -  |
| Rectifying lake Sebes            | 55,219,141   | 55,219,141  | -  |
| Other (more than 50 items)       | 115,795,212  | 100,935,911   | -  |
| <b>Total</b>                     | <b>3,735,977,219</b>                               | <b>2,775,733,578</b>  | <b>280,204,558</b>   |

The value of adjustments in 2020 were mainly determined by updating the estimated costs for the completion of certain projects, as well as by updating the outflow schedule of cash flows related to costs until completion and implicitly the estimated date of commissioning investments.

Thus, in the impairment test from 31 December 2019, the Company estimated that approximately 90% of the additional production capacity will be installed by the end of 2023. In the impairment test from 31 December 2020, the Company extended the works schedule on average by 3 years, which determined the postponement of the estimated date of commissioning with the same period of 3 years. Also, during 2020, the Company used in the impairment test estimated costs for the completion of the revised projects based on the contracts concluded with the works suppliers. These factors led to the registration of additional value adjustments, especially in the case of projects that have a low degree of completion (HPD Rastolita, HPD Pascani and HPD Cerna Belareca). The Company's estimates regarding the costs necessary to complete the projects in progress used in the impairment test, as well as the annual production capacities to be installed per year, are presented as follows:

| <b>Year</b>  | <b>Estimated costs to complete projects</b> | <b>Installed project energy (GW / Year)</b> |
|--------------|---|---|
| 2021         | 52,770,277                                  | -   |
| 2022         | 291,429,482                                 | -   |
| 2023         | 228,284,258                                 | -   |
| 2024         | 186,492,709                                 | 333   |
| 2025         | 149,000,000                                 | 25  |
| 2026         | 60,000,000                                  | 172   |
| 2027         | 50,000,000                                  | 117   |
| 2028         | -   | 45  |
| <b>Total</b> | <b>1,017,976,726</b>                        | <b>692</b>                                  |

Reverse value adjustments were mainly determined by the following :

- updating future electricity prices based on an external report, with impact on reversals of value adjustments in the amount of RON 93,164,247;
- management's decision to complete 5 old investment projects, provisioned in previous years, completed, and put into operation in 2020, in a gross accounting value of RON 54,171,798. At the time of their completion and reception, the Company reversed the value of adjustments;
- the transfer from depreciation adjustments of investments ongoing in cumulative depreciation of the amount of RON 42,188,781, transfer made by affecting the profit and loss accounts "Depreciation expense" and "Reverse value adjustments in profit or loss", the effect in net profit being zero;
- disposing fixed assets in progress with zero net accounting value (accounting book value of RON 15,227,824), for which the Company reversed the value adjustments and recorded at the same time an expense with disposing in "Other operating expenses".

## 6. INVENTORIES

|                      | <b>31 December<br/>2020</b> | <b>31 December<br/>2019</b> |
|----------------------|-----------------------------|-----------------------------|
| Additional materials | 3,946,484                   | 1,663,365                   |
| Spare parts          | 39,024,385                  | 49,457,441                  |
| Consumables          | 3,801,180                   | 5,288,974                   |
| Other stocks         | 12,880,083                  | 14,473,262                  |
| <b>Total</b>         | <b>59,652,132</b>           | <b>70,883,042</b>           |

## 7. TRADE RECEIVABLES

|   | <b>31 December<br/>2020</b> | <b>31 December<br/>2019</b> |
|---|-----------------------------|-----------------------------|
| Trade receivables                               | 446,862,843                 | 404,959,300                 |
| Adjustments for impairment of trade receivables | (92,072,654)                | (77,423,037)                |
| <b>Total</b>                                    | <b>354,790,189</b>          | <b>327,536,263</b>          |

Receivables from related parties are presented in Note 26.

Reconciliation between the initial balance and the final balance of adjustments for impairment of trade receivables is as follows :

|                               | <b>2020</b>       | <b>2019</b>       |
|-------------------------------|-------------------|-------------------|
| <b>Balance on 1 January</b>   | <b>77,423,037</b> | <b>78,740,313</b> |
| Constituted adjustments       | 14,865,801        | 104,174           |
| Reverse adjustments           | (216,184)         | (1,421,450)       |
| <b>Balance on 31 December</b> | <b>92,072,654</b> | <b>77,423,037</b> |

On 31 December 2020 the adjustments for the impairment of trade receivables mainly refer to :

- Transenergo Com: RON 22,251,775 (December 31, 2019: RON 22,251,775);
- CET Brasov: 18,724,742 RON (31 December 2019: 18,724,742 RON);
- Romelectro: RON 14,775,965 (December 31, 2019: RON 0);
- KDF ENERGY: RON 10,619,368 (December 31, 2019: RON 10,619,368);
- Arelco Power: RON 8,374,194 (December 31, 2019: RON 8,559,070);
- Termoficare 2000 Pitesti: RON 4,192,675 (December 31, 2019: RON 4,192,675).

The analysis by seniority of the trade receivables is presented in Note 27.



## 8. OTHER ASSETS

|   | 31 December 2020  |                    | 31 December 2019 |                    |
|---|-------------------|--------------------|------------------|--------------------|
|   | Current           | Long-term          | Current          | Long-term          |
| Payments made in connection with disputed amounts                           | -                 | 214,385,212        | -                | 214,385,212        |
| Income tax receivables  | -                 | 19,214,124         | -                | 19,214,124         |
| Adjustments of income tax receivables                                       | -                 | (19,214,124)       | -                | (19,214,124)       |
| Amounts to be recovered from the state representing insurance contributions | 6,976,267         | -                  | 2,042,949        | -                  |
| Guarantees paid to customers  |                   | 5,891,394          | -                | 2,390,385          |
| Prepayments   | 2,572,885         | -                  | 2,084,599        | -                  |
| Other assets  | 14,188,203        | 23,000             | 12,692,614       | -                  |
| Adjustments for impairment of other assets                                  | (10,102,159)      | -                  | (8,623,771)      | -                  |
| <b>Total</b>  | <b>13,635,197</b> | <b>220,299,606</b> | <b>8,196,391</b> | <b>216,775,597</b> |

The reconciliation between the initial balance and the final balance of the adjustments for the depreciation of other receivables is as follows:

|                               | 2020              | 2019              |
|-------------------------------|-------------------|-------------------|
| <b>Balance on 1 January</b>   | <b>27,837,895</b> | <b>25,403,636</b> |
| Constituted adjustments       | 1,478,388         | 2,528,085         |
| Reverse adjustments           | -                 | (93,826)          |
| <b>Balance on 31 December</b> | <b>29,316,283</b> | <b>27,837,895</b> |

### ***Payments made in connection with disputed amounts***

The amount of RON 214,385,212 resulted from the execution performed by the National Agency for Fiscal Administration ("ANAF") in 2016 of the letter of bank guarantee issued by ING Bank in favour of the Company for suspending the execution of the amounts resulting from the fiscal inspection report no. F-MC 7 / 21.01.2014 and of the taxation decision no. F-MC 851 / 21.01.2014 issued by ANAF. The company took legal action for the reimbursement of this amount both against ING Bank and ANAF. The main aspects of the disputes are presented in points i. – v. below.

The company estimates that it is likely to win the dispute against ING Bank based on the reasoning presented in point v. below. Also, ANAF lost the right to the tax receivable based on the settlement within the insolvency file of Hidroelectrica presented at point ii. below. Consequently, on December 31, 2020 and 2019, the Company did not register any debts or provisions in connection with the mentioned litigations, nor did it make any adjustments in connection with this amount paid.

The litigation with ING Bank is in the re-judging phase. After taking a decision in the substantive phase (estimated in 2021), the stages of appeal and recourse will follow; thus, the management estimates that a final and irrevocable decision on this litigation will most likely be taken after 31 December 2021. Consequently, this amount is presented on long term.

#### ***i. Fiscal inspection***

Hidroelectrica was under general tax inspection, the period under control being 01.01.2006 - 30.06.2012. ANAF issued the Tax Decision no. F-MC 851 / 21.01.2014 regarding additional tax liabilities in value of RON 232,570,429 representing income tax, VAT, social contributions, and accessories, related to these categories of taxes, fees and contributions.

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 F\_MC851/21.01.2014, it could be applied the enforcement procedure because the Tax Decision had 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.

**ii.        *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 administration, respectively the experts designated by the court are preparing the financial-accounting expertise report.

The next trial is on May 12, 2021 for the administration of evidence, including the expert report.

**iii.        *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 List of creditors.

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 ANAF's claim for damages 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 solid.

**iv.        *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 letter 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, 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 appeal against the foreclosure initiated by ANAF.

Both ING Bank and Hidroelectrica SA filed a challenge on enforcement appeal 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 in order 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 subject 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.

**v.        *The litigation opened by Hidroelectrica against ING Bank regarding the recovery of the amount paid following the foreclosure execution performed by ANAF – file 25111/3/2019***

With the letter 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 availabilities 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 for the payment of the unauthorized credit. Following the notification of ING Bank, Hidroelectrica paid the amount of RON 214,385,212.

As a result of the Civil Decision no. 641, by which the court cancelled the foreclosure performed by ANAF against ING Bank, Hidroelectrica requested the court to oblige ING Bank to reimburse the amount of RON 214,385,212, as well as the legal interests of RON 61,611,928, calculated between 14.09.2016 - 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 cancelling 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 with sentence no. 481 / 02.06.2020. Hidroelectrica filed an appeal.

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

- 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 occasion of the retrial, the Court of Appeal instructed the court of first instance to analyse each claim in the Hidroelectrica action all the arguments, defences and evidence submitted by each party in the case.

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

## 9. BANK DEPOSITS

|  | <b>31 December<br/>2020</b> | <b>31 December<br/>2019</b> |
|--|-----------------------------|-----------------------------|
| Bank deposits with a maturity of more than 3 months and less than 1 year | 1,730,071,123               | 1,736,855,286               |
| <b>Total</b>   | <b>1,730,071,123</b>        | <b>1,736,855,286</b>        |

The average interest rate on term deposits in 2020 was 2.91% per year (in 2019 the average interest rate was 3.06% per year).

## 10. CASH AND CASH EQUIVALENTS

|  | 31 December<br>2020 | 31 December<br>2019 |
|--|---------------------|---------------------|
| Bank accounts                          | 343,306,432         | 222,832,887         |
| Cash                                   | 96,174              | 137,014             |
| Cash equivalents                       | 7,092               | 6,575               |
| <b>Total cash and cash equivalents</b> | <b>343,409,698</b>  | <b>222,976,476</b>  |

## 11. EQUITY

### (a) Shares capital

|   | 31 December<br>2020  | 31 December<br>2019  |
|---|----------------------|----------------------|
| Subscribed share capital                          | 4,484,474,670        | 4,482,393,310        |
| Restatement differences in accordance with IAS 29 | 1,028,872,000        | 1,028,872,000        |
| <b>Share capital</b>                              | <b>5,513,346,670</b> | <b>5,511,265,310</b> |

On December 31, 2020, the Company's authorized, subscribed and fully paid-in share capital is divided into 448,447,467 (448,239,331 in 2019) ordinary shares with a par nominal value of 10 RON / share. Shareholders are entitled to dividends and each share gives a voting right at shareholders' meetings.

The share capital was increased in 2020 with value of lands in the amount of RON 1,666,250 for which the Company obtained property titles and cash contribution in value of RON 415,110.

Until December 31, 2003, the statutory share capital in nominal terms was restated in accordance with IAS 29 "Financial reporting in hyperinflationary economies", the related adjustments being found in the carried forward result.

### (b) Reserve from revaluation

The reconciliation between the initial balance and the final balance of the revaluation reserve is as follows:

|   | 2020                 | 2019                 |
|---|----------------------|----------------------|
| <b>Balance on 1 January</b>   | <b>6,458,435,638</b> | <b>6,859,132,234</b> |
| The transfer of the revaluation reserve to the result carried forward because of depreciation and losses on tangible assets, net of tax | (339,201,479)        | (348,682,176)        |
| Decreasing the revaluation reserve  | (24,357,466)         | (52,014,420)         |
| <b>Balance on 31 December</b>   | <b>6,094,876,693</b> | <b>6,458,435,638</b> |

**(c) Other reserves**

other legal reserves include:

- legal reserves in the amount of RON 680,064,462 in quota of 5% of the profit before tax, until they reach 20% of the Company's paid-in share capital, in accordance with the legal provisions. These reserves are deductible when calculating income tax and are not distributable; and
- non-distributable reserves in the amount of RON 97,000,000, established in 2006 based on the Emergency Ordinance 89/2004. These reserves were set up to finance the works destined to the modernization and development of the energy objectives.

**(d) Dividends**

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 registered before 2004 transferred to the carried forward result as the depreciation and cancellation of the related tangible assets. According to the Fiscal Code, these reserves were taxed due to the change of destination.

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

In 2019, the Company distributed dividends in the amount of RON 2,798,679,809 (6.24 RON / share) from the profit of 2018 and from the carried forward result representing the revaluation reserve registered before 2004 transferred to the carried forward result as the depreciation and cancellation of the related tangible assets. According to the Fiscal Code, these reserves were taxed due to the change of destination.

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

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

**12. LONG TERM LOANS**

| Description   | 31 December 2020 | 31 December 2019 |
|---|------------------|------------------|
| <b>Contract:</b> International Bank for Reconstruction and Development ("IBRD"), July 13, 2005, EURO 66 million - loan contracted for the rehabilitation of the Lotru hydroelectric plant and for the institutional development of the Company. The loan agreement entered into force on January 25, 2006, following the ratification by the Romanian Parliament of the guaranty agreement concluded between the IBRD and the Romanian State. |                  |                  |
| <b>Reimbursement:</b> half-yearly between March 15, 2010 - September 15, 2021.  |                  |                  |
|   | 26,944,219       | 53,123,330       |
|   | -                | 16,883,395       |

| Description  | 31 December 2020  | 31 December 2019  |
|--|-------------------|-------------------|
| <b>Contract:</b> BRD GSG - ING Bank from 7 April 2015, EUR 50 million - loan contracted for general financing needs. |                   |                   |
| <b>Reimbursement:</b> 20 equal quarterly installments, last installment on December 23, 2020.                        |                   |                   |
| <b>Total loans</b>   | <b>26,944,219</b> | <b>70,006,725</b> |
| The current loan   | 26,944,219        | 43,561,064        |
| The long-term loan   | -                 | 26,445,661        |

In 2020, the Company repaid loans in the amount of RON 44,149,341 (2019: RON 43,258,011).

The main obligations and conditions stipulated in the loan agreements refer to the payment obligations, financial reporting, and financial indicators. The loan agreement concluded with IBRD specifies as financial indicators the debt service coverage rate - the minimum imposed threshold is 1.5, and the current liquidity rate - the minimum imposed threshold is 1.2. On December 31, 2020 and 2019, the Company met the mentioned financial indicators.

*Reconciling the debt movement with the cash flows from the financing activity*

|   | Liabilities         |                    | Total               |
|---|---------------------|--------------------|---------------------|
|   | Loans               | Leasing            |                     |
| <b>Balance on 1 January 2020</b>  | <b>70,006,725</b>   | <b>19,594,386</b>  | <b>89,601,111</b>   |
| <b><i>Changes generated by cash flows from the financing activity</i></b> |                     |                    |                     |
| Repayments of loans   | (44,149,341)        | -                  | (44,149,341)        |
| Leasing payments  | -                   | (6,614,371)        | (6,614,371)         |
| <b>Total changes in cash flows from the financing activity</b>            | <b>(44,149,341)</b> | <b>(6,614,371)</b> | <b>(50,763,712)</b> |
| <b>The effect of changes in exchange rates</b>                            | <b>1,086,834</b>    | <b>-</b>           | <b>1,086,834</b>    |
| <b><i>Other changes</i></b>   |                     |                    |                     |
| <i>For liabilities</i>  |                     |                    |                     |
| Increasing debts arising from leasing contracts                           | -                   | 8,033,951          | 8,033,951           |
| Interest expenses   | 679,690             | -                  | 679,690             |
| Interest paid   | (679,690)           | -                  | (679,690)           |
| <b>Total other debt changes</b>   | <b>-</b>            | <b>8,033,951</b>   | <b>8,033,951</b>    |
| <b>Balance on 31 December 2020</b>  | <b>26,944,219</b>   | <b>21,013,966</b>  | <b>47,958,185</b>   |

|  | Liabilities         |                    | Total               |
|--|---------------------|--------------------|---------------------|
|  | Loans               | Leasing            |                     |
| <b>Balance on 1 January 2019</b>                                   | <b>110,825,604</b>  | -                  | <b>110,825,604</b>  |
| <b>Changes generated by cash flows from the financing activity</b> |                     |                    |                     |
| Repayments of loans  | (43,258,011)        | -                  | (43,258,011)        |
| Leasing payments   | -                   | (5,064,771)        | (5,064,771)         |
| <b>Total changes in cash flows from the financing activity</b>     | <b>(43,258,011)</b> | <b>(5,064,771)</b> | <b>(48,322,782)</b> |
| <b>The effect of changes in exchange rates</b>                     | <b>2,439,132</b>    | -                  | <b>2,439,132</b>    |
| <b>Other changes</b>   |                     |                    |                     |
| <i>For liabilities</i>   |                     |                    |                     |
| Increasing debts arising from leasing contracts                    | -                   | 24,659,157         | 24,659,157          |
| Interest expenses  | 344,101             | -                  | 344,101             |
| Interest paid  | (344,101)           | -                  | (344,101)           |
| <b>Total other debt changes</b>                                    | <b>-</b>            | <b>24,659,157</b>  | <b>24,659,157</b>   |
| <b>Balance on 31 December 2019</b>                                 | <b>70,006,725</b>   | <b>19,594,386</b>  | <b>89,601,111</b>   |

### 13. TRADE RECEIVABLES

|                              | 31 December<br>2020 | 31 December<br>2019 |
|------------------------------|---------------------|---------------------|
| Suppliers of energy          | 9,847,585           | 10,644,941          |
| Providers of immobilizations | 94,670,208          | 81,197,417          |
| Debts for turbinated water   | 55,433,230          | 45,287,380          |
| Supplier of repair works     | 22,975,089          | 29,197,854          |
| Other suppliers              | 11,399,696          | 8,835,778           |
| <b>Total</b>                 | <b>196,325,808</b>  | <b>175,163,370</b>  |
| Current                      | 196,325,808         | 161,425,822         |
| Long-time                    | -                   | 13,737,548          |

The suppliers of electricity, water and repairs are mainly those presented in Note 26 Related parties.

Other suppliers include service providers, materials, and consumables, etc.

### 14. DEFERRED INCOME

|                   | 31 December<br>2020 | Short term<br>under 1 year | Long term<br>over 1 year |
|-------------------|---------------------|----------------------------|--------------------------|
| Investment grants | 150,013,100         | 5,475,459                  | 144,537,641              |
| Others            | 163,681             | 52,987                     | 110,694                  |
| <b>Total</b>      | <b>150,176,781</b>  | <b>5,528,446</b>           | <b>144,648,335</b>       |



|   | <b>31 December<br/>2019</b> | <b>Short term<br/>under 1 year</b> | <b>Long term<br/>over 1 year</b> |
|---|-----------------------------|------------------------------------|----------------------------------|
| Investment grants                                 | 161,135,354                 | 5,487,729                          | 155,647,625                      |
| Advance income related to the sale of electricity | 31,459,606                  | 31,459,606                         | -                                |
| Other income in advance                           | 197,460                     | 50,586                             | 146,874                          |
| <b>Total</b>                                      | <b>192,792,420</b>          | <b>36,997,921</b>                  | <b>155,794,499</b>               |

Reconciliation between the initial balance and the final balance of subsidies and assets received by transfer from clients:

|                               | <b>2020</b>        | <b>2019</b>        |
|-------------------------------|--------------------|--------------------|
| <b>Balance on 1 January</b>   | <b>161,135,354</b> | <b>166,490,863</b> |
| Increases during the year     | 13,725             | 134,718            |
| Transfers in public patrimony | (5,665,902)        | -                  |
| Revenues on income            | (5,470,077)        | (5,490,227)        |
| <b>Balance on 31 December</b> | <b>150,013,100</b> | <b>161,135,354</b> |

Transfers in the public patrimony refer to the commissioning of the dam objective and the dams at HPD Raul Mare Retezat financed from special funds.

## 15. INCOME TAX

To determine the current and deferred tax, the Company considers the impact of uncertain tax positions and the possibility of additional taxes and interests. This assessment is based on estimates and assumptions and may involve several professional judgments about future events.

The Company considers that the tax records are due and appropriate for all open fiscal years, based on the management's assessment, considering various factors, including the interpretation of tax legislation and previous experience. New information can become available that may cause the Company to modify its reasoning regarding the adequacy of existing tax liabilities; such changes in tax liabilities will have an impact on the income tax expense in the period in which that determination is made.

### (a) Amounts recognized in profit and loss account

|                            | <b>2020</b>        | <b>2019</b>        |
|----------------------------|--------------------|--------------------|
| Current income tax expense | 353,025,196        | 730,199,339        |
| Deferred income tax income | (22,246,019)       | (35,509,757)       |
| <b>Total</b>               | <b>330,779,177</b> | <b>694,689,582</b> |

### (b) Reconciliation of the effective tax rate

|   |       | <b>2020</b>          |       | <b>2019</b>          |
|---|-------|----------------------|-------|----------------------|
| <b>Profit before profit tax</b>                   |       | <b>1,782,354,560</b> |       | <b>2,081,226,100</b> |
| Tax calculated by applying the Company's tax rate | 16.0% | 285,176,730          | 16.0% | 332,996,176          |

The fiscal effect of:

|   |              |                    |              |                    |
|---|--------------|--------------------|--------------|--------------------|
| - Non-deductible expenses                   | 1.7%         | 30,855,661         | 0.9%         | 17,747,655         |
| - Non-taxable income                        | -0.3%        | (4,601,157)        | 0.0%         | -                  |
| - Deduction of legal reserves               | -0.8%        | (14,258,836)       | -0.8%        | (16,649,809)       |
| - Fiscal incentives                         | -2.7%        | (47,676,465)       | -2.5%        | (51,622,922)       |
| - Other regulations                         | 4.6%         | 81,283,246         | 19.8%        | 411,865,948        |
| Income tax adjustments for previous periods | 0.0%         | -                  | 0.0%         | 352,534            |
| <b>Income tax</b>                           | <b>18.6%</b> | <b>330,779,177</b> | <b>33.4%</b> | <b>694,689,582</b> |

In 2020, the fiscal incentives were obtained for paying on time the profit tax in the first three quarters of 2020 according to GEO 99/2020, for the reinvested profit and granted sponsorships.

In 2019 the fiscal incentives were obtained for the broken-down payment of VAT (according to GEO 23/2017, art. 23), for the reinvested profit and sponsorships granted.

*The fiscal effect of other regulations* refers to the change in the destination of revaluation reserves in connection with the following transactions:

*a) For 2020*

- Distribution of dividends in the amount of RON 508,020,287 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 insofar as they were previously fiscally 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.

***(c) Changes in deferred tax balances***

|   | <b>Net balance<br/>on<br/>1 January<br/>2020</b> | <b>Recognized in<br/>profit or loss<br/>account</b> | <b>Net balance<br/>on<br/>31 December<br/>2020</b> | <b>Deferred tax<br/>receivables</b> | <b>Deferred tax<br/>liabilities</b> |
|---|--|---|--|-------------------------------------|-------------------------------------|
| Tangible and<br>intangible assets                               | 820,264,713                                      | (8,353,186)   | 811,911,527  | -                                   | 811,911,527                         |
| Provisions  | (80,927,127)                                     | (5,931,286)   | (86,858,413)                                       | (86,858,413)                        | -                                   |
| Employees' benefits   | (17,715,925)                                     | (1,094,676)   | (18,810,601)                                       | (18,810,601)                        | -                                   |
| Trade receivables   | (12,416,871)                                     | (2,346,627)   | (14,763,498)                                       | (14,763,498)                        | -                                   |
| Inventories   | (212,822)  | (4,520,244)   | (4,733,066)  | (4,733,066)                         | -                                   |
| <b>Total Liability /<br/>(Receivable) with<br/>deferred tax</b> | <b>708,991,968</b>                               | <b>(22,246,019)</b>                                 | <b>686,745,949</b>                                 | <b>(125,165,578)</b>                | <b>811,911,527</b>                  |

|   | Net balance<br>on<br>1 January<br>2019 | Recognized in<br>profit and loss<br>account | Net balance<br>on<br>31 December<br>2019 | Deferred tax<br>receivables | Deferred tax<br>liabilities |
|---|--|---|--|-----------------------------|-----------------------------|
| Tangible and<br>intangible assets                               | 822,699,790                            | (2,435,077)                                 | 820,264,713                              | -                           | 820,264,713                 |
| Provisions  | (50,248,311)                           | (30,678,815)                                | (80,927,127)                             | (80,927,127)                | -                           |
| Employees' benefits   | (16,498,732)                           | (1,217,193)                                 | (17,715,925)                             | (17,715,925)                | -                           |
| Trade receivables   | (11,238,199)                           | (1,178,672)                                 | (12,416,871)                             | (12,416,871)                | -                           |
| Inventories   | (212,822)                              | -   | (212,822)                                | (212,822)                   | -                           |
| <b>Total Liability /<br/>(Receivable) with<br/>deferred tax</b> | <b>744,501,726</b>                     | <b>(35,509,757)</b>                         | <b>708,991,968</b>                       | <b>(111,272,745)</b>        | <b>820,264,713</b>          |

***(d) Potential consequences of income tax***

The company may have potential consequences on income tax that may result from the payment to shareholders of dividends from revaluation reserves previously transferred to retained earnings which, according to tax law, are taxed at the time of changing the destination, to the extent previously tax deducted. Thus, the distribution of dividends from such reserves may generate additional income tax. As of December 31, 2020, the Company has such reserves, which following the distribution would generate a profit tax in the amount of RON 37 million.

## 16. EMPLOYEES' BENEFITS

### A. Short-term employees' benefits

|   | 31 December<br>2020 | 31 December<br>2019 |
|---|---------------------|---------------------|
| Payroll   | 21,585,259          | 10,055,119          |
| Other debts to employees  | 4,428,909           | 1,644,345           |
| The current portion of defined benefit and other long-term employee benefit obligations | 16,314,678          | 9,827,377           |
| Payroll contributions   | 16,871,731          | 8,393,679           |
| Tax on income from salary   | 3,533,046           | 2,098,617           |
| <b>Total</b>  | <b>62,733,623</b>   | <b>32,019,137</b>   |

### B. Post-employment benefits and other long-term employees' benefits

In accordance with the Collective Labor Agreement, the Company provides cash benefits to employees depending on seniority of service and on retirement.

In accordance with Government Decisions no. 1041/2003 and no. 1461/2003, the Company provides in-kind benefits consisting of 1,200 kWh annually, as free electricity, to employees who have retired from the Company, respectively from the units that belonged to the former Autonomous Electricity Company "Renel" and met the conditions of seniority. In the event of the pensioner's death, the surviving spouse has the right to receive the same assistance until the moment he or she remarries, or the death occurs.

In 2020 and 2019, the obligations regarding the determined benefit plans and other long-term benefits of the employees were calculated by an independent actuary by the method of the designed credit units, the benefits being calculated proportionally to the seniority.

|                                   | 31 December<br>2020 | 31 December<br>2019 |
|-----------------------------------|---------------------|---------------------|
| Debts on determined benefits      | 82,687,721          | 74,505,459          |
| Other long-term employee benefits | 34,878,535          | 36,219,075          |
| <b>Total</b>                      | <b>117,566,256</b>  | <b>110,724,534</b>  |
| - The current portion *           | 16,314,678          | 9,827,377           |
| - The long-term portion           | 101,251,578         | 100,897,157         |

\* included in Short-term employees' benefits in Note 16 A

#### (i) Changing debts regarding determined benefits and other long-term benefits of employees

The following tables present the reconciliation between the initial and the final balance of the debts regarding the determined benefits and other long-term benefits of the employees and their components. There are no assets of benefits plan.

| Debts on determined benefits      | 2020              | 2019              |
|-----------------------------------|-------------------|-------------------|
| <b>Balance on 1 January</b>       | <b>74,505,459</b> | <b>54,817,431</b> |
| <b>Included in profit or loss</b> |                   |                   |
| The cost of current seniority     | 2,834,289         | 2,478,141         |
| Actuarial losses                  | 12,606,255        | 20,958,432        |

|                               |                   |                   |
|-------------------------------|-------------------|-------------------|
| Paid benefits                 | (7,258,283)       | (3,748,545)       |
| <b>Balance on 31 December</b> | <b>82,687,721</b> | <b>74,505,459</b> |

|  |                   |                   |
|--|-------------------|-------------------|
| <b>Other long-term employee benefits</b> | <b>2020</b>       | <b>2019</b>       |
| <b>Balance on 1 January</b>              | <b>36,219,075</b> | <b>48,299,640</b> |
| <b>Included in profit or loss</b>        |                   |                   |
| The cost of current seniority            | 1,649,443         | 1,622,518         |
| (Profit) / actuarial losses              | 5,339,355         | (7,659,335)       |
| Paid benefits                            | (8,329,338)       | (6,043,748)       |
| <b>Balance on 31 December</b>            | <b>34,878,535</b> | <b>36,219,075</b> |

**(ii) Actuarial assumptions**

The main actuarial assumptions at each reporting date are the following:

*(a) Macroeconomic assumptions:*

the inflation rate used on 31 December 2020 is based on the NBR forecast for the next 4 years starting with 2021 and the long-term inflation of the Eurozone for the rest of the period (31 December 2019: NBR forecast for the next 5 years and the long-term inflation of the Eurozone for the rest of the period);

| <b>Year</b> | <b>Date of evaluation<br/>31 December 2020</b> | <b>Date of evaluation<br/>31 December 2019</b> |
|-------------|--|--|
| 2020        | n/a  | 3%   |
| 2021        | 2.5%   | 3%   |
| 2022        | 2.5%   | 3%   |
| 2023        | 2.5%   | 3%   |
| 2024        | 2.5%   | 3%   |
| 2025        | 2.5%   | 1.37%  |
| 2026+       | 1.7%   | 1.37%  |

- the discount rate used on 31 December 2020 and 31 December 2019 is based on the risk-free interest rate in RON provided by EIOPA for the month of December 2020, respectively December 2019;

| <b>Year</b> | <b>Date of evaluation<br/>31 December 2020</b> | <b>Date of evaluation<br/>31 December 2019</b> |
|-------------|--|--|
| 2020        | n/a  | 3.446%   |
| 2021        | 2.285%   | 3.550%   |
| 2022        | 2.361%   | 3.659%   |
| 2023        | 2.435%   | 3.866%   |
| 2024        | 2.511%   | 3.975%   |
| 2025        | 2.581%   | 4.092%   |
| 2026+       | 2.651% - 3.631%<br>(average 3.386%)            | 4.217% - 4.191%<br>(average 4.452%)            |

- the increase in the price of electricity per KWh is considered in line with the inflation rate. The price of electricity used in the actuarial calculation is 0.54678 RON / KWh on 31 December 2020 (31 December 2019: 0.5570 RON / KWh);
- the mortality rate used on 31 December 2020 is the rate published by the National Institute of Statistics

for the period 2010-2019 (31 December 2019: the rate published by the National Institute of Statistics in 2018).

- taxes and social contributions are those in force at the reporting date.

(b) *Company's specific assumptions:*

- the gross wage growth rate used on 31 December 2020 was 5% for 2021, and a rate equal to the inflation rate in the following years (31 December 2019: 5% in 2020 and a rate equal to the inflation rate in the following years);
- the employees turnover rate used on 31 December 2020 represents the annual averages of the last 4 years differentiated by age and gender groups (31 December 2019: the annual averages of the last 3 years differentiated by age groups). The weighted average turnover rate used on 31 December 2020 is 2.17% (31 December 2019: 3.38%).
- jubilee and retirement bonuses granted according to the collective labor contract depending on the length of service, as follows:

***Jubilee bonuses depending on seniority in work***

| <b>seniority</b> | <b>Number of monthly gross salaries</b> |                         |
|------------------|---|-------------------------|
|                  | <b>31 December 2020</b>                 | <b>31 December 2019</b> |
| 20 years         | 1                                       | 1                       |
| 25 years         | 2                                       | 2                       |
| 30 years         | 3                                       | 3                       |
| 35 years         | 4                                       | 4                       |
| 40 years         | 5                                       | 5                       |
| 45 years         | 6                                       | 6                       |

***Retirement benefits depending on seniority within the Company***

| <b>Seniority</b>       | <b>Number of monthly gross salaries</b> |                         |
|------------------------|---|-------------------------|
|                        | <b>31 December 2020</b>                 | <b>31 December 2019</b> |
| Up to 10 years         | 1                                       | 1                       |
| Between 10 to 25 years | 3                                       | 3                       |
| More than 25 years     | 6                                       | 6                       |

**(iii) *Sensitivity analysis***

The significant actuarial assumptions for determining the obligation are the discount rate, the expected salary increase, and the employee fluctuation. The sensitivity analyzes from below were determined based on reasonable changes in those assumptions at the end of the reporting period, under consideration of all other assumptions.

|                        | 31 December 2020                |                                 | 31 December 2019                |                                 |
|------------------------|---------------------------------|---------------------------------|---------------------------------|---------------------------------|
|                        | Increase/ (Decrease) debt       |                                 | Increase/ (Decrease) debt       |                                 |
|                        | Increase<br>100 basic<br>points | Decrease<br>100 basic<br>points | Increase<br>100 basic<br>points | Decrease<br>100 basic<br>points |
| Update rate            | (9,493,871)                     | 11,023,423                      | (8,543,959)                     | 9,874,255                       |
| Employee rotation      | 7,205,722                       | (6,535,298)                     | 5,115,573                       | (4,619,764)                     |
| Annual salary increase | 6,362,705                       | (5,714,125)                     | 5,892,892                       | (5,308,362)                     |

The sensitivity analysis presented above may not be representative of the actual change in the benefits' obligation, as it is unlikely that changes in assumptions to occur separately from each other, as some of the assumptions may be correlated. In the above sensitivity analysis, the present value of the benefits was calculated using the unit credit method projected at the end of the reporting period, which is the same as the one applied to calculate the benefits recognized in the statement of financial position.

### C. Employee benefits' expenses

|                                   | 2020               | 2019               |
|-----------------------------------|--------------------|--------------------|
| Average number of employees       | <b>3,354</b>       | <b>3,368</b>       |
| Employees on 31 December          | <b>3,400</b>       | <b>3,428</b>       |
| Salaries and other emoluments     | 448,621,776        | 377,457,885        |
| Contributions to social insurance | 10,589,140         | 7,659,165          |
| Lunch vouchers                    | 11,324,732         | 11,553,787         |
| <b>Total</b>                      | <b>470,535,648</b> | <b>396,670,837</b> |

## 16. OTHER LIABILITIES

|                              | 31 December 2020  |                  | 31 December 2019  |                   |
|------------------------------|-------------------|------------------|-------------------|-------------------|
|                              | Current           | Long-term        | Current           | Long-term         |
| Debts to the state           | 5,094,455         | -                | 7,252,439         | -                 |
| Guarantees of good execution | 12,164,275        | 8,856,350        | 10,669,553        | 14,051,401        |
| Other liabilities            | 1,871,685         | 58,828           | 2,274,207         | 45,060            |
| <b>Total</b>                 | <b>19,130,415</b> | <b>8,915,178</b> | <b>20,196,199</b> | <b>14,096,461</b> |

## 17. PROVISIONS

|  | 31 December 2020  |                    | 31 December 2019  |                    |
|--|-------------------|--------------------|-------------------|--------------------|
|  | Current           | Long-term          | Current           | Long-term          |
| Provisions for litigation                      | 49,341,727        | -                  | 71,759,796        | -                  |
| Provisions for decommissioning tangible assets | -                 | 520,739,193        | -                 | 468,459,011        |
| Provisions for tax issues                      | -                 | 99,280,592         | -                 | 114,102,083        |
| Other Provisions                               | 36,577,191        | -                  | 26,996,497        | -                  |
| <b>Total</b>                                   | <b>85,918,918</b> | <b>620,019,785</b> | <b>98,756,293</b> | <b>582,561,094</b> |

|  | Provisions for<br>litigation | Provisions for<br>decommissioning<br>tangible assets | Provisions<br>for tax issues | Other<br>Provisions | Total              |
|--|------------------------------|--|------------------------------|---------------------|--------------------|
| <b>Balance on 1 January<br/>2020</b>   | <b>71,759,796</b>            | <b>468,459,011</b>                                   | <b>114,102,083</b>           | <b>26,996,497</b>   | <b>681,317,387</b> |
| Recognized provisions                  | 2,207,454                    | 52,280,182   | -                            | 36,290,106          | 77,005,956         |
| Provisions used                        | (12,574,719)                 | -  | -                            | (26,613,188)        | (39,187,907)       |
| Provisions reversed                    | (12,050,804)                 | -  | (14,821,491)                 | (96,224)            | (13,196,733)       |
| <b>Balance on 31 December<br/>2020</b> | <b>49,341,727</b>            | <b>520,739,193</b>                                   | <b>99,280,592</b>            | <b>36,577,191</b>   | <b>705,938,703</b> |

#### **I. Provisions for litigation**

As of December 31, 2020, the provisions for litigation refer mainly to:

- a) the arbitration file no. ICC 20540 / MHM against Voith and Andritz, for the amount of RON 35,618,248 (31 December 2019: RON 35,618,248), representing the value of a performance guarantee executed by the Company (see description below);
- b) the arbitration file no. ICC 22047 / MHM against Andritz, for the amount of RON 7,214,242 (December 31, 2019: RON 7,214,242), representing delay penalties;

In 2020, the Company used the provision in the amount of RON 12,574,719 for the dispute with the employees, as a result of the loss of the dispute and the payment by the Company of the amounts due for the additional hours performed by the employees.

##### *(a) Arbitral file no. ICC 20540/MHM*

Arbitral litigation regarding Contract no. 23.534 / h.700.116004 between Hidroelectrica, on the one hand, and Voith Hydro Holding GmbH & CO KG ("Voith") and Andritz Hydro GmbH ("Andritz"), on the other hand, on the refurbishment of hydroelectric power plants located on the Lower Olt: Ipotesti, Draganesti, Frunzaru, Rusanesti and Izbiceni.

Voith and Andritz have asked the Arbitral Tribunal, inter alia:

- to order the Company to pay to Andritz and Voith the amount of RON 63.9 million plus interest, representing the bank guarantee executed by the Company (RON 35.6 million), additional works (RON 17 million), equipment delivered by Andritz and Voith Company (RON 11.3 million);
- alternatively, to 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 respect to the corroded parts and affected by the linear and round indications, order the repair works, subject to payment by the Company to the parties increasing the cost of repair in relation to those which the parties would have incurred at the time the deficiencies occurred;
- to award the costs incurred in connection with arbitration and 6% per annum interest.

The company has estimated the value of claims made by Voith and Andritz at RON 63.9 million. The company also made some claims (see full description of the dispute in the Note 25.1).

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. The tribunal did not return until the date of the financial statements with a decision. The decision that could be taken is either to resume the arbitration procedure in the new component of the arbitrators, or to decide on the adjudicated case.

On 27.04.2020, the Arbitral Tribunal decided to reinstate the arbitration file and organize a new arbitration hearing for the parties' lawyers to present the case; presentation of quantum issues by the parties' experts; to submit questions to the Arbitral Tribunal on any matter which 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 31 December 2020 and 31 December 2019, the Company registered a provision related to the executed letter of guarantee, in the amount of RON 35,618,248 (December 31, 2019: RON 35,618,248). Regarding the amount remaining from Voith and Andritz request (RON 28.3 million), considering the uncertainties generated by the complexity of the case, the Company has a contingent liability (see Note 25.1).

## ***II. Provisions for decommissioning tangible assets***

In 2018, the Company's management took the decision to abandon certain investment projects in progress. Consequently, on December 31, 2018 the Company constituted a provision regarding decommissioning costs in the amount of RON 205,417,104 for the following investment projects: HPD Borca Poiana Teiului - Treapta Galu, HPD Cosmesti Movileni - Treapta Cosmesti, HPD Siriu-Surduc - Treapta Ciresu-Surduc, HPD Fagaras - Hoghiz, HPD Subcetate Simeria - Treptele Calan, Bacia, HPD Runcu Firiza, HPD Bistra - Treapta Scorilo, HPD Dambovita Clabucet. In 2019 the Company constituted an additional provision in the amount of RON 263,041,907 for the decommissioning costs of HPD Valea Sadului for which the abandonment decision was approved in 2019. The decommissioning costs were estimated based on the studies performed by an external technical expert.

On December 31, 2020, the provisions for the decommissioning of tangible assets were updated from the point of view of updating the estimate of decommissioning costs until the estimated expense moment, as well as from the point of view of the time value of the money.

## ***III. Provisions for tax issues***

Provisions for fiscal aspects in the amount of RON 99,280,592 represent the present value of the VAT adjustment deducted in connection with the capitalized costs related to the investment projects for which the abandonment decision mentioned in point II above was taken. According to the fiscal legislation, the Company will adjust the VAT deducted at the moment of completing the abandonment activities and decommissioning the assets.

## ***IV. Other provisions***

As on December 31, 2020, other provisions mainly refer to the employees' participation in the profit, in the amount of RON 17,900,000 (RON 31 December 2019: RON 17,000,000), RON 13,656,580, the variable remuneration of the members of the Management Board, the Supervisory Board and Company's management

(December 31, 2019: RON 5,735,400), RON 3,832,537 provision for unpaid leave (December 31, 2019: RON 2,196,143).

In 2020, provisions were set up in the amount of RON 36,290,106 (of which RON 17,900,000 for the employees' participation in the profit and RON 9,239,580 for the variable remuneration of the members of the Management Board and the Supervisory Board), were used provisions in the amount of RON 26,613,188 (of which RON 17,000,000 for the employees' participation in profit for 2019, paid in 2020 and RON 5,735,400 the variable remuneration of the members of the Management Board and the Supervisory Board, paid in 2020).

## **19. REVENUES FROM CONTRACTS WITH CLIENTS**

### **A. Income sources**

The company obtains income from the following sources:

|   | <b>2020</b>          | <b>2019</b>          |
|---|----------------------|----------------------|
| Electricity delivered                   | 3,259,916,854        | 3,469,971,574        |
| Electricity supplied to final consumers | 223,416,275          | 217,717,658          |
| Ancillary services                      | 345,011,271          | 454,757,761          |
| <b>Total</b>                            | <b>3,828,344,400</b> | <b>4,142,446,993</b> |

During 2020, the Company produced 14,966 GWh (2019: 15,205 GWh) and the amount of electricity sold was 15,963 GWh (2019: 15,879 GWh). From the amount of electricity sold, 626 GWh were delivered to final consumers (664 GWh in 2019).

### **B. Debts related to contracts with clients.**

As of December 31, 2020, the Company registers debts related to contracts with clients in the amount of RON 73,660,217 (December 31, 2019: RON 31,459,606 - presented in "Deferred Revenues"). These represent advance payments received from customers for future energy delivery contracts..

The amount of RON 31,459,606 included in debts related to contracts with clients on December 31, 2019 was recognized in income during 2020 (2019: RON 20,279,357).

Future electricity delivery obligations are part of contracts with customers that are expected to last no more than one year.

## **20. PURCHASED ELECTRICITY**

The company purchases electricity on the balancing market to cover the deficit between the electricity notified to be produced and the actual production of electricity.

## 21. OTHER OPERATING REVENUES

|   | 2020              | 2019              |
|---|-------------------|-------------------|
| Resumption of deferred income                   | 5,498,205         | 5,526,866         |
| Income from compensations, fines, and penalties | -                 | 14,523,775        |
| Other revenues                                  | 16,595,775        | 14,710,907        |
| <b>Total</b>                                    | <b>22,093,980</b> | <b>34,761,548</b> |

## 22. OTHER OPERATING EXPENSES

|                                      | 2020               | 2019               |
|--------------------------------------|--------------------|--------------------|
| Transport and distribution of energy | 61,649,063         | 64,229,887         |
| Rent                                 | 601,981            | 1,648,626          |
| Fees                                 | 2,919,256          | 3,421,121          |
| Expenditure on guarding              | 16,277,498         | 15,893,137         |
| Transport expenses                   | 995,931            | 1,967,446          |
| Expenses on local taxes              | 49,463,955         | 49,580,260         |
| Contribution paid to ANRE            | (10,528,462)       | 83,570,045         |
| Expenses with penalties              | 581,144            | 11,376,338         |
| Other expenses                       | 102,186,571        | 79,112,876         |
| <b>Total</b>                         | <b>224,146,937</b> | <b>310,799,736</b> |

In 2020, the regularization of the contribution was calculated based on the turnover paid to ANRE for 2019, based on which the Company has to recover from ANRE the amount of RON 17.7 million. The contribution to ANRE for 2020 is in the amount of RON 7.1 million (RON 65.9 million in 2019 after the correction registered in 2020), the decrease compared to 2019 is determined by the change of the quota of payment contribution in accordance with ANRE order no. 1/2020 from 2% to 0.2%.

"Other expenses" increased in 2020 compared to 2019 mainly due to the disposal of tangible fixed assets during 2020 of approximately RON 15.5 million compared to RON 0.4 million in 2019 (see also Note 5).

## 23. FINANCIAL RESULT

|   | <b>2020</b>        | <b>2019</b>        |
|---|--------------------|--------------------|
| Interest income   | 61,978,099         | 86,126,778         |
| Resumption of investment value adjustment<br>in Hidroserv (see Note 24.c) | 28,755,463         | -                  |
| Income from late payment penalties  | 20,598,866         | -                  |
| Other financial revenues  | 8,566              | 27,649,527         |
| <b>Financial income</b>   | <b>111,340,994</b> | <b>113,776,305</b> |
| Interest expenses   | (529,041)          | (344,101)          |
| Other financial expenses  | -                  | (336,055)          |
| Net Loss from exchange rate differences                                   | (1,840,376)        | (7,144,191)        |
| <b>Financial expenses</b>   | <b>(2,369,417)</b> | <b>(7,824,347)</b> |
| <b>Financial result, net</b>  | <b>108,971,577</b> | <b>105,951,958</b> |

## 24. COMMITMENTS

### 24.1. Contractual commitments

The Company has the following contractual commitments on 31 December 2020:

|   | <b>RON</b>  |
|---|-------------|
| Acquisition of tangible and intangible assets | 710,977,111 |

### 24.2 Guarantees granted and guarantees received.

#### a) Guarantees granted

On December 31, 2020, the Company granted performance bonds and good payment bonds in value of RON 86,626,061 mainly for guaranteeing the obligation to deliver electricity on the Centralized Market of Bilateral Contractors (PPCB) and the Centralized Market of Universal Service (PCSU), the guaranteed payment obligations related to energy purchase transactions made on the Next Day Market (NDM) and the Intraday market (IM).

#### b) Guarantees received

Guarantees received from suppliers: RON 261,414,641 - representing performance bond, insurance policies and funds in guarantee accounts opened in favor of Hidroelectrica SA in order to ensure the fulfillment of the obligations incumbent on the partners within the procurement contracts, goods and services.

Guarantees received from clients: RON 386,009,990 - representing letters of bank guarantee for good payment received from the partners within the electricity sales contracts.

## 25. CONTINGENCIES

### 25.1 Litigations

The main litigations in which the Company is involved on December 31, 2020, with a total potential exposure of RON 913.7 million, 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, which represents 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 cancellation 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**

As presented in note 8, points i. - ii., the Company was under general fiscal inspection, following which ANAF issued the Tax Decision no. F-MC 851/21.01.2014 regarding additional fiscal payment obligations in the amount of RON 232.6 million. The company challenged the taxation, and through the Decision for solving the preliminary fiscal appeal no. 406 / 18.12.2014, the General Directorate for Solving Appeals within ANAF partially admitted the appeal filed by the Company for the amount of RON 18.2 million. Thus, the obligations imposed by the decision F-MC 851/21.01.2014 were reduced to RON 214.4 million. The company requested in court the annulment of both decisions on May 29, 2015. The litigation is in the stage of evidences' administration, respectively the elaboration of the experts designated by the court of the financial-accounting expertise report. Due to the complexity of the cases and the high value of the amounts involved, until this date it has not been possible to complete any expert's report requested by the court, several experts were changed over time.

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 case the court considers that the fiscal decisions are valid, the court will have to analyze the forfeiture of ANAF's rights 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 it is likely that the dispute will end in favour of the Company and had not recorded any provision.

#### **(d) 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 entirely 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, 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 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 due to 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, with 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. 21/ 50765/09.11.2001 on capital repairs works 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 motivating that Andritz did not fulfill the contractual steps regarding the pre-arbitration stage and that Andritz had 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, because it was 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 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 prescribed.

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 termination of 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.

## **25.2 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 given 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 proves 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.

### **25.3 Tax Legislation Framework**

Tax inspections are common in Romania, consisting in detailed checks of taxpayers' accounting registers. Such inspections occur sometimes after months or even years subsequent the payment obligations have been established. As a result, companies may be subject to significant taxes and fines. In addition, tax legislation is subject to frequent changes, and authorities are inconsistent in interpreting the legislation.

Income tax may be subject to revisions and corrections performed by fiscal authorities, generally for a period of five years after their date of completion.

Romanian tax authorities have carried out inspections regarding the calculation of the corporate tax until June 20, 2012.

The Company's management believes that adequate reserves have been set up in the financial statements for all significant tax liabilities, however there is still a risk that the tax authorities will have different positions.

### **25.4 Environmental issues**

On 31 December 2020, the hydropower objectives hold an environmental permit within the validity period or are under the renewal procedure, namely all those in operation, except those taken out of use. Environmental permits for inventory objectives are issued without compliance programs. The validity terms are between 2019 and 2024. For 20 authorizations, with expired term in 2019 and 2020, were submitted the renewal applications and the necessary documents within the legal term, and at this date it is in the reauthorization procedure for 13 licenses. Also, for 37 licenses, the modification of the validity term was obtained for the entire period during which the annual visa is obtained.

Following the amendment of the legislation on the validity of environmental permits, at the end of 2018, it became mandatory to apply the annual visa by the local Environmental Protection Agencies. During 2020, annual visas were obtained for all authorizations that needed this.

The operating conditions imposed by the environmental authorizations refer to the monitoring of the environmental factors and to the observance of the requirements of the environmental legislation applicable to the hydropower objectives. To monitor the environmental factors, actions are carried out to measure the physico-chemical quality indicators of the waters in the lakes, of the turbinated waters, of the wastewater, but also to measure the noise level at site limit. During 2020, all the necessary measurements were performed and no exceedances of the legal limits for the measured indicators were registered. The reporting of the stage of accomplishment of these actions and the results of the monitoring were performed at the required terms.

## **25.2 Obligations regarding the disassembly and restoration of the site**

Note 2.3 a4) describes in detail the obligations identified by the Company regarding the disassembly and restoration of the site. The Company estimates that until the end of the concession contract (33 years remaining) the probability of situations requiring the transfer to post-use or abandonment of public domain assets or hydroelectric power plants owned by the Company (other than those in current assets) is reduced described in Note 5), given the long life of the dams, which can be significantly extended over 100 years through maintenance works and improvements.

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

## **26. RELATED PARTIES**

### **a) Shareholders**

The shareholders of the Company are the Romanian State which holds through the Ministry of Economy, Energy and Business Environment 359,009,551 shares, representing 80.06% of the share capital, and *Fondul Proprietatea* which holds 89,437,916 shares representing 19.94% in the share capital.

### **a) Remuneration of Company's Management**

| <b>Remuneration of Directorate</b> | <b>2020</b>       | <b>2019</b>      |
|------------------------------------|-------------------|------------------|
| Fixed component                    | 2,343,240         | 2,359,103        |
| Estimate the variable component    | 8,201,340         | 4,100,670        |
| <b>Total</b>                       | <b>10,544,580</b> | <b>6,459,773</b> |

The remuneration of the executive members consists of a fixed monthly indemnity which cannot exceed six times the average for the last 12 months of the average gross monthly salary for the activity carried out according to the main object of activity registered by the Company, at class level according to the classification of national economic activities, communicated by NIS prior to the appointment and from a variable component calculated based on financial and non-financial performance indicators, negotiated and approved by the general meeting of shareholders.

Financial and non-financial performance indicators based on which the variable component is determined include:

- Financial indicators: turnover, EBITDA margin, gross profit, current liquidity, current indebtedness rate and overdue payments to the state budget;
- Operational indicators: degree of achieving the investment program; achievement of the maintenance program and availability of hydro units;
- Indicators regarding services: performing ancillary services and fulfilling the obligations to supply / sale electricity;
- Indicators regarding corporate governance: timely elaboration of the revenue and expenditure budget; establishing risk management and monitoring policies and implementing the internal control system.

The variable component of the remuneration of the Directorate approved by the GMS decision no. 20 / 25.07.2019, is limited to 3.5 times the fixed indemnity according to the mandate contracts. The maximum value of the variable component is RON 8,201,340. The increase of the variable component in 2020 compared to

2019 is determined by the fact that the mandate of the current members of the Management Board started in June 2019, so in 2019 the basis for determining the variable component included only 6 months.

On 31 December 2020, the Company registered the amount of RON 8,201,340 (2019: RON 4,100,670) representing the variable component of the remuneration of the Directorate in "Provisions" - Note 18.

The company has no contractual obligations regarding the payment of pensions to the former directors.

#### **Remuneration of the members of the Supervisory Board**

|                                 | <b>2020</b>      | <b>2019</b>      |
|---------------------------------|------------------|------------------|
| Fixed component                 | 889,920          | 893,328          |
| Estimate the variable component | 1,038,240        | 1,634,730        |
| <b>Total</b>                    | <b>1,928,160</b> | <b>2,528,058</b> |

The Supervisory Board consists of 7 members.

The remuneration of the members of the Supervisory Board was approved by the GMS by decision no. 5 / 05.02.2019. Consequently, the remuneration of non-executive members consists of a fixed monthly allowance that cannot exceed twice the average for the last 12 months of the average gross monthly earnings for the activity carried out according to the main object of activity registered by the Company, at class level according to activity classification from the national economy, communicated by NIS prior to the appointment. The amount of the variable component may not exceed a maximum of 12 fixed monthly allowances. The financial and non-financial performance indicators based on which the variable component of the Supervisory Board is determined are the same as those for the Directorate.

On December 31, 2020, the Company recorded the amount of RON 1,038,240 (2019: RON 1,634,730) representing the variable component related to the Supervisory Board, which is included in the line "Provisions" (Note 18).

No loans were granted to directors and administrators in 2020 and 2019. No guarantees were granted / received to / from Directors and administrators.

#### **b) Information regarding the relations with the entities in which the Company holds shares**

##### **(i) Investments**

|                                 | <b>31 December<br/>2020</b> | <b>31 December<br/>2019</b> |
|---------------------------------|-----------------------------|-----------------------------|
| Hidroserv SA                    | 70,576,810                  | 70,576,810                  |
| Value adjustment for investment | (41,821,347)                | (70,576,810)                |
| <b>Total</b>                    | <b>28,755,463</b>           | <b>-</b>                    |

Until 2020, the Company had made adjustments for impairment losses related to the investment in Hidroserv for the full value of the investment taking into account the insolvency procedure and the negative net assets of the subsidiary. In 2020, Hidroserv reorganization plan was approved by the Creditors' Assembly, following which resulted the cancellations of debts in the amount of RON 45.8 million. Consequently, the Company adjusted the value of investments in Hidroserv SA up to the value of net assets on December 31, 2020.

(ii) **Balances of receivables and liabilities from / to the entities in which the Company holds shares**

|              | Receivables balance from |                  | Liabilities balance to |                   |
|--------------|--------------------------|------------------|------------------------|-------------------|
|              | 31 December 2020         | 31 December 2019 | 31 December 2020       | 31 December 2019  |
| Hidroserv    | 874,894                  | 863,742          | 29,911,713             | 31,186,467        |
| <b>Total</b> | <b>874,894</b>           | <b>863,742</b>   | <b>29,911,713</b>      | <b>31,186,467</b> |

Hidroserv's liabilities include debts from the provision of maintenance services by Hidroserv.

(iii) **Transactions with the entities in which the Company holds shares**

|              | Sales in 2020    | Sales in 2019    | Acquisitions in 2020 | Acquisitions in 2019 |
|--------------|------------------|------------------|----------------------|----------------------|
| Hidroserv    | 1,651,551        | 1,964,639        | 180,348,529          | 123,185,652          |
| <b>Total</b> | <b>1,651,551</b> | <b>1,964,639</b> | <b>180,348,529</b>   | <b>123,185,652</b>   |

Transactions mainly relate to procurement of maintenance services.

**c) Transactions with other companies in which the State holds significant control or influence**

In the normal course of its business, the Company has transactions with other entities in which the State has significant control or influence, mainly related to the tax on turbinated water, acquisition of electricity, transmission and ancillary services and electricity sales as follows:

| Supplier                             | Acquisitions (without VAT) | Balance (with VAT) |
|--------------------------------------|----------------------------|--------------------|
|                                      | 2020                       | 31 December 2020   |
| Administratia Nationala Apele Romane | 299,242,390                | 53,847,711         |
| Transelectrica                       | 68,679,867                 | 9,516,076          |
| Hidroconstructia                     | 39,005,852                 | 18,737,578         |
| Others                               | 21,828,829                 | 1,387,982          |
| <b>Total</b>                         | <b>428,756,938</b>         | <b>83,489,347</b>  |

| Supplier                             | Acquisitions (without VAT) | Balance (with VAT) |
|--------------------------------------|----------------------------|--------------------|
|                                      | 2019                       | 31 December 2019   |
| Administratia Nationala Apele Romane | 317,793,757                | 42,369,117         |
| Transelectrica                       | 79,608,723                 | 7,181,016          |
| Electrica Distributie Muntenia Nord  | 7,556,106                  | 197,368            |
| OPCOM                                | 1,489,004                  | 93,498             |
| Others                               | 16,183,010                 | 1,545,779          |
| <b>Total</b>                         | <b>422,630,600</b>         | <b>51,386,778</b>  |

|                      | Sale<br>(without VAT) | Balance,<br>Gross value<br>(including<br>VAT) | Adjustment<br>(including<br>VAT) | Balance,<br>Net value<br>(including<br>VAT) |
|----------------------|-----------------------|---|----------------------------------|---|
| Client               | 2020                  | 31 December 2020                              |                                  |   |
| Transelectrica       | 561,202,868           | 73,620,678                                    | -                                | 73,620,678                                  |
| Electrica Furnizare  | 453,484,532           | 34,423,902                                    | -                                | 34,423,902                                  |
| OPCOM                | 392,862,076           | 7,795   | -                                | 7,795                                       |
| E ON Energie Romania | 137,135,831           | 12,018,979                                    | -                                | 12,018,979                                  |
| STB Bucuresti        | 40,249,153            | 30,085,368                                    | -                                | 30,085,368                                  |
| Metrorex             | 35,235,527            | -   | -                                | -   |
| CET Brasov           | -                     | 18,724,742                                    | (18,724,742)                     | -   |
| Others               | 21,957,746            | 18,579,255                                    | (424)                            | 18,578,831                                  |
| <b>Total</b>         | <b>1,642,127,733</b>  | <b>187,460,719</b>                            | <b>(18,725,166)</b>              | <b>168,735,553</b>                          |

|                                     | Sale<br>(without VAT) | Balance,<br>Gross value<br>(including<br>VAT) | Adjustment<br>(including<br>VAT) | Balance,<br>Net value<br>(including<br>VAT) |
|-------------------------------------|-----------------------|---|----------------------------------|---|
| Client                              | 2019                  | 31 December 2019                              |                                  |   |
| Transelectrica                      | 786,033,013           | 88,915,987                                    | -                                | 88,915,987                                  |
| OPCOM                               | 679,479,766           | -   | -                                | -   |
| E ON Energie Romania                | 122,486,356           | 8,550,388                                     | -                                | 8,550,388                                   |
| Electrica Furnizare                 | 269,149,017           | 24,408,338                                    | -                                | 24,408,338                                  |
| Engie Romania                       | 224,251,309           | 15,374,381                                    | -                                | 15,374,381                                  |
| Metrorex                            | 64,329,434            | 30,652,291                                    | -                                | 30,652,291                                  |
| Electrica Distributie Muntenia Nord | 50,803,698            | 56,489  | -                                | 56,489                                      |
| STB Bucuresti                       | 34,577,607            | 21,771,259                                    | -                                | 21,771,259                                  |
| CET Brasov                          | -                     | 18,724,742                                    | (18,724,742)                     | -   |
| Others                              | 36,095,068            | 2,622,785                                     | -                                | 2,622,785                                   |
| <b>Total</b>                        | <b>2,144,718,912</b>  | <b>202,526,272</b>                            | <b>(18,724,742)</b>              | <b>183,801,530</b>                          |

## 27. FINANCIAL INSTRUMENTS - FAIR VALUES AND RISK MANAGEMENT

### (a) Accounting classifications and fair values

The table below shows the accounting values and fair values of financial assets and liabilities. The table does not include fair value information for financial assets and liabilities that are not measured at fair value if the carrying amount represents a reasonable approximation of fair value.



31 December 2020

|   | Note | Accounting value                   |                       |
|---|------|------------------------------------|-----------------------|
|   |      | Financial assets at amortized cost | Other financial debts |
| Financial assets that are not measured at fair value      |      |                                    |                       |
| Trade receivables   | 7    | 354,790,189                        |                       |
| Other receivables   | 8    | 220,299,606                        |                       |
| Cash and cash equivalents                                 | 10   | 343,409,698                        |                       |
| Restricted cash   |      | 10,257,471                         |                       |
| Bank deposits   | 9    | 1,730,071,123                      |                       |
|   |      | <b>2,658,828,087</b>               |                       |
| Financial liabilities that are not measured at fair value |      |                                    |                       |
| Bank loans  | 12   |                                    | (26,944,219)          |
| <b>Leasing</b>  |      |                                    | (21,013,966)          |
| Trade payables  | 13   |                                    | (194,325,808)         |
|   |      |                                    | <b>(242,283,993)</b>  |

31 December 2019

|   | Note | Accounting value                   |                       |
|---|------|------------------------------------|-----------------------|
|   |      | Financial assets at amortized cost | Other financial debts |
| Financial assets that are not measured at fair value      |      |                                    |                       |
| Trade receivables   | 7    | 327,536,263                        |                       |
| Other receivables   | 8    | 216,775,597                        |                       |
| Cash and cash equivalents                                 | 10   | 222,976,476                        |                       |
| Restricted cash   |      | 10,257,471                         |                       |
| Bank deposits   | 9    | 1,736,855,286                      |                       |
|   |      | <b>2,514,401,093</b>               |                       |
| Financial liabilities that are not measured at fair value |      |                                    |                       |
| Bank loans  | 12   |                                    | (70,006,725)          |
| Leasing   |      |                                    | (19,594,386)          |
| Trade payables  | 13   |                                    | (175,163,370)         |
|   |      |                                    | <b>(264,764,481)</b>  |

In accordance with IFRS 9, the Company's financial assets and liabilities are measured at amortized cost. They are held within a business model in order to collect contractual cash flows and these cash flows consist exclusively of principal payments and related interest.

**b) Financial risk management**

**Credit risk**

Credit risk is the risk when the Company might suffer a financial loss as a result of failing to fulfill contractual obligations by a client or a counterparty regarding a financial instrument, and this risk is mainly due to 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 credit standing.

*Exposure to credit risk*

The carrying amount of financial assets is the maximum exposure to credit risk.

|                           | <b>31 December 2020</b> | <b>31 December 2019</b> |
|---------------------------|-------------------------|-------------------------|
| Trade receivables         | 354,790,189             | 327,536,263             |
| Other receivables         | 220,299,606             | 216,775,597             |
| Cash and cash equivalents | 343,409,698             | 222,976,476             |
| Restricted cash           | 10,257,471              | 10,257,471              |
| Bank deposits             | 1,730,071,123           | 1,736,855,286           |
| <b>Total</b>              | <b>2,658,828,087</b>    | <b>2,514,401,093</b>    |

*Trade receivables*

The exposure of the Company to credit risk is mainly influenced by the individual characteristics of each client. The company has established a credit policy under which each new client is individually analyzed in terms of creditworthiness before concluding a contract, so that the sale is made to the clients with the appropriate creditworthiness. Adjustment for impairment of trade receivables is the amount of expected losses, calculated based on loss rates.

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

|                                   | <b>Average losses</b> | <b>Gross value</b> | <b>Adjustment for depreciation</b> | <b>Net trade receivables</b> |
|-----------------------------------|-----------------------|--------------------|------------------------------------|------------------------------|
| Non-past due                      | 0%                    | 316,673,869        | -                                  | 316,673,869                  |
| Overdue - from 1 to 3 months      | 0.23%                 | 23,722,823         | (53,639)                           | 23,669,184                   |
| Overdue - from 3 to 6 months      | 2.62%                 | 13,960,566         | (365,654)                          | 13,594,912                   |
| Overdue - from 6 months to 1 year | 96.02%                | 21,412,832         | (20,560,608)                       | 852,224                      |
| Overdue - more than 1 year        | 100.0%                | 71,092,753         | (71,092,753)                       | -                            |
| <b>Total</b>                      |                       | <b>446,862,843</b> | <b>(92,072,654)</b>                | <b>354,790,189</b>           |

The following table provides information on the exposure to credit risk and expected loss rates at 31 December 2019:

|                                   | <b>Average losses</b> | <b>Gross value</b> | <b>Adjustment<br/>for<br/>depreciation</b> | <b>Net trade<br/>receivables</b> |
|-----------------------------------|-----------------------|--------------------|--|----------------------------------|
| Non-past due                      | 0%                    | 299,379,580        | -  | 299,379,580                      |
| Overdue - from 1 to 3 months      | 0,00%                 | 23,807,019         | (555)                                      | 23,806,464                       |
| Overdue - from 3 to 6 months      | 1,99%                 | 2,920,626          | (58,209)                                   | 2,862,417                        |
| Overdue - from 6 months to 1 year | 49,47%                | 1,252,892          | (619,745)                                  | 633,147                          |
| Overdue - more than 1 year        | 98,84%                | 77,599,183         | (76,744,528)                               | 854,655                          |
| <b>Total</b>                      |                       | <b>404,959,300</b> | <b>(77,423,037)</b>                        | <b>327,536,263</b>               |

Loss rates are based on the real experience of credit losses over the last four years.

Details of the main impairment adjustments are presented in Note 7.

### **Liquidity risk**

Liquidity risk is the risk when the Company may encounter difficulties in meeting the obligations associated with financial liabilities that are settled by the transfer of cash or another financial asset. The Company has significant cash and cash equivalents, so that it does not face the liquidity risk.

The Company monitors the level of expected cash inflows from the collection of trade receivables, as well as the expected cash outflows for the payment of loans, commercial debts, and other debts. The company seeks to maintain a level of current bank accounts that exceed the expected cash outflows for the payment of financial debts.

### **Exposure to liquidity risk**

The following table shows the contractual maturities of financial liabilities at reporting date. Amounts are presented as gross and outdated value and include estimated interest payments.

|   | <b>Accounting<br/>value</b> | <b>Contractual cash flows</b> |                             |                                |
|---|-----------------------------|-------------------------------|-----------------------------|--------------------------------|
|   |                             | <b>Total</b>                  | <b>less than<br/>1 year</b> | <b>between 1 – 5<br/>years</b> |
| <b>Financial liabilities<br/>31 December 2020</b> |                             |                               |                             |                                |
| Trade payables                                    | 194,325,808                 | 194,325,808                   | 194,325,808                 | -                              |
| Loans   | 26,944,219                  | 26,944,219                    | 26,944,219                  | -                              |
| Leasing   | 21,013,966                  | 21,013,966                    | 6,383,664                   | 14,630,302                     |
| <b>Total</b>                                      | <b>242,283,993</b>          | <b>242,283,993</b>            | <b>227,653,691</b>          | <b>14,630,302</b>              |
|   |                             |                               |                             |                                |
|   | <b>Accounting<br/>value</b> | <b>Contractual cash flows</b> |                             |                                |
|   |                             | <b>Total</b>                  | <b>less than<br/>1 year</b> | <b>between 1 – 5<br/>years</b> |
| <b>Financial liabilities<br/>31 December 2019</b> |                             |                               |                             |                                |
| Trade payables                                    | 175,163,370                 | 175,163,370                   | 161,425,822                 | 13,737,548                     |
| Loans   | 70,006,725                  | 70,199,291                    | 43,728,436                  | 26,470,855                     |
| Leasing   | 19,594,386                  | 20,268,682                    | 4,409,536                   | 15,859,146                     |
| <b>Financial liabilities</b>                      | <b>264,764,481</b>          | <b>265,631,343</b>            | <b>209,563,794</b>          | <b>56,067,549</b>              |

## Market risk

Market risk is the risk that changes market prices - the exchange rate and interest rate - will affect the Company's profit or the value of the financial instruments held. The objective of market risk management is to manage and maintain exposures within acceptable limits and optimize results.

### (i) Interest rate risk

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

|  | 31 December 2020     | 31 December 2019     |
|--|----------------------|----------------------|
| <b>Fixed interest rate instruments</b>         |                      |                      |
| <b>Financial assets</b>                        |                      |                      |
| Restricted cash                                | 10,257,471           | 10,257,471           |
| Deposits                                       | 1,730,071,123        | 1,736,855,286        |
| <b>Total</b>                                   | <b>1,740,328,594</b> | <b>1,747,112,757</b> |
| <b>Instruments with variable interest rate</b> |                      |                      |
| <b>Financial liabilities</b>                   |                      |                      |
| Loans  | (26,944,219)         | (70,006,725)         |
| Leasing  | (21,013,966)         | (19,594,386)         |
|  | <b>(47,958,185)</b>  | <b>(89,601,111)</b>  |

### *The sensitivity analysis of the fair value of instruments with the fixed interest rate*

The Company does not record financial assets and financial liabilities with 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 the cash flows of instruments with variable interest rate*

A reasonably possible increase/reduction in interest rates by 50 basis points on the reporting date would have increased (reduce) the pre-tax profit by the amounts below. This analysis implies that all other variables, especially currency exchange rates, remain constant.

|   | Profit before tax              |                              |
|---|--------------------------------|------------------------------|
|   | increase by<br>50 basic points | reduce by<br>50 basic points |
| <b>31 December 2020</b>                 |                                |                              |
| Instruments with variable interest rate | (239,791)                      | 239,791                      |
| <b>31 December 2019</b>                 |                                |                              |
| Instruments with variable interest rate | (448,006)                      | 448,006                      |

(ii) *Foreign exchange risk*

The Company is exposed to currency risk to the extent that there is an imbalance between the currencies in which it carries out sales and purchases and in which the loans and the functional currency of the Company are denominated. The functional currency of the Company is the Romanian Leu (RON).

The currency in which these transactions are denominated are mainly RON. Certain debts are denominated in foreign currency (EUR and USD). The Company's policy is to use as much as possible the local currency in the transactions it carries out. The Company does not use derivatives or hedging instruments.

|  | <b>31 December 2020</b> |                 |                |                |
|--|-------------------------|-----------------|----------------|----------------|
|  | <b>EUR</b>              | <b>USD</b>      | <b>CHF</b>     | <b>HUF</b>     |
| Cash and cash equivalents                                  | 371,250                 | 130,929         | 313,740        | 200,334        |
| Trade receivables  | (69,930,303)            | (158,951)       |                | (134)          |
| Loans  | (26,944,219)            |                 |                |                |
| Leasing  | (16,059,680)            |                 |                |                |
| <b>Net exposure to the statement of financial position</b> | <b>(112,562,952)</b>    | <b>(28,022)</b> | <b>313,740</b> | <b>200,200</b> |

  

|  | <b>31 December 2019</b> |                |                |                |
|--|-------------------------|----------------|----------------|----------------|
|  | <b>EUR</b>              | <b>USD</b>     | <b>CHF</b>     | <b>HUF</b>     |
| Cash and cash equivalents                                  | 347,138                 | 173,963        | 307,018        | 217,530        |
| Trade receivables  | (53,254,443)            | (176,190)      | -              | (723)          |
| Loans  | (70,006,725)            | -              | -              | -              |
| Leasing  | (4,198,184)             | -              | -              | -              |
| <b>Net exposure to the statement of financial position</b> | <b>(127,112,214)</b>    | <b>(2,227)</b> | <b>307,018</b> | <b>216,807</b> |

The following exchange rates were applied during the year:

|               | <b>31 December 2020</b> | <b>31 December 2019</b> |
|---------------|-------------------------|-------------------------|
| RON / EUR     | 4,8694                  | 4,7793                  |
| RON / USD     | 3,9660                  | 4,2608                  |
| RON / CHF     | 4,4997                  | 4,4033                  |
| RON / 100 HUF | 1,3356                  | 1,4459                  |

*Sensitivity analysis:*

A 10% appreciation of the RON against the following foreign currencies on 31 December 2020 and 2019 would have increased the profit by the amounts indicated below. This analysis assumes that all other variables remain constant.

|     | <b>Profit before tax<br/>2020</b> | <b>Profit before tax<br/>2019</b> |
|-----|-----------------------------------|-----------------------------------|
| EUR | 11,256,295                        | 12,711,221                        |
| USD | 2,802                             | 223                               |

|              |                   |                   |
|--------------|-------------------|-------------------|
| CHF          | (31,374)          | (30,702)          |
| 100 HUF      | (20,020)          | (21,681)          |
| <b>Total</b> | <b>11,207,703</b> | <b>12,659,061</b> |

A 10% depreciation of the leu against foreign currencies on December 31, 2020 and 2019 would have had a similar but opposite effect on the above amounts, assuming that all other variables remained constant.

|              | <b>Profit before tax<br/>31 December 2020</b> | <b>Profit before tax<br/>31 December 2019</b> |
|--------------|---|---|
| EUR          | (11,256,295)                                  | (12,711,221)                                  |
| USD          | (2,802)                                       | (223)   |
| CHF          | 31,374  | 30,702  |
| 100 HUF      | 20,020  | 21,681  |
| <b>Total</b> | <b>(11,207,703)</b>                           | <b>(12,659,061)</b>                           |

## 28. FURTHER EVENTS

### Taking over Crucea Wind Farm and STEAG Energie Romania

On 23 December 2020, Hidroelectrica and STEAG GmbH signed the agreement on the sale to Hidroelectrica of the Romanian subsidiaries Crucea Wind Farm S.A. and STEAG Energie România S.R.L.. The acquisition was fully financed by a bank loan with repayment in 7 years.

Developed by STEAG and put into commercial operation on October 1, 2014, Crucea Wind Farm has a capacity of 108 MW and Vestas turbines. STEAG Energie Romania is an operation, maintenance (O&M) and administration entity that offers its services exclusively to Crucea Wind Farm. The completion of the transaction allows the improvement of Hidroelectrica SA's growth prospects by expanding the production of electricity from renewable sources.

According to the agreement between the parties, the Company acquired 100% of the shares of Crucea Wind Farm S.A. and STEAG Energie România S.R.L. for which payment was already made in March 2021. The total consideration for this acquisition was EUR 130 million, consisting of EUR 51.1 million for the shares transferred and EUR 78.9 million for the loans owed by Crucea Wind Farm SA, to the former shareholders, which were taken over by Hidroelectrica SA, as there were no other contingent payments.

The date of obtaining control over these two companies is March 11, 2021. The company presents below the values of assets and liabilities on December 31, 2020 of the two companies Crucea Wind Farm S.A. and STEAG Energie România S.R.L taken over.

|  | <b>31 December 2020</b> |
|--|-------------------------|
| Tangible fixed assets  | 560,790,376             |
| Other fixed assets   | 9,375,327               |
| Cash and cash equivalents  | 25,764,507              |
| Other current assets   | 5,668,257               |
| Green certificates *   | 62,230,735              |
| Liability  | (9,706,451)             |
| <b>Acquired net assets</b>   | <b>654,122,751</b>      |
| Consideration paid   | 633,022,000             |
| <b>Earnings from the acquisition<br/>(preliminary based on the data on 31<br/>December 2020)</b> | <b>21,100,751</b>       |

The company intends to start in the near future the procedure of integration (merger) of the activities of the two companies within Hidroelectrica SA .

**Credit for financing the acquisitions of participations and goods related to the production of renewable energy**

In the first quarter of 2021, the Company concluded a credit agreement with the BRD Bank - Groupe Societe Generale S.A. in the amount of RON 1,250 million with maturity in 7 years. The loan will be used in euro with interest related to EURIBOR 3M + 0.20% margin (EURIBOR floor 0).

| <b>Bogdan<br/>BADEA</b>    | <b>Marian<br/>BRATU</b>  | <b>Radu<br/>POP</b>      | <b>Cristian<br/>VLADOIANU</b> | <b>Razvan<br/>PATALIU</b> |
|----------------------------|--------------------------|--------------------------|-------------------------------|---------------------------|
| Chairman of<br>Directorate | Member of<br>Directorate | Member of<br>Directorate | Member of<br>Directorate      | Member of<br>Directorate  |

**Marian Fetita**

Manager of Accounting Department

Prepared by,

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