



KPMG Audit SRL
DN1, Soseaua Bucuresti-Ploiesti nr. 89A
Sector 1

P.O. Box 18-191
Bucharest 013685
Romania
Tel: +40 (372) 377 800
Fax: +40 (372) 377 700
www.kpmg.ro

Independent Auditors' Report

(free translation¹)

To the Shareholders of Societatea de Producere a Energiei Electrice in Hidrocentrale Hidroelectrica S.A.

15-17 Ion Mihalache St., Sector 1, Bucharest, Romania
Unique Registration no: 13267213

Report on the Audit of the Separate Financial Statements

Opinion

We have audited the separate financial statements of Societatea de Producere a Energiei Electrice in Hidrocentrale Hidroelectrica S.A. ("the Company"), which comprise the separate statement of financial position as at 31 December 2021, the separate statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

The separate financial statements as at and for the year ended 31 December 2021 are identified as follows:

- Net assets/Total equity: RON 19,152,906,335
- Net profit for the year: RON 3,019,511,168

In our opinion, the accompanying separate financial statements give a true and fair view of the unconsolidated financial position of the Company as at 31 December 2021, and of its unconsolidated financial performance and its unconsolidated cash flows for the year then ended in accordance with Order of Minister of Public Finance no. 2844/2016 for approval of accounting regulations in accordance with International Financial Reporting Standards, and related amendments ("OMPF no. 2844/2016").

¹ TRANSLATOR'S EXPLANATORY NOTE: This translation of the auditors' report is provided as a free translation from Romanian, which is the official and binding version.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"), Regulation (EU) no. 537/2014 of the European Parliament and of the Council ("the Regulation") and Law no. 162/2017 ("the Law"). Our responsibilities under those standards and regulations are further described in the *Auditors' Responsibilities for the Audit of the Separate Financial Statements* section of our report. We are independent of the Company in accordance with International Ethics Standards Board for Accountants International Code of Ethics for Professional Accountants (including International Independence Standards) ("IESBA Code") together with the ethical requirements that are relevant to our audit of the separate financial statements in Romania, including the Regulation and the Law, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the separate financial statements of the current period. These matters were addressed in the context of our audit of the separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have determined the matters described below to be the key audit matters to be communicated in our report:

- Revaluation of property, plant and equipment
- Impairment of assets under construction
- Litigations

Revaluation of property, plant and equipment

Carrying amount of Property, plant and equipment subject to revaluation (RON 16,464,584,231 as at 31 December 2021) – Note 5

Revaluation reserve (RON 9,654,525,446 as at 31 December 2021) – Note 12 (b)

Impairment loss of property, plant and equipment recognized at revaluation, net (RON 241,781,932 for the year 2021) – Note 5

Refer to Notes 3(b) and 3(j) (accounting policies), 5 and 12 (b) (explanatory disclosures) to the separate financial statements.

Key audit matter	How the matter was addressed in our audit
<p>The Company uses the revaluation model for measuring the property, plant and equipment. The Company undertook a revaluation of its property, plant and equipment as at 31 December 2021.</p> <p>Property, plant and equipment represent a significant portion of the Company's total assets.</p>	<p>Our audit procedures included, among others:</p> <ul style="list-style-type: none"> • assessing the professional competence of the valuation expert engaged by the Company to perform the revaluation of the property, plant and equipment, by considering the appraiser's

Further, the valuation process of these assets involve significant judgments from management to determine the appropriate valuation methods and key assumptions (such as identification of comparable transactions for land, information for the determination of the replacement cost, useful lives of production plant and equipment, capacity utilization rate, etc.). The Company involved an external valuation expert to assist management in making these significant judgements.

Due to the significant judgement required from management and the magnitude of the amounts involved, we considered the revaluation of property, plant and equipment to be a key audit matter.

reputation and experience based on publicly available sources;

- assessing, with the involvement of our valuation specialists, the appropriateness of approaches used by the valuation expert engaged by the Company for calculation of the fair values of items of property and equipment being revalued based on our understanding of generally accepted valuation methods used for similar assets on the market;
- evaluating, with the involvement of our valuation specialists, the key assumptions used in the revaluation as follows:
 - for land, administrative buildings and certain equipment and vehicles, valued based on market approach, we compared the fair values estimated by the valuation expert engaged by the Company for a sample of assets with available market information related to similar items;
 - for buildings and industry-specific constructions, valued based on net replacement cost method, for a sample of assets:
 - we compared the cost determined by the valuation expert with information on construction cost and/or price change indices obtained from technical catalogues applicable to the industry;
 - we compared useful lives used to calculate physical depreciation with the periods given in the generally accepted valuation practices and recommended by specialized reference books for similar assets; and
 - we compared the external depreciation determined by the valuation expert with recent history of the capacity utilization rate per hydroaggregate, provided to us by the Company;
- for a sample of assets, we compared the fair value per MW installed at hydroaggregate level to available technical studies applicable to the industry;
- for a sample of assets, we compared the variables used by the valuation expert with those used in the previous revaluation report prepared as at 31 December 2018, in order to assess consistency of the methods; we

	<p>challenged the judgements applied by the valuation expert engaged by the Company as to the reasons for changes, where applicable;</p> <ul style="list-style-type: none"> evaluating, with the involvement of our valuation specialists, the appropriateness of the key assumptions used by the valuation expert in the discounted future cash flow model, such as discount rate, forecasted revenues and profit margin. These procedures included: <ul style="list-style-type: none"> comparing the forecast of electricity prices with the historical performance of the Company and with electricity price projections from external and internal sources; agreeing capacities used in the revenue forecast with technical documentation; assessing the profit margin used by comparison to recent performance of the Company; and assessing the appropriateness of the discount rate; inspecting the accounting entries made to account for the revaluation at the level of classes of property, plant and equipment and evaluating the accuracy of the revaluation reserve increase or decrease and profit or loss impact; and assessing accuracy and completeness of the Company's disclosures in the separate financial statements against the requirements of the relevant financial reporting standards.
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Impairment of assets under construction

Carrying amount of assets under construction (RON 1,041,103,202 as at 31 December 2021; RON 1,164,711,691 as at 31 December 2020) – Note 5

Impairment loss for assets under construction, net (RON 152,265,797 for the year 2021; RON 169,861,823 for the year 2020) – Note 5

Refer to Notes 2.4 a3) (use of judgements and estimates), 3(a) and 3(f)(ii) (accounting policies) and 5 (explanatory disclosures) to the separate financial statements.

Key audit matter	How the matter was addressed in our audit
<p>As at 31 December 2021 the Company recognized assets under construction of RON 4,281,895,800 before allowances for impairment of RON 3,240,792,599 (net carrying amount of RON 1,041,103,202).</p> <p>The assets under construction include investment projects started long time in the past, whose continuation and economic viability are periodically assessed by the Company.</p> <p>Annually management performs impairment testing of these assets to assess their recoverable amounts. In performing these assessments, management compares the carrying value of the assets with their value in use based on discounted cash flow forecasts.</p> <p>Impairment testing is a process that involves significant management judgment, as the preparation of discounted cash flow forecasts for the purpose of assessing potential impairment involves making assumptions such as electricity price evolution, profit margin and discount rate.</p> <p>Due to the significant degree of professional judgment required from management and the magnitude of the amounts involved, we have considered this area to be a key audit matter.</p>	<p>Our audit procedures included, among others:</p> <ul style="list-style-type: none"> • inspecting minutes of the shareholders', board of directors' and supervisory board's meetings with respect to discussions, analysis or decisions related to continuation or discontinuation of the fixed assets, as well as related to the cost to complete and timing estimated for the completion of the assets under construction; • inspecting the investment plans for the subsequent years with reference to the amounts allocated for the continuation of the investment projects; • obtaining from the development department of the Company the costs to complete these investment projects and the timeline for their completion; • inspecting a sample of the construction contracts concluded for the continuation of the investment projects; • inspection of information and documents provided to us by the environmental and project management departments related to the progress of obtaining new environmental and construction authorisations for Bumbesti-Livezeni project and discussing with the representatives of these departments and the Company's management about the feasibility of obtaining new environmental and construction authorisations and completing the project; • evaluating the appropriateness of the methodology and models used by management to determine the recoverable amount against the requirements of the relevant accounting standard;

	<ul style="list-style-type: none"> evaluating the appropriateness of the key assumptions used by management in the discounted future cash flows models, such as discount rate, forecasted revenues and profit margin. These procedures included: <ul style="list-style-type: none"> comparing the forecasted electricity prices with the historical performance of the Company and with electricity price projections from external and internal sources; agreeing capacities used in the revenue forecast with technical documentation; assessing the profit margin used by comparison to recent performance of the Company; and assessing the appropriateness of the discount rate with the assistance of our own valuation specialists; assessing accuracy and completeness of the Company's disclosures in the separate financial statements related to impairment against the requirements of the relevant financial reporting standards.
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Litigations

Provisions for litigations (RON 75,446,608 as at 31 December 2021; RON 49,341,727 as at 31 December 2020) – Note 19

Contingent liabilities (RON 737.6 million) – Note 26.1

Payments for amounts disputed (RON 214,385,212 as at 31 December 2021 and 31 December 2020) – Note 9

Refer to Notes 3(l) and 3(m) (accounting policies), 9, 19 and 26.1 (explanatory disclosures) to the separate financial statements.

Key audit matter	How the matter was addressed in our audit
<p>In the course of the Company's business, potential exposures arise from administrative or court proceedings. As disclosed in Notes 9, 19 and 26.1 to the separate financial statements, the Company is involved in litigations with various authorities, business partners or other parties, including:</p> <ul style="list-style-type: none"> Ministry of Energy with potential exposure of RON 373 million; ANAF with potential exposure of RON 214.4 million; 	<p>Our audit procedures included, among others:</p> <ul style="list-style-type: none"> discussing with management and the Company's legal advisors the recent developments and the status of the material litigations, including the events that occurred after the reporting date; inspecting minutes of the shareholders', board of directors' and supervisory board's meetings to corroborate the status of the material

<p>Hidroconstructia S.A. with potential exposure of RON 32.8 million; Beny Alex with potential exposure of RON 43.6 million; Romelectro S.A. with potential exposure of RON 73.8 million;</p> <ul style="list-style-type: none"> - ING Bank for the reimbursement to the Company of RON 214.4 million as a result of the execution of a bank guarantee issued in favour of ANAF in relation to the above-mentioned litigation with ANAF. <p>Significant management judgement is required to assess such matters in order to determine the probability of occurrence of material outflow of economic resources and whether a provision should be recognised or a disclosure of contingent liabilities should be made. The management judgement is also supported with legal advice in certain cases as considered appropriate.</p> <p>As the ultimate outcome of the matters is uncertain, and the positions taken by management are based on the application of their best judgement at the reporting date, on legal advice, including those relating to interpretation of laws/regulations, as well as due to magnitude of the amounts involved, we considered the effects of litigations to be a key audit matter.</p>	<p>litigations and completeness of open and potential litigations identified by the Company;</p> <ul style="list-style-type: none"> • evaluating the Company's internal and external lawyers' responses to our audit inquiry letters and discussing the nature and status of the litigations and potential legal exposures with the Company's management and its lawyers; • assisted by our own legal specialists, challenging the Company's interpretation and position in relation to the probable outcomes of the most significant litigations; evaluating the management assumptions and estimates in respect of litigations and claims, including the liabilities or provisions recognized or contingent liabilities disclosed in the separate financial statements, by inspecting relevant documentation provided by the Company and discussing with the Company's lawyers; • evaluating the reliability of management's estimation process by retrospective analysis of prior periods judgments against actual outcomes; • assessing accuracy and completeness of the Company's disclosures in the separate financial statements against the requirements of the relevant financial reporting standards.
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Other Information – Consolidated Directorate's Report

The Directorate is responsible for the preparation and presentation of other information. The other information comprises the Consolidated Directorate's Report, but does not include the separate financial statements and our auditors' report thereon.

Our opinion on the separate financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the separate financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

With respect to the Consolidated Directorate's Report, we read and report whether the Consolidated Directorate's Report is prepared, in all material respects, in accordance with OMPF no. 2844/2016, articles 15 – 19 and 26 - 28 of the accounting regulations in accordance with International Financial Reporting Standards.

Based solely on the work required to be undertaken in the course of the audit of the separate financial statements, in our opinion:

- the information given in the Consolidated Directorate's Report for the financial year for which the separate financial statements are prepared is consistent, in all material respects, with the separate financial statements;

- b) the Consolidated Directorate's Report has been prepared, in all material respects, in accordance with OMPF no. 2844/2016, articles 15 - 19 and 26 - 28 of the accounting regulations in accordance with International Financial Reporting Standards.

In addition, based on the knowledge and understanding of the Company and its environment obtained in the course of our audit, we are required to report if we have identified material misstatements in the Consolidated Directorate's Report. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Separate Financial Statements

Management is responsible for the preparation of separate financial statements that give a true and fair view in accordance with OMPF no. 2844/2016, and for such internal control as management determines is necessary to enable the preparation of separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the separate financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditors' Responsibility for the Audit of the Separate Financial Statements

Our objectives are to obtain reasonable assurance about whether the separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these separate financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report

to the related disclosures in the separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements - Public Interest Entities

We were appointed by the General Shareholders' Meeting of the Company on 23 December 2021 to audit the financial statements of the Company for the year ended 31 December 2021. Our total uninterrupted period of engagement is 4 years, covering the years ended 31 December 2018 to 31 December 2021.

We confirm that:

- Our audit opinion is consistent with the additional report presented to the Audit Committee of the Company, which we issued on 6 April 2022. We also remained independent of the audited entity in conducting the audit.
- We have not provided to the Company prohibited non-audit services referred to in article 5(1) of EU Regulation no. 537/2014.

Refer to the original signed
Romanian version



For and on behalf of KPMG Audit S.R.L.:

Andreea Vasilescu

registered in the electronic public register of
financial auditors and audit firms under no. AF2689

Bucharest, Romania

6 April 2022

KPMG AUDIT S.R.L.

registered in the electronic public register of
financial auditors and audit firms under no. FA9