



**HIDROELECTRICA**

**CONSOLIDATED REPORT  
OF THE DIRECTOR**

**FOR THE FINANCIAL EXERCISE ENDED ON  
31.12.2018**

**S.P.E.E.H. HIDROELECTRICA S.A.**

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*Note:*  
*The present Directors' Report accompanies the Individual Financial Statements and the Consolidated Financial Statements of SPEEH HIDROELECTRICA S.A. (hereinafter referred to as "Hidroelectrica" / Company) prepared according to O.M.P.F. no. 2844/2016, as amended and supplemented for the year ended 31 December 2018.*

## 1. IDENTIFICATION DATA

- Name of the company: S. P.E.E.H. HIDROELECTRICA S.A.
- Registered office: Bucharest, 15-17 Ion Mihalache Blvd., floors 10-15, sector 1, 011171
- Phone/fax: 0213032500; 0213032578
- Sole registration number at the Trade Register Office: 13267213
- Fiscal registration number: RO13267213
- Registered at Trade Register Office under no.: J40/7426/2000
- Paid-in and subscribed share capital: RON 4,482,393,310

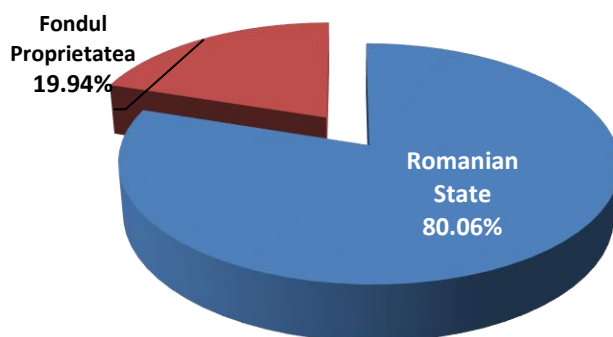
## 2. GENERAL DATA

S.P.E.E.H. Hidroelectrica S.A. is a joint stock company, established based on Romanian Government's Decision no. 627/13 July 2000, headquartered in Bucharest, sector 1, 15-17 Ion Mihalache Blvd., floor 10-15, fiscal registration number RO13267213 and registered with the Trade Register Office to the Bucharest Tribunal under no. J40 / 7426/2000. Through the mentioned Government's Decision, the energy sector is being restructured by setting up 5 independent companies with 100% state ownership, detached from the former CONEL holding company created in 1998: Transelectrica, Electrica, Termoelectrica, Nuclearelectrica and Hidroelectrica.

The share capital of S.P.E.E.H. Hidroelectrica S.A. on December 31, 2018 it was in amount of RON 4,482,393,310, consisting of 448,239,331 ordinary shares, issued in dematerialized form, by signing in, with a par nominal value of RON 10, having the following structure of the shareholders:

- ROMANIAN STATE through the Ministry of Energy, holding a number of 358,842,926 shares, with a total nominal value of RON 3,588,429,260, representing 80.05609976% of the share capital of the Company;
- Fondul Proprietatea S.A., holding 89,396,405 shares, with a total nominal value of RON 893,964,050, representing 19.94390024% of the share capital of the Company.

### Hidroelectrica's shareholder structure as on 31.12.2018



### 2.1. Description of activity

Hidroelectrica is the most important electricity producer of the companies producing energy on the Romanian market, providing 26.77% of the total production (according to the information provided by the National Power Dispatcher) and also the main ancillary services provider. At the level of the National Energy System, in 2018, Hidroelectrica provided approximate 76.22% of the secondary control service, 82.89% of the fast tertiary reserve service and 100% of the reactive energy assurance service debited or absorbed from the network in the secondary voltage control band.

The main activities of the company consist of:

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

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

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

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

In SPEEH Hidroelectrica's installations on 31.12.2018 were a number of 208 power generators with a capacity of 6,394,006 MW.

As well as the organizational structure, the company consists of 7 branches without juridical personality dispersed on the territory of the country, respectively:

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

## 2.2 Hidroelectrica's participation

2017 Hidroelectrica SA holds the following shares in other companies:

<b>Subsidiary</b>	<b>Activity</b>	<b>Registered office</b>	<b>% participation as on 31 December 2018</b>	<b>% participation as on 31 December 2017</b>
Hidroserv S.A.	Energy services (maintenance, repair, construction)	Bucharest, Romania	100%	100%
Hidroelectrica Trading D.o.o.	Trading energy	Belgrade, Serbia	100%	100%

#### **Hidroserv S.A.**

Taking into account the negative evolution of the economic and financial indicators, the Board of Directors of Hidroserv requested the insolvency of the company, and the Syndic Judge, by the closing of the session, dated 10.10.2016, within the file no. 36365/3/2016, in the role of the Bucharest Tribunal - VII Civil Division, ordered the opening of the insolvency proceedings according to the provisions of art. 71, paragraph 1 of the Law no. 85/2014 on insolvency and insolvency prevention procedures with the right to manage the company and on the basis of Art. 45, letter d) of Law no. 85/2014 appointed C.I.T.R. FILIALA BUCURESTI S.P.R.L, referring to art. 87 paragraph 1, letter d) of Law no. 85/2014.

According to the Report on Causes issued by the above-mentioned Official Receiver, represented by Adrian Lotrean, the main causes of the insolvency of S.S.H. Hidroserv S.A. are:

- Historical debts at the time of establishment;
- Collective labor contract;
- Stocks and bad debts;
- Management deficiencies;
- The inefficient staff structure;
- Losses incurred as a result of the performance of the remediation obligations for works under the warranty period;
- The way in which maintenance contracts were provided.

At the General Meeting of Shareholders of S.S.H. Hidroserv S.A on 18.10.2016 was appointed as Special Administrator of S.S.H. Hidroserv S.A., Mr. Sandu Marian Corneliu (former Chairman of the Board of Directors of Hidroserv), who supposed to perform the duties established by Law no. 85/2014 on insolvency and insolvency prevention procedures.

In the Insolvency Proceedings Bulletin no. 10744 / 30.05.2017 the Preliminary Creditors' List was published after the settlement of the appeals to the preliminary creditors' list, where were included the claims of Hidroelectrica - liabilities with voting right and under suspension condition, with a total value of RON 1,758,484.58. The receivables under a suspensive condition in the amount of RON 1,742,229.49 were registered as non-voting suspensory receivables and the receivable in amount of RON 16,255.09 was registered in the category of debts with the right to vote.

Since the litigation relating to file no. 26162/300/2016\*\*, having as object the validation of the attachment formulated by the creditor ACETI SRL, was finally settled by the Bucharest Tribunal - Civil Section IV by Civil Decision no. 492A / 13.02.2019, dismissing the appeal filed by ACETI SRL as unfounded, as well as by the incidental appeal filed by SSH Hidroserv SA, claim amounting to RON 1,742,229.49 written under condition in

the preliminary creditors' list of the debtor SSH Hidroserv SA no longer has a legal basis, and the official receiver will be notified to cancel this claim from the list.

At the General Meeting of Shareholders of Hidroserv S.A. as of March 16, 2017, following the dismissal by Mr. Marian Sandu to the mandate granted (although March 2017 was the first month with profit from the beginning of the insolvency proceedings), Mr. Adrian Ion Moldoveanu was appointed as Special Administrator (former member of the Board of Directors of Hidroserv) to carry out his duties in compliance with the provisions and attributions established by Company Law no. 31/1990 and Law no. 85/2014 on insolvency and insolvency prevention procedures. On 26.05.2017, the General Meeting of Shareholders of Hidroserv S.A appointed a new Special Administrator, Mr. Valeriu Băbău. On 29.09.2017 Hidroserv's General Meeting of Shareholders appointed a new Special Administrator, namely Olteanu Manuela Petronela, with a mandate valid until the date of notification of the closure of the insolvency proceedings or until the production any of the ceasing conditions set out in points 8 and 9 of the contract.

By Decision no. 1085 / 23.08.2017 Hidroelectrica's Directorate has appointed a commission with a wide range of competencies (e.g. human resources, financial, legal, maintenance and administration of the patrimony) in order to analyze the report of the Special Administrator of Hidroserv S.A.

In September 2017, the Supervisory Board approved an audit regarding the executive management of Hidroelectrica SA performing its duties in relation to verifying the activity of the special administrator during the insolvency of S.S.H Hidroserv S.A.

By Civil Sentence no. 658 / 07.02.2017, given in file no. 31845/3/2917, the syndic judge accepted the request of the official receiver to terminate the right of administration of S.S.H. Hidroserv S.A and, as a consequence, has given the right of administration to the official receiver, namely Casa de Insolventa Transilvania - Bucharest Branch S.P.R.L.

In order to pronounce this solution, the syndic judge took into consideration the decision that the Official receiver proving the fulfillment of both conditions provided by art. 85, paragraph 5 of Law no. 85/2014, respectively: i) "continuous loss of the debtor's property" and ii) "lack of probability of achieving a rational activity plan".

The appeal against this decision was made by the Special Administrator of debtor S.S.H Hidroserv S.A, the only one having an active procedural capacity; Hidroelectrica S.A filed an application for an interlocutory intervention to defend the debtor's defense.

By the Civil Decision no. 358 / 25.02.2019 Bucharest Court of Appeal pronounced the following solution: "Rejects the appeal as unfounded. Rejects the application for interlocutory intervention in the interest of the appellant. Final. "

Consequently, Hidroelectrica SA lost control of Hidroserv SA in February 2018, following the decision of the syndic judge to cancel Hidroserv SA's management right and assign it to the official receiver. Hidroelectrica SA deconsolidated this subsidiary starting with February 2018.

At present, S.S.H Hidroserv S.A is still insolvent, during the observation period, the syndic judge granting the term on 04.09.2019 for the continuation of the procedure.

**Hidroelectrica Trading d.o.o. Belgrade**, a limited liability company incorporated in Belgrade, Republic of Serbia, is under liquidation procedure, following the decision of the Extraordinary General Meeting of Shareholders of November 2018, which approved the dissolution and liquidation of its subsidiary in the Republic of Serbia.

### 3. ADMINISTRATION AND MANAGEMENT OF THE COMPANY. CORPORATE GOVERNANCE

The Company is managed in a dual system by the Directorate and the Supervisory Board in accordance with the applicable Romanian law, the provisions of the Company's Constitutive act and internal regulations.

During 2018, the Directorate consisted of 3, and respectively 5 members, and has performed its activity under the supervision of a Supervisory Board.

We should mention that the members of the Supervisory Board are appointed by the Ordinary General Meeting of Shareholders and the Directorate is appointed by the Supervisory Board, exercising its duties under the supervision of the Supervisory Board (consisting of 7 members)

#### The Supervisory Board

During 2018 there were several provisional periods of the members of the Supervisory Board, the Council structure being, for the following period, the following:

No.	Member	Period
1.	Oana Valentina Truta	18.09.2017- 18.01.2018
2.	Ioana Andreea Lambru ( Chairperson)	18.09.2017- 18.01.2018
3.	Laurentiu Dan Tudor	18.09.2017- 18.01.2018
4.	Andreea Negru Ciobanu	18.09.2017- 18.01.2018
5.	Karoly Borbely	18.09.2017- 18.01.2018
6.	Gabriel Andronache	18.09.2017- 18.01.2018
7.	Dorin Liviu Nistoran	02.11.2017- 18.01.2018
1.	Oana Valentina Truta	19.01.2018 - 19.05.2018
2.	Ioana Andreea Lambru	19.01.2018 - 19.05.2018
3.	Laurentiu Dan Tudor (resignation)	19.01.2018 - 26.01.2018
4.	Andreea Negru Ciobanu	19.01.2018 - 19.05.2018
5.	Karoly Borbely	19.01.2018 - 19.05.2018
6.	Gabriel Andronache	19.01.2018 - 19.05.2018
7.	Dorin Liviu Nistoran	19.01.2018 - 19.05.2018
1.	Oana Valentina Truta	20.05.2018 - 20.09.2018
2.	Ioana Andreea Lambru	20.05.2018 - 20.09.2018
3.	Cristian Nicolae Stoina	20.05.2018 - 20.09.2018
4.	Andreea Negru Ciobanu	20.05.2018 - 20.09.2018
5.	Karoly Borbely	20.05.2018 - 20.09.2018
6.	Gabriel Andronache	20.05.2018 - 20.09.2018
7.	Dorin Liviu Nistoran	20.05.2018 - 20.09.2018
1.	Andreea Ioana Lambru	21.09.2018– 21.01.2019
2.	Andreea Negru-Ciobanu	21.09.2018– 21.01.2019
3.	Cristian Nicolae Stoina	21.09.2018– 21.01.2019
4.	Dorin Liviu Nistoran	21.09.2018– 21.01.2019

No.	Member	Period
5.	Gabriel Andronache	21.09.2018– 21.01.2019
6.	Karoly Borbely	21.09.2018– 21.01.2019
7.	Oana Valentina Truta	21.09.2018– 21.01.2019

During 2018, the following Advisory Councils were set up at the level of the Supervisory Board:

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

### Directorate

During 2018, the Company's Board of Directors, consisting of 3, and subsequently of 5 members, was appointed by the Supervisory Board Decisions, the signatories of the mandate contracts being as follows:

No.	Member of Directorate	From...	To...
0	1	2	3
1	BADEA Bogdan Nicolae	7/5/2017	11/5/2017
		11/6/2017	1/6/2018
		1/7/2018	5/7/2018
		5/8/2018	9/7/2018
		9/8/2018	1/8/2019
		1/9/2019	5/8/2019
		5/9/2019	7/9/2019
		7/5/2017	11/5/2017
		11/6/2017	1/6/2018
		1/7/2018	5/7/2018
		5/8/2018	9/7/2018
		9/8/2018	1/8/2019
		1/9/2019	5/8/2019
		5/9/2019	7/9/2019
3	ZDRU Mihai Val	7/5/2017	11/5/2017
		11/6/2017	1/6/2018
4	ȘOȘOACĂ Bogdan	1/7/2018	5/7/2018
		5/8/2018	9/7/2018
		9/8/2018	1/8/2019
		1/9/2019	5/8/2019
		5/9/2019	7/9/2019
5	VOLINTIRU Constantin Adrian	3/13/2018	5/7/2018
		5/8/2018	6/14/2018
6	PAȚĂLIU Răzvan-Ionuț	3/28/2018	5/7/2018
		5/8/2018	9/7/2018
		9/8/2018	1/8/2019



No.	Member of Directorate	From...	To...
7	SUSNEA Florentina	1/9/2019	5/8/2019
		5/9/2019	7/9/2019
		7/30/2018	9/7/2018
		9/8/2018	1/8/2019
		1/9/2019	5/8/2019
		5/9/2019	7/9/2019

During this period, the Directorate adopted, pursuant to the provisions of Chapter VI of the Hidroelectrica's Constitutive Act, 2279 Decisions for the fulfillment of its mandate. Both the mandates of the members of the Supervisory Board and the mandates of the Directors are interim mandates until the appointment of a Directorate in accordance with the provisions of GEO no. 109/2011 on corporate governance of public enterprises, in force.

On 04.05.2018, the General Meeting of Shareholders approved the opening of the selection procedure for the members of the Supervisory Board in accordance with the provisions of GEO 109/2011, as subsequently amended and supplemented. Thus, on 05.02.2019, the shareholders appointed the members of the Supervisory Board with a term of office of 4 years.

In accordance with Art. 51 of GEO no. 109/2011, as subsequently amended and supplemented, the company published on its website the following: Resumes of the members of the Supervisory Board and of the Executive Board, their remuneration, the Code of Ethics, the Statutory Financial Statements as on 30.06.2018, the decisions of the General Meeting of Shareholders etc.

#### 4. ECONOMIC AND FINANCIAL ACTIVITY

##### 4.1 The position of the financial position is as follows :

Thousand RON

	Individual statements			Consolidated statements		
	31.Dec.18	31.Dec.17	31.Dec.16	31.Dec.18	31.Dec.17	31.Dec.16
Fixed assets						
Tangible assets	15,287,336	14,266,521	14,780,373	15,287,336	14,336,581	14,862,572
Intangible assets	4,315	5,313	3,734	4,315	5,314	3,736
Other assets	2,704	5,821	25,613	2,704	9,452	28,890
<b>Total fixed assets</b>	<b>15,294,355</b>	<b>14,277,655</b>	<b>14,809,720</b>	<b>15,294,355</b>	<b>14,351,347</b>	<b>14,895,198</b>
Current assets						
Inventories	70,001	68,240	56,563	70,001	75,143	61,231
Clients and assimilated accounts	445,823	341,970	395,578	445,823	346,781	397,088
Other current assets	222,613	238,537	250,149	222,613	240,873	252,586
Restricted cash	10,257	0	0	10,257	0	0
Bank deposits	2,496,667	1,687,518	1,479,163	2,496,667	1,687,518	1,479,163
Cash and cash equivalents	75,764	105,578	217,778	75,764	114,950	220,787
<b>Total current assets</b>	<b>3,321,125</b>	<b>2,441,843</b>	<b>2,399,231</b>	<b>3,321,125</b>	<b>2,465,265</b>	<b>2,410,855</b>

<b>Total assets</b>	<b>18,615,480</b>	<b>16,719,498</b>	<b>17,208,951</b>		<b>18,615,480</b>	<b>16,816,612</b>	<b>17,306,053</b>
Equity and liabilities							
Equity							
Share capital	4,482,393	4,482,393	4,481,651		4,482,393	4,482,393	4,481,650
Adjustments resulting from the adoption of IAS 29	1,028,872	1,028,872	1,028,872		1,028,872	1,028,872	1,028,872
Public patrimony	39,619	39,347	39,347		39,619	39,347	39,347
Revaluation reserve	6,859,132	5,988,832	6,266,959		6,859,132	6,038,203	6,316,333
Other reserves	583,885	469,422	389,298		583,885	482,516	402,392
Retained earnings	3,565,623	3,281,415	3,417,344		3,565,623	3,184,599	3,332,120
<b>Total equity</b>	<b>16,559,525</b>	<b>15,290,281</b>	<b>15,623,471</b>		<b>16,559,524</b>	<b>15,255,930</b>	<b>15,600,714</b>
Liabilities							
Long-term liabilities							
Loans	68,316	110,726	199,040		68,316	110,726	199,040
Deferred Revenues	161,187	166,935	191,958		161,187	166,935	191,957
Deferred tax liabilities	744,502	563,668	613,200		744,502	573,072	622,604
Employee benefits obligations	92,801	77,873	69,538		92,801	85,435	78,314
Provisions	286,555	0	0		286,555	0	0
Suppliers and assimilated accounts	15,249	7,458	0		15,249	7,458	0
Other long-term debts	8,126	4	30,905		8,126	4	26,452
<b>Total long-term debt</b>	<b>1,376,735</b>	<b>926,664</b>	<b>1,104,641</b>		<b>1,376,736</b>	<b>943,630</b>	<b>1,118,367</b>
Current liabilities							
Short-term loans	0	0	0		0	12,804	12,776
The current portion of long-term loans	42,509	89,397	136,481		42,509	89,397	136,481
Deferred revenues	25,833	23,954	9,797		25,833	24,262	10,110
Short-term employee benefits	10,316	5,925	4,184		10,316	5,925	4,184
Suppliers and assimilated accounts	155,933	134,403	140,906		155,933	165,848	167,150
Provisions	147,747	99,696	65,645		147,747	112,131	77,516
Other current liabilities	296,882	149,178	123,825		296,882	206,685	178,755
<b>Total current liabilities</b>	<b>679,219</b>	<b>502,553</b>	<b>480,839</b>		<b>679,220</b>	<b>617,052</b>	<b>586,972</b>
<b>Total liabilities</b>	<b>2,055,954</b>	<b>1,429,217</b>	<b>1,585,480</b>		<b>2,055,956</b>	<b>1,560,682</b>	<b>1,705,339</b>
<b>Total equity and liabilities</b>	<b>18,615,480</b>	<b>16,719,497</b>	<b>17,208,951</b>		<b>18,615,480</b>	<b>16,816,612</b>	<b>17,306,053</b>

#### 4.2 The statement of profit and other items of comprehensive income is as follows :

Thousand RON

	Individual statements		Consolidated statements	
	31.Dec.18	31.Dec.17	31.Dec.18	31.Dec.17
Electricity Sales	4,252,015	3,247,661	4,252,015	3,246,956
Other operating revenues	21,769	11,618	56,119	18,916
<b>Total revenues</b>	<b>4,273,783</b>	<b>3,259,280</b>	<b>4,308,134</b>	<b>3,265,872</b>
Electricity purchased	(126,926)	(86,789)	(126,926)	(88,162)
Depreciation and impairment	(538,638)	(728,616)	(538,638)	(739,804)
Salaries and other emoluments	(374,480)	(296,464)	(374,480)	(377,032)
Other operating expenses	(567,545)	(482,817)	(567,545)	(470,728)
Materials and consumables	(8,108)	(7,508)	(8,108)	(24,660)
Maintenance and repairs	(89,309)	(82,120)	(89,309)	(3,870)
Changes in provisions	(356,519)	(45,755)	(356,519)	(50,900)
<b>Total Operating Expenses</b>	<b>(2,061,523)</b>	<b>(1,730,069)</b>	<b>(2,061,525)</b>	<b>(1,755,156)</b>
<b>Operating result</b>	<b>2,212,260</b>	<b>1,529,210</b>	<b>2,246,609</b>	<b>1,510,716</b>
Financial income	77,629	28,841	77,629	28,864
Financial expenses	(628)	(8,189)	(628)	(8,570)
<b>Financial result</b>	<b>77,001</b>	<b>20,652</b>	<b>77,001</b>	<b>20,294</b>
<b>(Loss) / Profit before income tax</b>	<b>2,289,261</b>	<b>1,549,862</b>	<b>2,323,610</b>	<b>1,531,010</b>
Income tax	(349,983)	(234,933)	(349,983)	(234,517)
Current	(389,969)	(243,210)	(389,969)	(242,793)
Deferred	39,986	8,277	39,986	8,276
<b>Net Profit</b>	<b>1,939,278</b>	<b>1,314,929</b>	<b>1,973,627</b>	<b>1,296,493</b>
<b>Other elements of the overall result</b>				
Revaluation of tangible assets	1,371,943	-	1,371,943	-
Impact of deferred tax on revaluation reserve	(220,820)	-	(220,820)	-
Re-measurement of post-employment commitments	-	569	-	-
Deferred tax regarding post-employment commitments	-	-	-	-
<b>Other elements of the overall result</b>	<b>1,151,124</b>	<b>569</b>	<b>1,151,123</b>	<b>-</b>
<b>Total elements of the overall result</b>	<b>3,090,401</b>	<b>1,315,498</b>	<b>3,124,750</b>	<b>1,296,078</b>

#### 4.3 The cash flow statement is as follows:

Thousand RON

	Individual statement		Consolidated statements	
	31.Dec.18	31.Dec.17	31.Dec.18	31.Dec.17
<b>Cash flows from operating activities:</b>				
<b>Net Profit</b>	<b>1,939,278</b>	<b>1,314,929</b>	<b>1,973,627</b>	<b>1,296,078</b>
	-	-		
<i>Adjustments for non-cash items:</i>	-	-		
Depreciation of tangible assets	664,456	649,596	664,456	660,337
Depreciation of intangible assets	1,331	1,216	1,331	1,223
Value adjustments of tangible assets, net	(127,149)	78,244	(127,149)	78,244
Expenses from revaluation of tangible assets, net	5,434	-	5,434	-
Net provision movement	356,519	45,755	356,519	50,900
Expenses with the value adjustments of trade receivables and other receivables	21,238	35,285	21,238	35,283
Expenses for value adjustments for inventories	570	(77)	570	199
Loss / (profit) from sales of tangible assets	651	16,895	651	17,391
Expenses with the value adjustments of trade receivables and other receivables	(5,477)	(5,622)	(5,477)	(5,622)
Unrealized losses from exchange rate variation	98	5,746	98	5,746
Profit from losing control of subsidiaries	-	-	(34,350)	-
Interest income	(58,377)	(12,878)	(58,377)	(12,879)
Interest expenses	322	2,444	322	2,824
Income tax	349,983	234,933	349,983	234,517
	<b>3,148,877</b>	<b>2,366,464</b>	<b>3,148,876</b>	<b>2,364,241</b>
<i>Movements in working capital:</i>				
Decrease / (Increase) trade receivables and assimilated accounts	(105,839)	36,646	(122,924)	15,024
Decrease other assets	58,165	11,612	47,503	31,151
Decrease / (increase) inventories	(2,331)	7,222	(2,331)	(14,111)
Restricted cash	(10,257)	-	(10,257)	-
(Decrease) / Increase in trade payables and assimilated accounts	4,286	5,252	23,283	29,691
Other liabilities	(36,198)	18,627	(27,448)	(997)
<b>Cash generated from operating activities</b>	<b>3,056,702</b>	<b>2,445,824</b>	<b>3,056,702</b>	<b>2,424,999</b>
Interest paid	(322)	(2,444)	(322)	(2,824)
Income tax paid	(336,134)	(302,364)	(336,134)	(268,284)
	-	-		
<b>Net cash from operating activities</b>	<b>2,720,246</b>	<b>2,141,017</b>	<b>2,720,246</b>	<b>2,153,891</b>
<i>Cash flow used in the investment activity:</i>	-	-		
Acquisitions of tangible assets	(167,726)	(242,919)	(167,726)	(230,437)
Acquisitions of intangible assets	(334)	(2,795)	(334)	(2,768)
Loans (granted) / repaid	-	19,792		

	Individual statement		Consolidated statements	
	31.Dec.18	31.Dec.17	31.Dec.18	31.Dec.17
Proceeds from the sale of tangible assets	771	12	771	12
Interest earned	35,467	12,878	35,467	12,879
Payments for deposits with an initial maturity of more than 3 months	(5,916,000)	(208,355)	(5,916,000)	(208,355)
Proceeds from deposits with original maturities longer than 3 months	5,071,385	-	5,071,385	-
	-	-		
<b>Net cash used in investment activity</b>	<b>(976,438)</b>	<b>(421,388)</b>	<b>(976,437)</b>	<b>(428,669)</b>
<i>Cash flow from financing activity:</i>	-	-		
Withdrawal from loans	-	-		
Loan repayments	(89,212)	(141,144)	(89,212)	(140,373)
Dividends paid	(1,684,411)	(1,690,686)	(1,684,411)	(1,690,686)
	-	-		
<b>Net cash from financing activity</b>	<b>(1,773,623)</b>	<b>(1,831,830)</b>	<b>(1,773,623)</b>	<b>(1,831,059)</b>
<b>Net (Decrease) / increase in cash and cash equivalents</b>	<b>(29,814)</b>	<b>(112,200)</b>	<b>(29,814)</b>	<b>(105,837)</b>
Cash and cash equivalents at the beginning of the year	105,578	217,778	114,950 (9,372)	220,787 -
<b>Cash and cash equivalents at the end of the year</b>	<b>75,764</b>	<b>105,578</b>	<b>75,764</b>	<b>114,950</b>

## 4.4 Other elements

### Restating comparative figures

In the financial year ended December 31, 2018, the Company conducted a detailed analysis of the current assets, which include investment projects that have started long ago and for which there are indications that the economic benefits are significantly lower than the value of the investment and their execution has been suspended by the Company in the previous years.

Due to the fact that these fixed assets were already impaired in prior periods, the Company has determined and recorded the value losses both for the current financial year and for the previous periods and, consequently, restated the comparative figures.

The following tables present the impact on the individual financial statements of the Company in this respect:

*The individual situation of the financial position (RON)*

1 January 2017	The Impact of Correcting Accounting Errors		
	Previously reported	Adjustment	Restated
Tangible assets	16,418,532,610	(1,638,159,602)	14,780,373,008
<b>Total tangible assets</b>	<b>16,447,879,356</b>	<b>(1,638,159,602)</b>	<b>14,809,719,754</b>
<b>Total assets</b>	<b>18,847,110,407</b>	<b>(1,638,159,602)</b>	<b>17,208,950,805</b>
Retained earnings	5,065,208,623	(1,647,864,496)	3,417,344,127

<b>Total equity</b>	<b>17,271,335,141</b>	<b>(1,647,864,496)</b>	<b>15,623,470,645</b>
Other current liabilities	114,119,646	9,704,894	123,824,540
<b>Total current liabilities</b>	<b>471,133,990</b>	<b>9,704,894</b>	<b>480,838,884</b>
<b>Total liabilities</b>	<b>1,575,775,266</b>	<b>9,704,894</b>	<b>1,585,480,160</b>
<b>Total equity and liabilities</b>	<b>18,847,110,407</b>	<b>(1,638,159,602)</b>	<b>17,208,950,805</b>

### 31 December 2017

Intangible assets	15,956,731,076	(1,690,209,705)	14,266,521,371
<b>Total intangible assets</b>	<b>15,967,864,365</b>	<b>(1,690,209,705)</b>	<b>14,277,654,660</b>
<b>Total assets</b>	<b>18,409,707,189</b>	<b>(1,690,209,705)</b>	<b>16,719,497,484</b>
Retained earnings	4,981,745,640	(1,700,331,000)	3,281,414,639
<b>Total equity</b>	<b>16,990,611,648</b>	<b>(1,700,331,000)</b>	<b>15,290,280,648</b>
Other current liabilities	139,056,456	10,121,295	149,177,751
<b>Total current liabilities</b>	<b>492,431,674</b>	<b>10,121,295</b>	<b>502,552,969</b>
<b>Total liabilities</b>	<b>1,419,095,541</b>	<b>10,121,295</b>	<b>1,429,216,836</b>
<b>Total equity and liabilities</b>	<b>18,409,707,189</b>	<b>(1,690,209,705)</b>	<b>16,719,497,484</b>

### Consolidated statement of financial position (thousand RON)

	The Impact of Correcting Accounting Errors		
	Previously reported	Adjustment	Restated
<b>1 January 2017</b>			
Tangible assets	16,500,732	(1,638,160)	14,862,572
<b>Total tangible assets</b>	<b>16,533,358</b>	<b>(1,638,160)</b>	<b>14,895,198</b>
<b>Total assets</b>	<b>18,944,213</b>	<b>(1,638,160)</b>	<b>17,306,053</b>
Retained earnings	4,979,985	(1,647,865)	3,332,120
<b>Total equity</b>	<b>17,248,579</b>	<b>(1,647,865)</b>	<b>15,600,714</b>
Other current liabilities	169,050	9,705	178,755
<b>Total current liabilities</b>	<b>577,267</b>	<b>9,705</b>	<b>586,972</b>
<b>Total liabilities</b>	<b>1,695,634</b>	<b>9,705</b>	<b>1,705,339</b>
<b>Total equity and liabilities</b>	<b>18,944,213</b>	<b>(1,638,160)</b>	<b>17,306,053</b>
<b>31 December 2017</b>			
Intangible assets	16,026,791	(1,690,210)	14,336,581
<b>Total intangible assets</b>	<b>16,041,557</b>	<b>(1,690,210)</b>	<b>14,351,347</b>
<b>Total assets</b>	<b>18,506,822</b>	<b>(1,690,210)</b>	<b>16,816,612</b>
Retained earnings	4,884,930	(1,700,331)	3,184,599
<b>Total equity</b>	<b>16,956,261</b>	<b>(1,700,331)</b>	<b>15,255,930</b>
Other current liabilities	196,564	10,121	206,685
<b>Total current liabilities</b>	<b>606,931</b>	<b>10,121</b>	<b>617,052</b>
<b>Total liabilities</b>	<b>1,550,561</b>	<b>10,121</b>	<b>1,560,682</b>
<b>Total equity and liabilities</b>	<b>18,506,822</b>	<b>(1,690,210)</b>	<b>16,816,612</b>

### The individual situation of profit or loss and other items of comprehensive income (RON)

The Impact of Correcting Accounting Errors
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<b>For the year ended on 31 December 2017</b>	<b>Previously reported</b>	<b>Adjustment</b>	<b>Restated</b>
Depreciation and impairment of tangible and intangible fixed assets, net	(676,566,298)	(52,050,103)	(728,616,401)
<b>Total operating expenses</b>	<b>(1,678,019,328)</b>	<b>(52,050,103)</b>	<b>(1,730,069,431)</b>
<b>Profit before tax</b>	<b>1,601,911,985</b>	<b>(52,050,103)</b>	<b>1,549,861,883</b>
Income tax	(234,516,615)	(416,401)	(234,933,016)
<b>Net profit</b>	<b>1,367,395,371</b>	<b>(52,466,504)</b>	<b>1,314,928,867</b>
<b>Total Overall Result</b>	<b>1,367,964,219</b>	<b>(52,466,504)</b>	<b>1,315,497,715</b>

*Consolidated Profit or Loss Statement and Other Comprehensive Income Statements (Thousand RON)*

<b>For the year ended on 31 December 2017</b>	<b>The Impact of Correcting Accounting Errors</b>		
	<b>Previously reported</b>	<b>Adjustment</b>	<b>Restated</b>
Depreciation and impairment of tangible and intangible assets, net	(687,754)	(52,050)	(739,804)
<b>Total operating expenses</b>	<b>(1,703,106)</b>	<b>(52,050)</b>	<b>(1,755,156)</b>
<b>Profit before tax</b>	<b>1,583,060</b>	<b>(52,050)</b>	<b>1,531,010</b>
Income tax	(234,101)	(416)	(234,517)
<b>Net profit</b>	<b>1,348,544</b>	<b>(52,466)</b>	<b>1,296,078</b>
<b>Total comprehensive income</b>	<b>1,348,544</b>	<b>(52,466)</b>	<b>1,296,078</b>

Also, in the financial statements for the year ended 31 December 2018, the Company changed the presentation in the consolidated statement of financial position and in the consolidated statement of profit or loss and other items of comprehensive income to certain categories as compared to previous years as follows:

- Separate presentation of non-distributable reserves in "Other reserves", presented in "Retained earnings", in the individual financial position;
- Separate presentation of the short-term portion of the long-term employee benefit obligations in the "Current portion of long-term employee benefit obligations", previously presented in "Liabilities for Long-Term Employee Benefits", in the individual financial position;
- Presentation of value adjustments of tangible assets in "Depreciation and impairment of tangible and intangible assets, net", presented in "Other operating expenses";
- Presentation of expenses on provisioning and reversals of provisions in "Provisional Movements", previously presented in "Other operating expenses".

#### **Loan Portfolio Optimization and Liquidity Management**

Financial activity experienced a significant improvement over the previous years, and due to the liquidity management measures, the reduction of the financing costs and the judicious capitalization of the bank investments, in the year 2018 there was a profit from the financial activity: RON 77,000,609.

	<b>2017</b>	<b>2018</b>	<b>Difference (RON)</b>	<b>Difference (%)</b>
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<b>Income from exchange rate differences</b>	6,951,916	3,020,762	-3,931,154	43%
<b>Interest income</b>	12,878,399	58,376,605	45,498,206	453%
<b>Other financial income (green certificates of 2017, etc.)</b>	15,962,675	19,252,011	3,289,337	121%
<b>Total Financial Income</b>	<b>35,792,989</b>	<b>80,649,378</b>	<b>44,856,389</b>	<b>225%</b>
<b>Expenses with exchange rate differences</b>	12,697,571	3,118,665	-9,578,906	25%
<b>Interest Expenses</b>	2,443,621	322,495	-2,121,126	13%
<b>Other financial expenses</b>	0	207,609	207,610	
<b>Total Financial Expenses</b>	<b>15,141,192</b>	<b>3,648,770</b>	<b>-11,492,422</b>	<b>24%</b>
<b>The result of financial activity</b>	<b>20,651,798</b>	<b>77,000,609</b>	<b>56,348,811</b>	<b>373%</b>

The increase in interest income was supported both by the steady increase of available monetary funds and by an effective policy of bank placements.

The evolution of bank interest income and expense, bank charges and foreign exchange income and expense over the period 2013-2018 is as follows:

RON	2013	2014	2015	2016	2017	2018
<b>Expenditure on bank charges</b>	12,370,071	8,536,407	2,537,156	1,528,402	566,143	411,368
<b>Income from exchange rate fluctuations</b>	104,631,601	36,122,284	23,321,557	14,735,964	6,951,916	3,020,762
<b>Expenditure on foreign exchange differences</b>	123,335,009	40,892,765	35,819,832	14,718,657	12,697,571	3,118,665
<b>Profit / Loss Foreign Exchange Differences</b>	<b>-18,703,408</b>	<b>-4,770,481</b>	<b>-12,498,275</b>	<b>17,307</b>	<b>-5,745,655</b>	<b>-97,903</b>
<b>Revenue from bank interest</b>	1,492,742	7,498,198	10,654,530	15,681,474	12,878,399	58,376,605
<b>Bank interest charges</b>	63,171,811	29,964,746	7,240,192	4,132,871	2,443,621	322,495
<b>Profit / - Loss Interest</b>	<b>-61,679,069</b>	<b>-22,466,548</b>	<b>3,414,338</b>	<b>11,548,603</b>	<b>10,434,778</b>	<b>58,054,110</b>
<b>Result of interest and exchange rate differences</b>	<b>-80,382,477</b>	<b>-27,237,029</b>	<b>-9,083,937</b>	<b>11,565,910</b>	<b>4,689,123</b>	<b>57,956,207</b>

### Dividend policy

According to "Ordinance no. 64/2001 on the distribution of profits to national enterprises, national companies and companies with full or majority state ownership, as well as to the autonomous administration" with the updated amendments, the profit of the year approved by the GMS, approving the financial statements of the same year, shall be distributed in a minimum of 50% on dividends, after covering all losses and the constitution of reserves required by law which are due within 60 days of the approval of these Financial Statements.

For the year 2016, the Ministry of Finance issued the Memorandum on "The mandate of state representatives in the General Shareholders' Meeting / Board of Directors, as the case may be, in national enterprises and companies with full or majority state capital, as well as autonomous administration taking the necessary measures to allocate a 90% share of the net profit realized in 2016, as dividends / payments to the state budget". Through this Memorandum, it is recommended that the representatives of the Romanian State in the general meetings of the shareholders to vote in favor of such an allocation. Hidroelectrica will propose to distribute such a percentage recommended by the Ministry of Finance, from the net profit left to be distributed after covering the legal obligations (e.g. the legal reserve).



The Government issued the Emergency Ordinance no. 29/2017 of March 30, 2017 for the amendment of art. 1 paragraph (1) letter g) of the Government Ordinance no. 64/2001 on the distribution of profit to national enterprises, national companies and companies with full or majority state capital, as well as to the autonomous administration and for the amendment of art. 1 paragraph (2) and (3) of Government Emergency Ordinance no. 109/2011 on the Corporate Governance of Public Enterprises, establishing the possibility of distributing additional dividends from the reserves or the existing retained earnings as at 31.12.2016.

In 2018, dividends were distributed in accordance with the GMS's decisions in a total value of RON 1,821,429,318, out of which RON 1,134,411,087 of net profit for 2017 and 687,018,231 of the retained earnings representing surplus from revaluation reserves.

#### **Payment of up-to-date contributions, taxes and dues**

Hidroelectrica is the leader in electricity production and the main provider of ancillary services required in the National Energy System, being a vital company for a strategic sector with implications for national security. The company is also one of the largest fees and taxpayers in Romania.

<b>Taxes, Contributions and Payroll</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>Total</b>
<b>Contributions related to payroll</b>	140,471,852	122,669,473	113,744,532	91,804,497	94,089,548	94,670,657	133,257,215	790,707,774
<b>Payroll tax</b>	44,147,626	38,434,210	37,761,068	32,409,904	33,177,587	32,544,526	23,832,419	242,307,340
<b>Tax deducted at source</b>	121,001	154,772	198,348	263,481	267,894	237,616	155,874	1,398,986
<b>Total</b>	<b>184,740,479</b>	<b>161,258,455</b>	<b>151,703,948</b>	<b>124,477,882</b>	<b>127,535,029</b>	<b>127,452,799</b>	<b>157,245,508</b>	<b>1,034,414,100</b>
<b>Other taxes and duties to the state budget</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>Total</b>
<b>Income tax</b>	20,389,175	182,757,104	216,416,760	210,973,353	325,280,320	242,793,115	383,545,925	1,582,155,752
<b>VAT to be paid</b>	236,467,844	388,802,270	63,923,279	40,327,743	32,719,254	125,910,565	122,285,020	1,010,435,975
<b>Royalties</b>	1,072,956	3,007,939	2,985,051	2,806,593	3,042,654	3,046,142	3,967,050	19,928,385
<b>Excise duties</b>	708,947	116,396	33,533	33,912	331,588	355,956	64,124	1,644,456
<b>Tax on special construction</b>	0	0	150,087,011	99,993,943	54,550,037	0	0	304,630,991
<b>Other fees (contribution to high efficiency cogeneration)</b>	1,180,302	1,343,160	727,030	848,636	1,900,409	3,568,753	3,918,966	13,487,256
<b>Total</b>	<b>259,819,224</b>	<b>576,026,869</b>	<b>434,172,664</b>	<b>354,984,180</b>	<b>417,824,262</b>	<b>375,674,531</b>	<b>513,781,085</b>	<b>2,932,282,815</b>
<b>Local taxes</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>Total</b>
<b>Tax on buildings and land</b>	2,906,292	3,137,269	2,980,962	2,907,951	41,740,597	40,847,237	42,302,296	136,822,604
<b>Other fees</b>	301,472	316,506	301,968	265,319	250,474	385,220	297,409	2,118,368
<b>Total</b>	<b>3,207,764</b>	<b>3,453,775</b>	<b>3,282,930</b>	<b>3,173,270</b>	<b>41,991,071</b>	<b>41,232,457</b>	<b>42,599,705</b>	<b>138,940,972</b>
<b>TOTAL:</b>								<b>4,105,637,887</b>

Tax on turbinated water is also added:

<b>Tax on turbinated water</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>Total</b>
<b>Expenses on turbinated water</b>	263,790,690	319,908,720	379,728,997	341,432,531	370,277,404	305,416,449	360,666,763	<b>2,341,221,554</b>

#### **Fees of financial auditors**

The fees for professional services provided by KPMG Audit SRL to the Company and its subsidiaries during the period covered by the financial statements for the financial year ended 31 December 2018 and until the date of this report (1 January 2018 - 27 May 2019) are the following:

Statutory audit services of financial statements

RON 518,400 (for the year ended 31 December 2018)

Audit services related to the financial conditions specified in the loan agreements concluded by the Company with commercial banks / international financial institutions (covenants) RON 12,000 (for the year ended 31 December 2018)

Non-audit services

RON 15,000 (for the year ended 31 December 2017)

#### 4.5 Share capital

On 31 December 2018, the share capital is as follows:

	01.01.2018	31.12.2018
<b>1. Subscribed share capital - out of which:</b>	4,482,393,310	4,482,393,310
- The Romanian State through ME	3,588,429,260	3,588,429,260
- S.C. "Fondul Proprietatea" S.A.	893,964,050	893,964,050
<b>2. Total number of shares, out of which:</b>	448,239,331	448,239,331
- The Romanian State through ME	358,842,926	358,842,926
- S.C. "Fondul Proprietatea" S.A.	89,396,405	89,396,405
<b>3. Nominal value</b>	<b>10 RON/share</b>	<b>10 RON/share</b>

As of 31.12.2018 the balance of the Public patrimony account amounts to **RON 39,619,341** and is thus structured:

Name of branch	Name of objective	Value (RON)
SH SIBIU	Cornetu Avrig - Dam HPP Robești (from FS)	73,671
	Cornetu Avrig - Pier left bank CHE Robești (from FS 2001 - 2002)	48,831
	Cornetu Avrig - Pier left bank HPP Robești (from FS 2003 - 2004)	205,588
	Cornetu Avrig - Pier right bank HPP Robești (from FS)	2,191,916
	Assets under the public domain	13,928,089
SH HATEG	Stable segment 10X10.5 in HPP Subcetate	138,273
	Cornetu Avrig - Racovita Dam	45,333
	Cornetu Avrig - Weirs Racovita	227,358
SH BISTRITA	Pascani Hydropower development, takeover from ANAR (dam, pier)	22,760,281
	<b>TOTAL GENERAL</b>	<b>39,619,341</b>

The balance of public patrimony represents investments not yet in operation on 31.12.2018, i.e. investments completed but not yet included in the inventory of public domain public goods made from subsidies and special funds.

#### 4.6 Implementation of the budget

As can be seen in the table below, all income indicators have been exceeded (total revenue was 137% compared to the budget) and all expenditure indicators - including those of salary - were respected (total expenditure was to 99% of the budget).

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

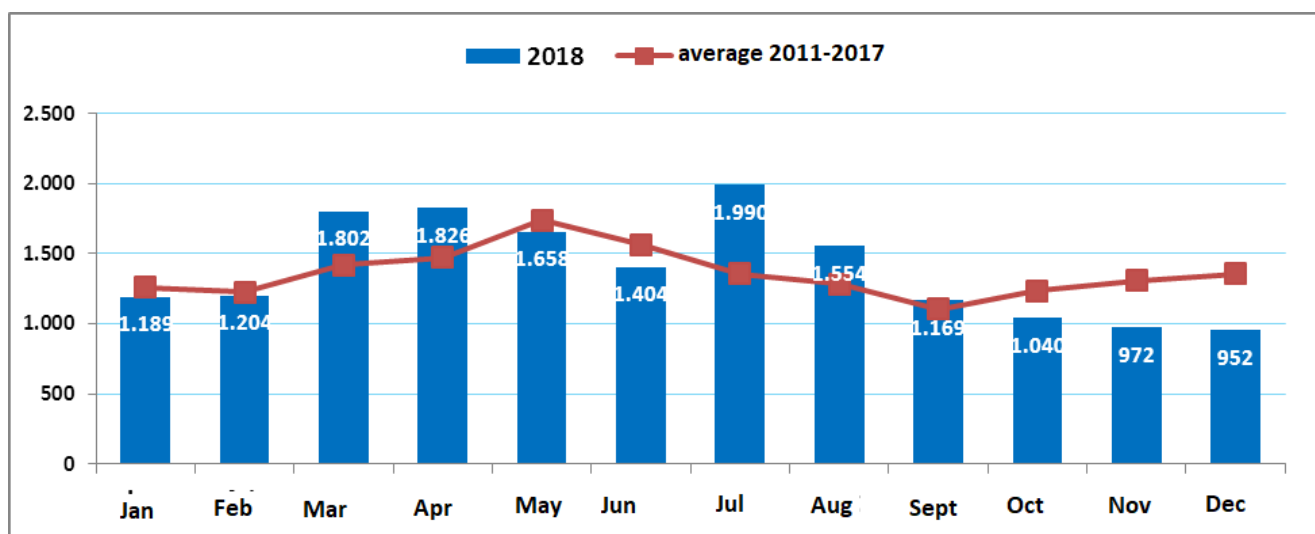
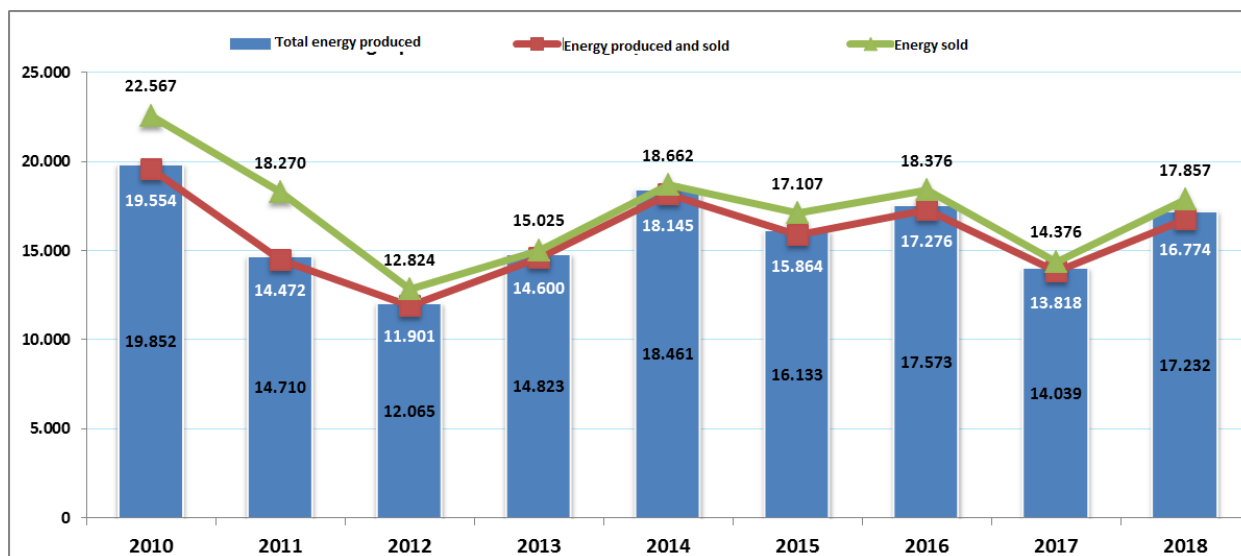
INDICATORS	2016			2017			2018			2019
(thousand RON)	IEB	Achieved	%	IEB	Achieved	%	IEB	Achieved	%	Proposed IEB
<b>Operating income</b>	3,082	3,366	109%	3,121	3,259	105%	3,181	4,274	135%	3,519
<b>Financial income</b>	12	31	258%	6	29	575%	18	78	454%	30
<b>TOTAL INCOME</b>	<b>3,093</b>	<b>3,396</b>	<b>110%</b>	<b>3,127</b>	<b>3,322</b>	<b>106%</b>	<b>3,199</b>	<b>4,382</b>	<b>137%</b>	<b>3,549</b>
<b>Operating Expenses</b>	2,199	1,826	83%	1,877	1,730	91%	2,212	2,246	100%	2,564
<b>Financial expenses</b>	26	33	127%	6	8	250%	1	4	77%	4
<b>TOTAL EXPENSES</b>	<b>2,225</b>	<b>1,858</b>	<b>84%</b>	<b>1,883</b>	<b>1,719</b>	<b>91%</b>	<b>2,262</b>	<b>2,250</b>	<b>99%</b>	<b>2,568</b>
<b>GROSS RESULT (profit/loss)</b>	<b>869</b>	<b>1,538</b>	<b>177%</b>	<b>1,244</b>	<b>1,550</b>	<b>129%</b>	<b>937</b>	<b>2,289</b>	<b>228%</b>	<b>981</b>
INVESTMENT EXPENSES, of which:	818	338	41%	626	405	65%	578	304	53%	490
<b>Repayments of interest rates on investment credits</b>	175	155	89%	134	132	98%	87	89	102%	42

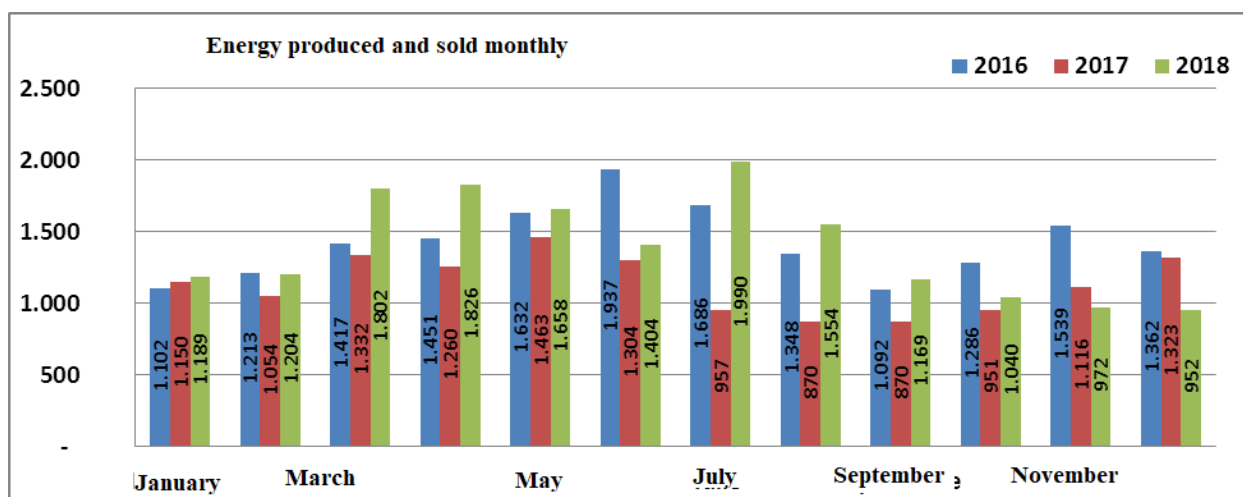
#### 4.7 HIDROELECTRICA IN NUMBERS

The evolution of main key indicators over the past 6 years is illustrated in the table below:

	2013	2014	2015	2016	2017	2018
Installed power (MW)	6,464	6,443	6,435	6,432	6,444	6,444
Total electricity production (GWh), of which:	14,823	18,461	16,133	17,573	14,039	17,232
- Energy produced and delivered (GWh)	14,600	18,145	15,864	17,276	13,818	16,774
- The electricity supplied (GWh)	15,025	18,662	17,107	18,376	14,376	17,857
Production capacities, as follows:						
No. of power plants, total, of which:	261	219	212	207	208	208
- CHE + CHEMP (Pi<=10MW)	149	107	100	95	95	95
- CHE (Pi>10MW)	107	107	107	107	108	108
Pumping stations	5	5	5	5	5	5
No of groups, total, of which:	557	483	470	462	464	464
- CHE + CHEMP (Pi<=10MW)	297	223	210	202	202	202
- CHE (Pi>10MW)	249	249	249	249	251	251
- Pumping stations	11	11	11	11	11	11
Number of employees at the end of the period	4,172	3,711	3,448	3,272	3,297	3407

# Total production of electricity and electricity produced and delivered (GWh)



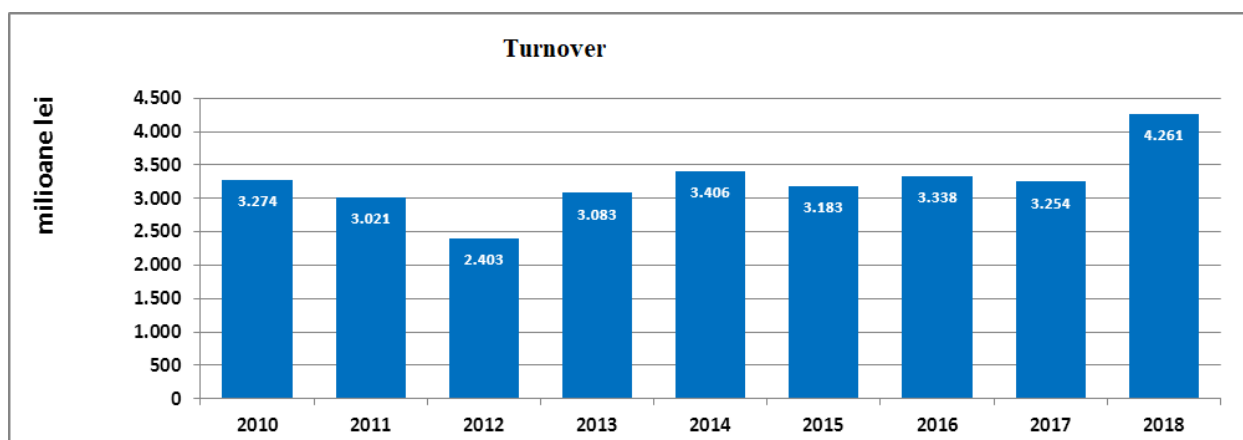


The evolution of financial results for the period 2013-2018 is presented below:

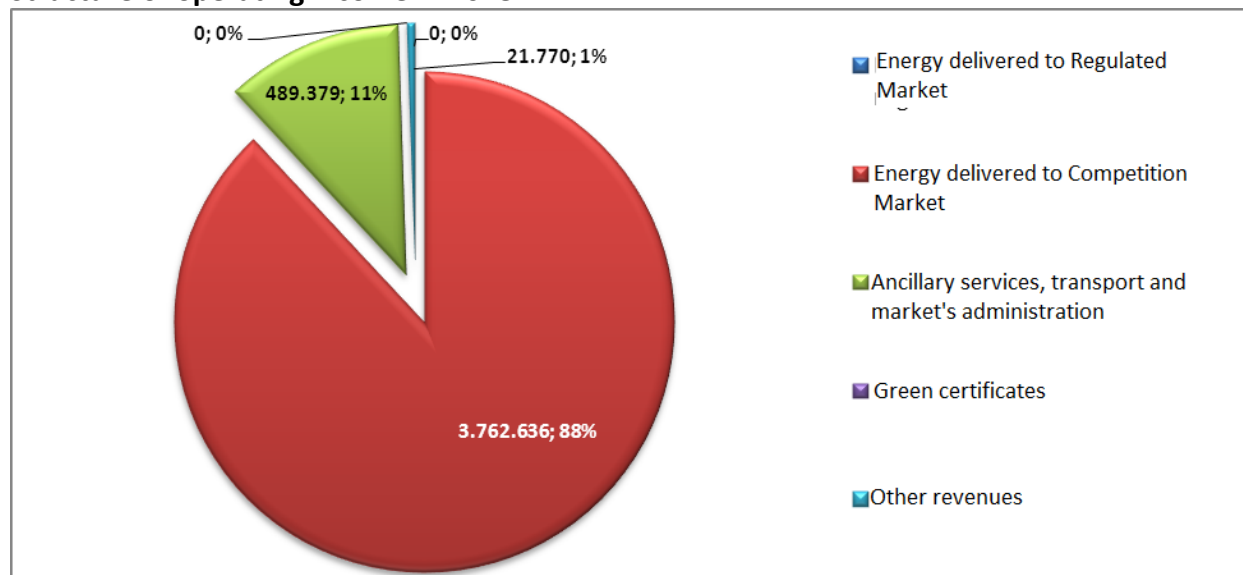
	2013	2014	2015	2016	2017	2018
Total assets (mil RON)	19,532	19,292	19,132	17,209	16,719	18,615
Equity (mil RON)	16,697	17,640	17,993	15,623	15,290	16,560
Total revenue (mil RON)	3,260	3,497	3,329	3,396	3,288	4,351
Operating income (mil RON)	3,150	3,451	3,293	3,366	3,259	4,274
Operating expenses (mil RON)	2,134	2,243	2,166	1,826	1,730	2,062
Net Profit (mil RON)	719	942	899	1,228	1,315	1,939
EBITDA* (mil RON)	1,987	2,172	2,092	2,243	2,259	3,123
EBITDA margin (%)	64	64	66	67	69	73
Investments (mil RON)	260	193	172	182	405	304
Debts / Equity (%)	15	7	4	3	2	7

\* calculated at operating result

Net turnover is the income from the core business, called "Operating Income", plus revenue from other activities (e.g. green certificate earnings).

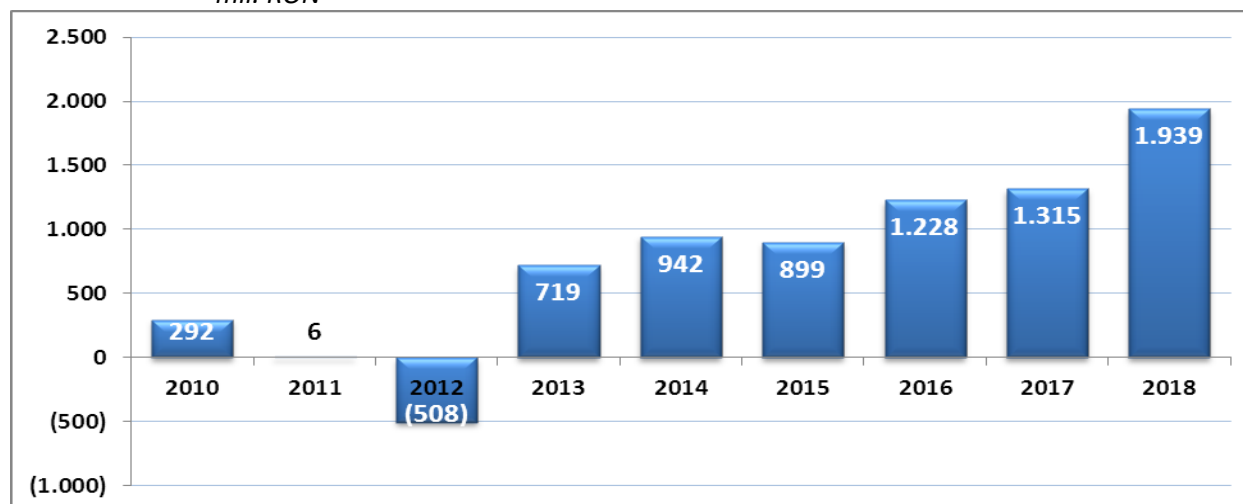


### Structure of operating income in 2018



### Net Profit

*mil. RON*



### Operating income

INDICATORS	U.M.	PROGRAMMED	ACHIEVED	DIFFERENCE
1. Total electricity delivered	MWh	15,652,000	17,857,227	2,205,227
(A+B), of which:	RON	2,874,341,500		888,294,278
A. Electricity delivered on the Regulated Market	MWh	0	0	0
B. Electricity delivered to Other Markets	MWh	15,652,000	17,857,227	2,205,227

2. Ancillary services, transport, market management, of which:	RON	288,000,000		201,373,933
Supplied to Transelectrica SA (secondary frequency / power setting, power reserve, reactive power supply and voltage regulation)	RON	288,000,000	432,172,125	144,172,125
Ancillary services, transport and market administration on the competitive market	RON	0	57,201,808	57,201,808
4. Industrial water services	RON	2,011,000	1,859,643	-151,357
5. Other services	RON	3,955,000	7,617,555	3,662,555
6. Other operating revenues		13,046,000	21,768,800	8,724,220
<b>TOTAL OPERATING REVENUE (1+2+3+4+5+6)</b>	<b>RON</b>	<b>3,181,353,500</b>	<b>4,273,783,432</b>	<b>1,092,431,950</b>

## Operating Expenses

Operating expenses have the following structure:

Indicators	RON				
	ACHIEVED 2017 (RON)	PROGRAMMED 2018 (RON)	ACHIEVED 2018 (RON)	DIFFERENCE 2018-2017	DIFFERENCE to programmed 2018
Expenditure on raw materials and consumables	5,998,467	20,972,525	6,613,628	615,161	-14,358,897
Other material expenses	1,509,393	8,243,769	1,638,209	128,816	-6,605,560
Other external costs (energy and water)	306,849,178	435,858,857	489,113,717	182,264,539	53,254,860
Expenditure on goods	86,788,725	200,000	12,974	-86,775,751	-187,026
Expenditure on personnel	296,474,219	379,595,699	374,479,753	82,825,932	-295,469
Adjustment the value of tangible and intangible assets	676,566,299	671,766,222	684,253,623	7,687,324	12,487,401
ting the value of current assets		0		-29,773,822	2,946,648
Expenditure on external benefits	182,022,933	312,371,493	210,581,815	28,558,882	-101,789,678
Expenses with other taxes, fees and similar payments	44,869,177	57,171,142	52,127,129	4,926,636	-7,373,313
Expenses from revaluation of property, plant and equipment	0	0	5,434,388	0	0
Expenses with indemnifications donations and assets sold	24,562,338	9,663,572	37,644,392	13,082,054	27,980,820
Adjustments for provisions	45,755,165	361,380,809	356,518,513	310,763,785	-4,861,574
<b>Operating Expenses - Total</b>	<b>1,730,069,431</b>	<b>2,257,224,088</b>	<b>2,061,522,982</b>	<b>331,456,080</b>	<b>-195,698,788</b>

## Purchased energy

2018	Quantity (MWh)	Value (RON)
<b>Purchased energy, of which:</b>	<b>1,083,656,820</b>	<b>126,925,538</b>
OTC	45,720,000	13,404,000,00
NEXT DAY MARKET	388,735,500	77,957,879,98
INTRADAY	82,000	9,325,00
BALANCING MARKET	649,119,320	34,250,943,93

## 2017

NAME OF ENERGY MARKET	Total quantity (MWh)	Total value (RON)
<b>NEXT DAY MARKET</b>	330,884	35,300,474
<b>OTC</b>	36,240	6,510,780
<b>BALANCING MARKET</b>	633,072	44,974,551
<b>INTRADAY</b>	20	2,920
<b>TOTAL</b>	<b>1,000,216</b>	<b>86,788,725</b>

Expenditures for the purchased energy, amounting to RON 125,622,148.91, were made during 2018 according to the market rules of the Next Day Market, the Balancing Market, OTC and INTRADAY.

During 2018, Hidroelectrica purchased energy from platforms managed by OPCOM in a transparent and competitive manner, according to the rules of specific markets (i.e. NDM, Balancing Market, OTC, Intraday) for the optimization of their own production.

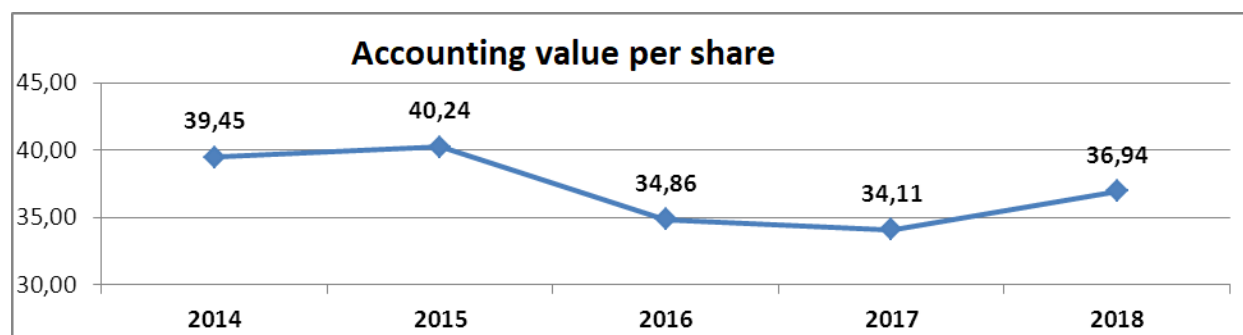
These operations, conducted in accordance with the contracting strategy, enabled Hidroelectrica to maximize revenue by capitalizing opportunities on all OPCOM platforms as well as meeting its contractual obligations assumed by competitive pricing on OPCOM platforms.

Throughout 2018, Hidroelectrica has contributed to the safe operation of the National Energy System, one of the important actions in this respect being the optimal correlation of the availability of hydro-units with their maintenance program.

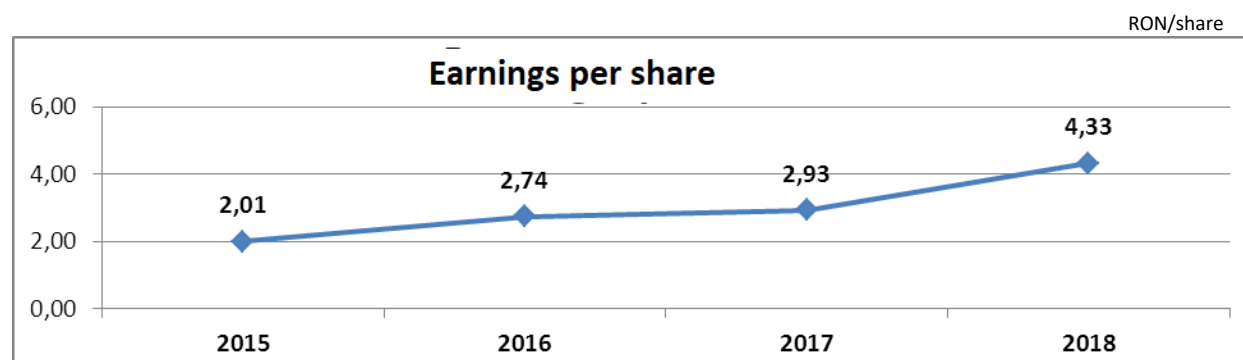
Profitability indicators			
	2016	2017	2018
Return on capital (RON)	<b>0.08</b>	<b>0.09</b>	<b>0.12</b>
Net Profit			
	1,314,928,867	1,314,928,867	1,939,277,440
Own equity	15,623,471,000	15,290,281,000	16,559,524,000

	2015	2016	2017	2018
Return on assets (RON)	0.05	0.07	0.08	0.10
Net Profit	899,413,095	1,314,928,867	1,314,928,867	1,939,277,440
Total assets	19,113,426,819	17,208,951,000	16,719,497,484	18,615,479,926
Book value per share (RON)	<b>40.24</b>	<b>34.86</b>	<b>34.11</b>	<b>36.94</b>
Own equity	18,032,256,147	15,623,471,000	15,290,280,648	16,559,525,447
No. of shares	448,148,224	448,165,063	448,239,331	448,239,331

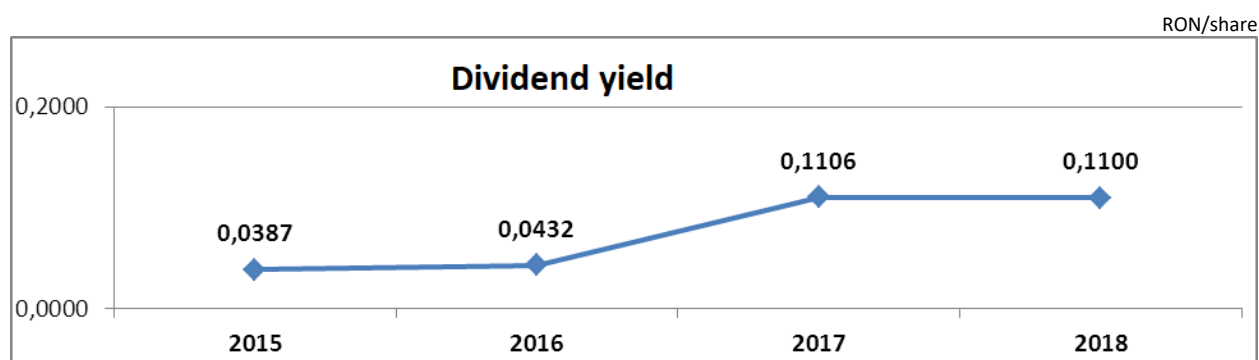




	RON/share			
	2015	2016	2017	2018
Nominal value per share	10	10	10	10
Total number of shares	448,148,224	448,165,063	448,239,331	448,239,331
Earnings per share	2.01	2.74	2.93	4.33
Net Profit	899,413,095	1,314,928,867	1,314,928,867	1,939,277,440



	2015	2016	2017	2018
Dividend per share	1.56	1.51	3.77	4.06
Distributed dividends	697,929,194	675,115,016	1,690,686,137	1,821,429,318
No. of shares	448,148,224	448,165,063	448,239,331	448,239,331



	2015	2016	2017	2018
Dividend yield %	<b>0.0387</b>	<b>0.0432</b>	<b>0.1106</b>	<b>0.1100</b>
Dividends / share - RON	1.56	1.51	3.77	4.06
Book value / share - RON	40.24	34.86	34.11	36.94

## 5. DOMAINS OF ACTIVITY

### 5.1 PRODUCTION AND OPERATION

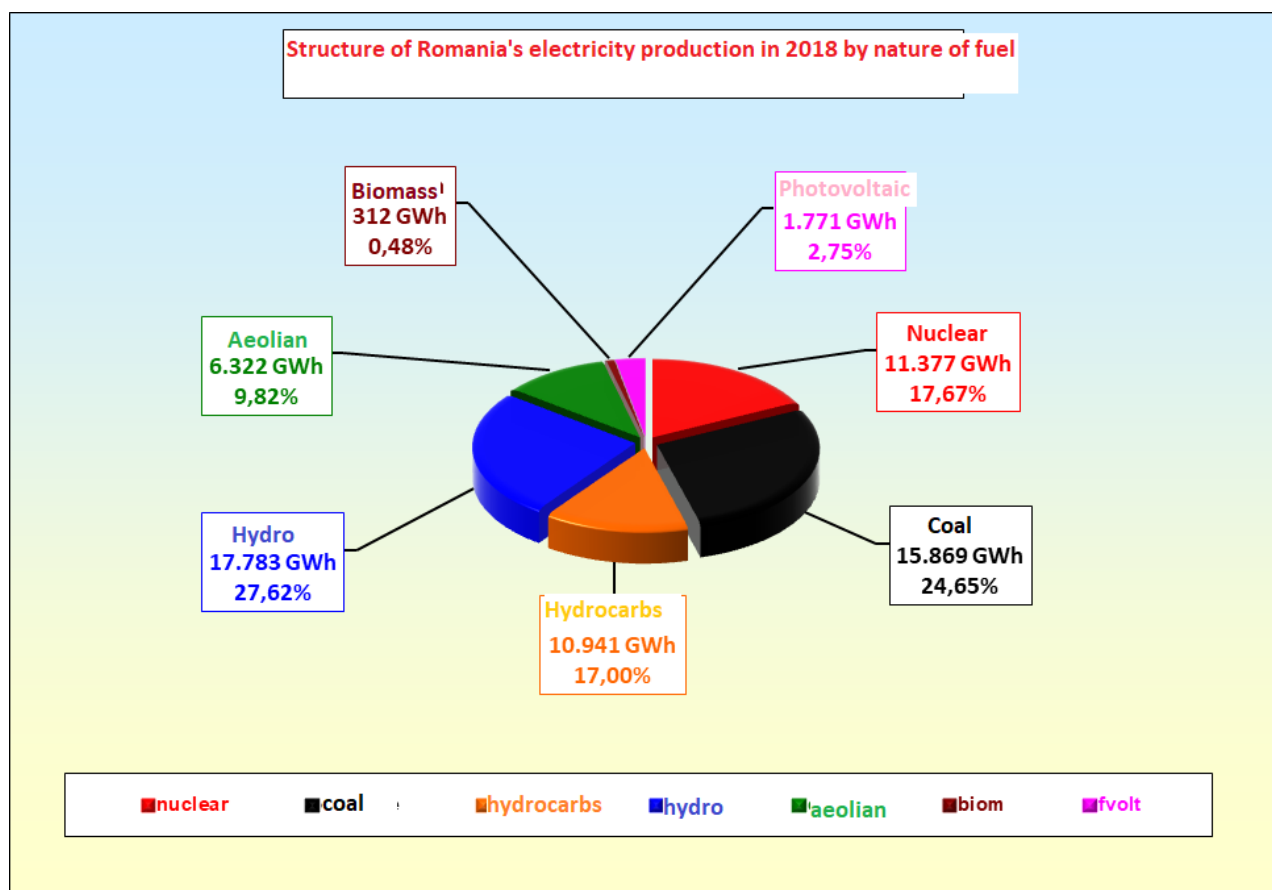
#### 5.1.1 Evolution of electricity consumption and production at NES level in 2018

The total power installed in the NES in 2018 was 24,605.73 MW, of which 6,232.2 MW in coal-fired power plants, 5,656.06 MW in hydrocarbons power plants, 6,758.77 MW in hydro power plants, 1,413 MW in the nuclear power plants, 3,031.57 MW in aeolian power plants, 131.97 MW in biomass power plants and 1,382.08MW in photovoltaic plants and 0.05 MW in geothermal plants.

Romania's domestic electricity consumption in 2018 was 61,835 GWh, having a value of 1,615% higher than the value recorded in 2017 (60,852GWh).

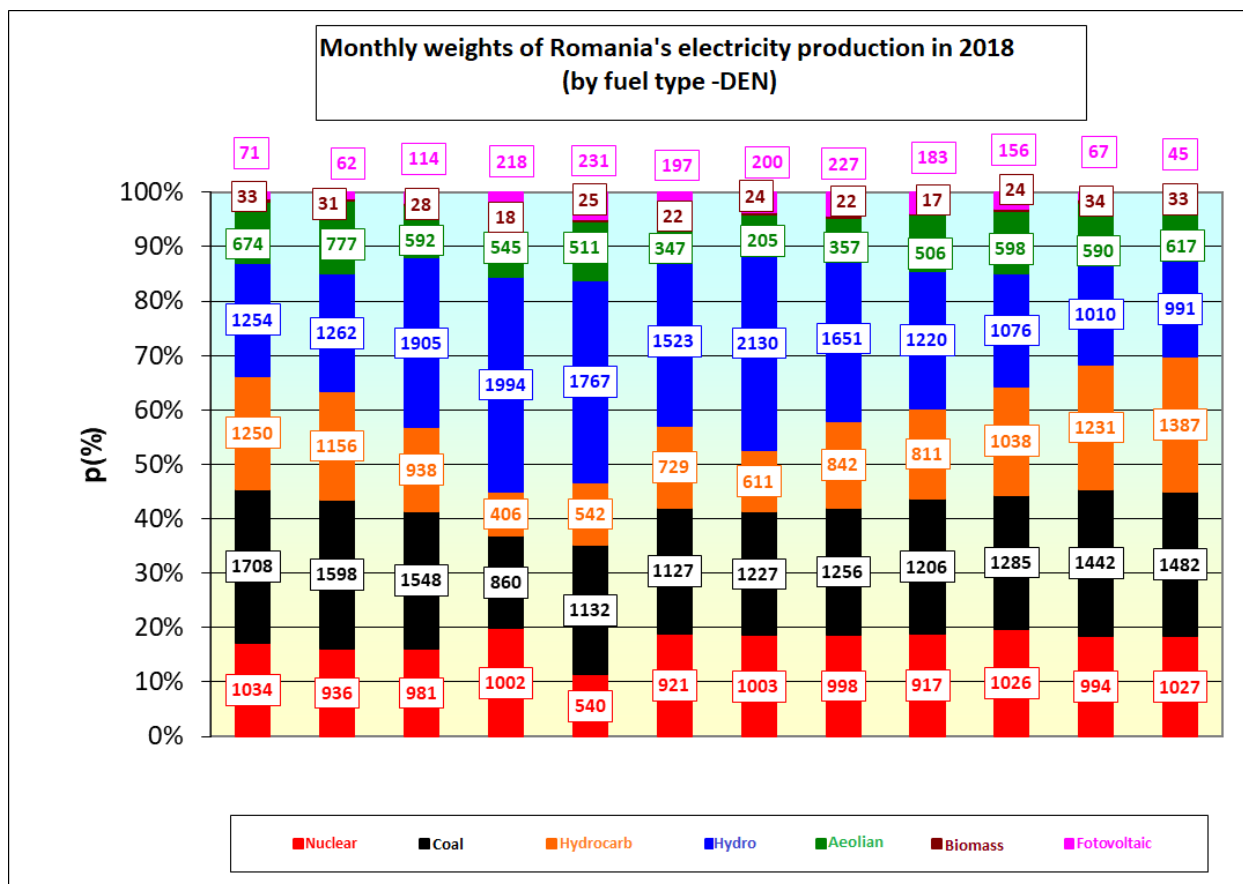
Electricity production in 2018 was of 64,375 GWh, of which 15,869 GWh were produced in coal power plants, 10,941 GWh in hydrocarbons power plants, 11,377 GWh in the nuclear power plants, 17,783 GWh in hydro power plants (of which 17,232 GWh in hydroelectric plants under Hidroelectrica SA management), 6.322 GWh in photovoltaic power plants, 312 GWh in biomass power plants and 1.771 GWh in photovoltaic power plants. Electricity produced in SPEEH Hidroelectrica S.A. represented 26.77% of the country's total output. The share of production made in Hidroelectrica's plants compared to total NES output was between 39.54% (April) and 17.75% (December).

The production achieved in 2018 in the hydroelectric power plants under administration was 22.74% (3.192 GWh) higher than that achieved in the previous reporting year 2017.



Participation in the monthly coverage of the NES load schedule of the Romanian producers (depending on the type of fuel).

Month	Cons	Prod	Prod	Prod	Prod	Prod	Prod	Prod	Prod	Exp	Imp
	total	nuclear	coal	Hydro-carbs	hydro	wind	biom	fvolt	total	(-)	(+)
Jan	5671	1034	1708	1250	1254	674	33	71	6024	-603	250
Feb	5313	936	1598	1156	1262	777	31	62	5822	-605	96
Mar	5769	981	1548	938	1905	592	28	114	6106	-528	191
Apr	4675	1002	860	406	1994	545	18	218	5043	-510	142
May	4768	540	1132	542	1767	511	25	231	4748	-269	289
Jun	4831	921	1127	729	1523	347	22	197	4866	-284	249
Jul	4969	1003	1227	611	2130	205	24	200	5400	-507	76
Aug	4992	998	1256	842	1651	357	22	227	5353	-546	185
Sep	4719	917	1206	811	1220	506	17	183	4860	-344	203
Oct	5055	1026	1285	1038	1076	598	24	156	5203	-387	239
Nov	5340	994	1442	1231	1010	590	34	67	5368	-399	371
Dec	5733	1027	1482	1387	991	617	33	45	5582	-386	536
Total 2018	61835	11377	15869	10941	17783	6322	312	1771	64375	-5369	2829



### 5.1.2. Production of energy S.P.E.E.H. Hidroelectrica S.A.

The gross energy output of Hidroelectrica was of 17,232 GWh.

The output of hydroelectric power plants in 2018 was 99.28% from natural affluence, the rest of 51.29 million cubic meters being realized by de-storing from the reserves of the major reservoirs.

### 5.1.3. Providing ancillary services

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

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

Name of service	UM	Auctioned	Assigned	Contracted	Realized
Secondary control reserve	hMW	2,957,148	29,870	2,987,018	2,986,890
Tertiary fast reserve	hMW	4,887,564	53,292	4,940,856	4,940,856
Reactive power discharged or absorbed from the network in the secondary voltage control band	Hours X group	-	-	11,0899	11,089

The amount of ancillary services made in 2018 by Hidroelectrica compared to the total of NES:

Name of service	UM	Necessary NES	Realized Hidroelectrica	*Realized HE (%)
Secondary control reserve	hMW	4,124,500	2,986,890	76,22%
Tertiary fast reserve	hMW	6,059,000	4,940,856	82,89%
Reactive power discharged or absorbed from the network in the secondary voltage control band	Hours X group	11,089	11,089	100%

\*(%) from NES values

In performing the ancillary services, it is worth mentioning the special contribution of the facilities Porțile de Fier I – Danube and Ciunget – Lotru.

The table below shows the contribution of the main power plants to the secondary control service in 2018.

HE production in 2018→	17.232 GWh		
Power plant (accumulation)	BRS <sub>max</sub> qualified	Band RS (achieved)	
↓	(MW)	(hMW)	(%)
Stejaru (Izvorul Muntelui)	26	0	0
Marișelu (Fântânele)	30	4096	0.15
Corbeni (Vidraru)	80	32921	1.23
Ciunget ( Vidra)	474	1483273	55.48
Gâlceag ( Oașa)	42	574	0.02
Șugag ( Tău)	24	5472	0.20
Ruieni (Bistra Mărului)	50	0	0
Râul Mare (Gura Apelor)	16	0	0
Porți de Fier I (Porți de Fier)	780	1146979	42.90
Total without PdF	742	1526336	57.10
Total with PdF	1,522	267331.88	100
The total band invoiced in 2018		2,987,018	

As a result of the regulations regarding the qualification of the domestic providers of ancillary service providers (Transelectrica PO TEL-07 V OS-DN / 154/2001), Hidroelectrica also continued in 2018 the qualification program of its units.

Compared to the previous reporting year the situation is unchanged, at present Hidroelectrica has obtained the qualification for the following ancillary services:

1. Secondary frequency - power control → 28 hydro-aggregates;
2. Fast Tertiary Reserve → 95 Hydro Aggregates;
3. Reactive power regulation in the secondary voltage adjustment band → 28 hydro-aggregates;
4. Restoration of NES → 5 hydro-aggregates;

We mention that the qualification process is permanent, each qualified ancillary service provider must periodically reconfirm, through evidence, the capability of performing the ancillary services for which it was originally qualified.

#### 5.1.4. Dynamics of installed power in Hidroelectrica in 2018. Participation of HPP at power balance

In the Hidroelectrica facilities - on 31.12.2018 – were operating a number of 208 capacities with a power of 6,394,006 MW, value which does not include 50 MW HA6- HPP Dimitrie Leonida, hydro-aggregate removed from service for refurbishing works.

Compared with 2017, the installed power in the hydroelectric power plants in the SPEEH Hidroelectrica SA patrimony has been maintained.

The 6,394,006MW in operation from SPEEH Hidroelectrica SA were installed in 208 power plants and pumping stations (of which CHEMP and MHPP with power  $\leq 4$  MW were 72, HPP  $> 4$  MW but  $\leq 10$  MW were 23, HPP  $> 10$  MW were 108). The number of groups in operation is 463 (of which 156 in plants with installed power  $\leq 4$  MW, 46 in power stations  $> 4$  MW but  $\leq 10$  MW, 250 in CHE  $> 10$  MW) and 11 pumping groups.

Of the total installed capacity of 6,269.92 MW in 2018 (in power stations above 4 MW - mostly under SPEEH Hidroelectrica SA administration prior to 1 July 2002 and for which PO-HE-DE-06 was applied) was recorded an average permanent power reduction of 276.82 MW, resulting from the failure to complete investment works, constructive deficiencies of turbines or generators, operating restrictions on storage lakes, load losses on higher deliveries than project ones, etc. made the power available in HPP over 4MW to be in value of 5291.14MW.

The average temporary power reductions available in the year 2018 were 662.17 MW, with the following causes:

- technical reasons 44,43 MW;
- hydrological causes 54,70 MW;
- planned repairs 360,94 MW;
- accidental repairs 197,44 MW;
- other causes 44,46 MW;

Thus, the average insured power in 2018 was of 5,291.14 MW (about 46.59 MW lower than the previous year).

Of the total installed capacity of 70,361 MW of power plants under 4 MW, in 2018 there were permanent power reductions of 25,345 MW, the maximum available power being 45,016MW.

#### Units accredited to obtain green certificates

In 2018, Hidroelectrica had a total of 17 accredited power plants (including those deferred from accreditation) to benefit of green certificates.

Of these, 10 plants actually benefited from green certificates Zervești, Bistrița Prislop, Godeanu2, Vălenii de Munte HPP, Vălenii de Munte SHPP, Zăbala 4A, Fughiu, Obrejii de Căpâlna, Cugir, Chemp Râul Alb), and 7 power plants - Vicov, Cernavodă, Chiojd 2, Greșu, Boia1, Leșu, Vulcan 2, haing suspended accreditation in 2018, being unavailable.

In 2018 SPEEH Hidroelectrica SA received 123,258 green certificates for the energy produced and delivered by the accredited power plants, and a number of 19,728 certificates (of those postponed starting from 2013) were returned. Actually, Hidroelectrica had 142,986 green certificates available for trading.

The energy that had received green certificates in 2018 was in value of 43783.965 MWh.

No.	Month →	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
	Branch / Plant ↓													2018
1	Bistrița	109967	76968	148221	150459	148539	143637	277176	258942	174521	175083	176444	179200	2019157
2	*Curtea de Argeș	37634.5	43594.3	92680.8	87385.2	180785.6	103776.3	176361.2	123158.5	101468.4	84251.3	58589.4	50113.8	1139800
3	Cd Ag /uz. Buzău	15529	16895	40372	32321	11191	10787	43051	20546	12397	7419	5047	4078	219633
4	*Cluj	15405	37696	65587	75648	62718	57884	74985	74972	53885	28650	35195	26018	608643
5	Cluj/uz. Oradea	16902	37243	37378	67421	36116	32541	32478	37878	34621	24777	15973	16542	389870
6	*Hațeg	5254	4355	28629	49846	116514	72603	43319	40782	52061	93682	91348	36331	634724
7	Hațeg/ uz.Caransebeș	7796	13145	31332	36370	26084	34627	10812	24554	8885	10551	10508	8429	223093
8	*Porțile de Fier	787165	682618	755499	774308	663324	557861	556994	366066	352838	272367	371238	436665	6576943
9	PdF/ uz.Târgu Jiu	9523.6	14390.1	31201.8	64266.07	63988.3	51957.4	33993.1	43486.5	25025.1	20223.2	7359.8	15031.06	380446
10	*Râmnicu Vâlcea	125420	173774	336898	320924	209846	207258	419997	328091	238068	206025	141092	119869	2827262
11	Rm Vl/uz.Slatina	59458	94714	194736	163787	90745	99753	214319	122220	56435	49688	39279	46964	1232098
12	*Sebeș	8624	10478	32149	25349	69187	55534	109277	120415	70459	79680	32530	23270	636952
13	Sebeș/ uz.Sibiu	19568	25883	44403	46909	25125	26709	60764	37641	18338	12836	11823	13499	343498
	Total →	1218246,2	1231753,5	1839086,6	1894993,3	1704162,9	1454927,8	2053526,3	1598752,1	1199001,5	1065232,5	996426,2	976009,9	17232119

Note: \* Values of the branch-generated energy without plant related to the immediately following line.

### 5.1.5 HIDROELECTRICA'S ACTIVITY REFERENCE

As far as the electricity market in 2018 is concerned, it can be characterized as such:

		(GWh)					
No.	Indicator	2014	2015	2016	2017	2018	2018/2017(%)
1	Net installed power in NES (MW)	24,500	24,631	24,726	24,738	24,605	99.46%
2	Energy produced	64,863	64,579	63,566	63,748	64,375	100.98%
3	Domestic consumption	57,740	57,729	58,505	60,852	61,835	102.91%

Source: National Energy Dispatcher

In 2018, Hidroelectrica did not have the obligation to deliver on the regulated market.

The energy market was marked in 2018 by a pressure exerted by the evolution of the price for the greenhouse gas emissions certificate from 7.83 Euro / Certificate at 23.40 Euro / Certificate. This development had an impact on OPCOM trading prices, the average price on NDM ranging between RON 183.64 / MWh in January 2018 and RON 309 / MWh in December 2018.

In the context presented, Hidroelectrica S.A. reached the goal of strengthening its market leadership position and the main producer - contributing with 26.76% to Romania's total output, and also fulfilled its role as a major factor in ensuring stability in operation of the NES. Hidroelectrica provided in 2018: 76.22% of the secondary

regulation reserve, 82.89% of the fast tertiary reserve and 100% of the reactive energy insurance service debited or absorbed from the network in the secondary voltage regulation band.

Particularities in the operation of the hydro energetic system of Hidroelectrica S.A. in 2018

In 2018, Hidroelectrica produced in its own installations an amount of electricity of 17,232 GWh, with 3,192 GWh more than in the previous year 2017. The total amount of energy sold, from own production and purchases from third parties, was 17,852GWh.

As a result of the recorded hydrological conditions (97% of the Danube hydrology and 92% of the total water hydrology of the internal waters), the volume of contractual obligations and the conditions on the energy markets, the value of the energy produced at the terminals was of 98.92% from the values of an average hydrological year, which is approximately 17,419 GWh.

The output of hydroelectric power plants in 2018 was 99.28% on account of natural affluence, and the rest representing de-storing of approximately 123.14 GWh from the reserves of the major reservoirs. Thus, the energy reserve of the major reservoirs decreased from 1,741.59 GWh on 31.12.2017 to 1,618,545 GWh on 31.12.2018.

In 2018, at the Hidroelectrica level, a number of 59 dispatchable units (DUs) were operational, on the structure of which the daily exploitation programs were developed.

The evolution of water reserves in the major developments generated by the hydrological situation both on the Danube River and on the inland waters has been sufficient to cover the entire volume of contractual obligations, the water needed for downstream utilities, the amount of ancillary services required for safety operation of NES and the necessary stock for the smooth transition of winter periods 2017÷2018 and 2018÷2019.

## **5.2 TRADING ACTIVITY/ SUPPLY OF ENERGY**

### **5.2.1 Presentation of general framework regarding electricity sales on OPCOM platforms**

Trading on OPCOM platforms is in accordance with the Medium and Long Term Trading Strategy, approved by the SPEEH Hidroelectrica shareholders. The establishment of trading products is based on both internal factors (the internal trading strategy, the useful filling degree of the lakes, the flow of the Danube, etc.), as well as external ones, which refer to the cause of researching activity affecting the energy market (evolution of oil prices, gas, CO2 certificates, weather forecast influence).

During 2018, the Electricity Sales Service submitted for approval and publication, energy sales offers containing structured products (tape and tape profiling) for delivery in the years 2018, 2019 and 2020 on the following platforms managed by OPCOM:

- a. Centralized Market for Bilateral Electricity Contracts - Expanded and Continuous Negotiated Trading Models (PCCB-LE and PCCB-NC, with total exposure over 10 TWh)
- b. Centralized Market with Continuous Double Negotiation of Bilateral Electricity Contracts (OTC)
- c. Centralized Market for Universal Service (CMUS)

### **5.2.2 The structure of sales on the electricity markets in the year 2018**

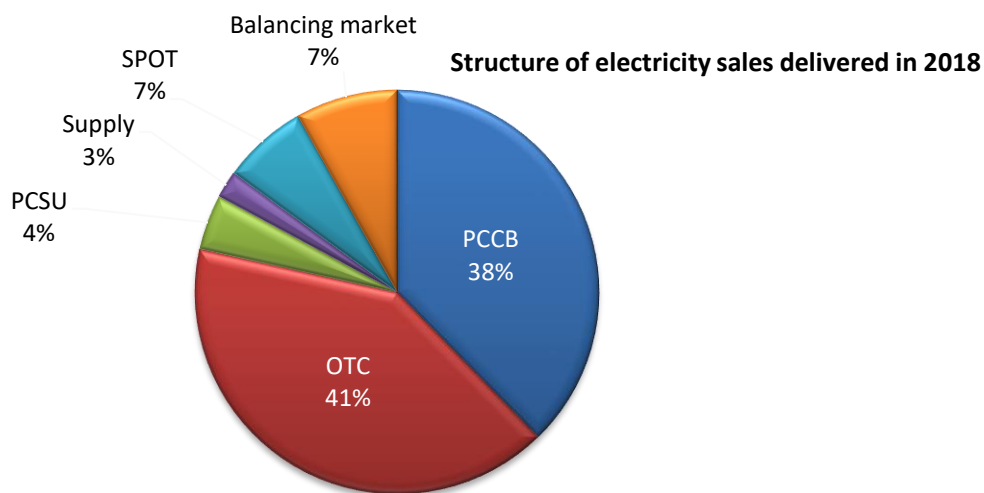


### Sales structure based on market types

In relation to the types of markets where electricity trading took place during the period 01.01.2018-31.12.2018, the sales structure is the following:

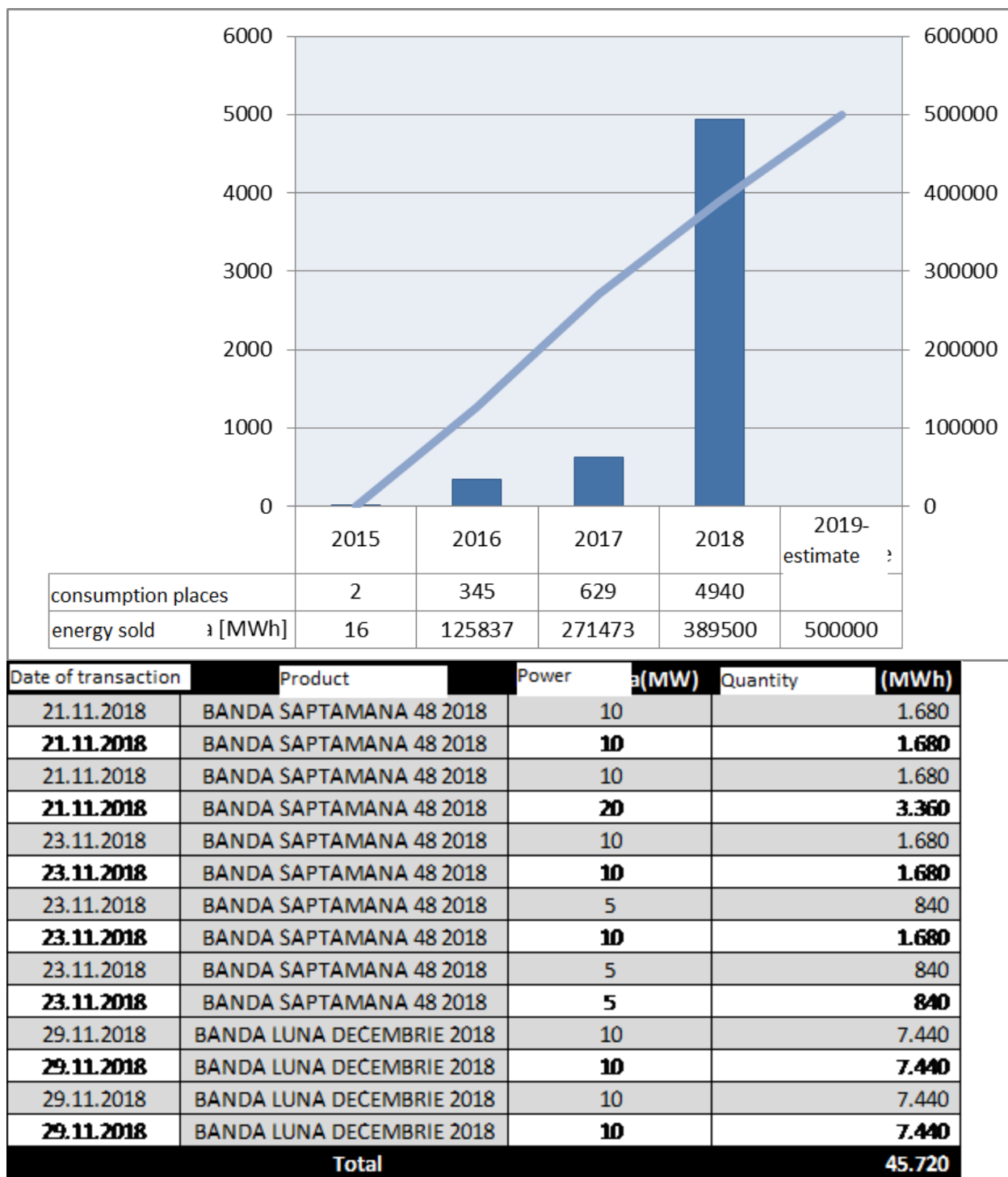
Market	2018		2017	
	Quantity [MWh]	Value [LEI]	Quantity [MWh]	Value [LEI]
OTC	7.273.010,000	1.464.105.058,35	5.407.084,000	908.893.614,25
PCCB-LE	5.332.495,000	981.703.264,02	3.418.904,000	582.150.504,80
PCCB-NC	1.401.084,110	278.721.739,28	186.633,000	32.751.414,30
PCSU	785.245,000	182.406.936,50	1.553.075,000	280.244.349,45
ECHILIBRARE+ DEZECHILIBRE POZITIVE	1.456.718,186	516.677.552,27	1.794.714,464	630.664.367,68
SPOT (PZU)	1.218.406,100	270.360.871,89	898.963,500	266.215.569,92
INTRADAY	741,500	184.091,50	40,000	16.000,00
<b>TOTAL</b>	<b>17.467.699,896</b>	<b>3.694.159.513,81</b>	<b>13.259.413,964</b>	<b>2.700.935.820,40</b>

85% of the energy delivered between 01.01.2018-31.12.2018 by S.P.E.E.H. Hidroelectrica was made on the competitive market for forward contracts (PCCB-LE, PCCB-NC, OTC, CMUS and end-users), while 15% was delivered to Spot market (NDM), Intraday on the Balancing Market, as shown below:



### 5.2.3. Structure of purchases made on the electricity markets in 2018

During November and December 2018, Hidroelectrica performed the following electricity purchase (PC-OTC) operations in order to optimize the production portfolio:



#### 5.2.4. Sale of electricity on the retail market

The sale of electricity to the final customer on the retail market is carried out within the Hidroelectrica Supply Service. This is where the specific activities are carried out, such as market prospecting, identification of the ways of capitalizing on electricity, and performing the activity on the retail market in accordance with all ANRE regulations. In addition to the sale of electricity, activities related to the production license are also carried out, such as reporting technological process, sales of green certificates on the OPCOM platform, reporting and management of electricity exchanges with Transelectrica and distribution operators.

In 2018, specific activities were carried out:

- Drawing up and transmitting of personalized offers to customers with a predicted consumption of more than 1 GWh / year, according to the requests received;
- Concluding supply contracts in accordance with the type of offers published on the site;
- Coordination of the connection activity of the clients in the branches by analyzing the submitted documentation and accepting, as the case may be, the connection to the own installations and signing the technical approvals for connection;
- Signing 1,980 additional documents related to the supply contracts concluded with the final customers (domestic and non-household) connected directly to Hidroelectrica plants, in accordance with the Approval of New Electricity Supply Prices;
- Concluding the distribution contracts and the related additional acts, for the new Hidroelectrica customers, with distribution contracts being concluded with all the distribution operators;
- Carry out distribution and transport contracts concluded for customers and for own Hidroelectrica production;
- Coordination of activities in branches with regard to centralizers parts, technological process and other issues;
- Introduce distribution invoices for customer consumption sites in SAP;
- Sending all reports related to the energy supply activity to ANRE.

Also, in 2018, a number of 151,941 green certificates were used for covering the mandatory quota of green certificates related to energy sales to the final customer in the amount of RON 20,405,995.

In 2018, electricity supply contracts were concluded through the e-Procurement system (SEAP) with the following contracting authorities:

Metrorex S.A. – with an estimated contract value of RON 59,903,805 without VAT;

Regia Autonomă de Transport Bucuresti - with an estimated contract value of RON 33,344,750 without VAT;

### 5.3 INVESTMENT ACTIVITY

#### 5.3.1 Execution of the investment budget

For 2018 it is proposed to realize a volume of investments amounting to RON 490,583 thousand from own sources, as follows:

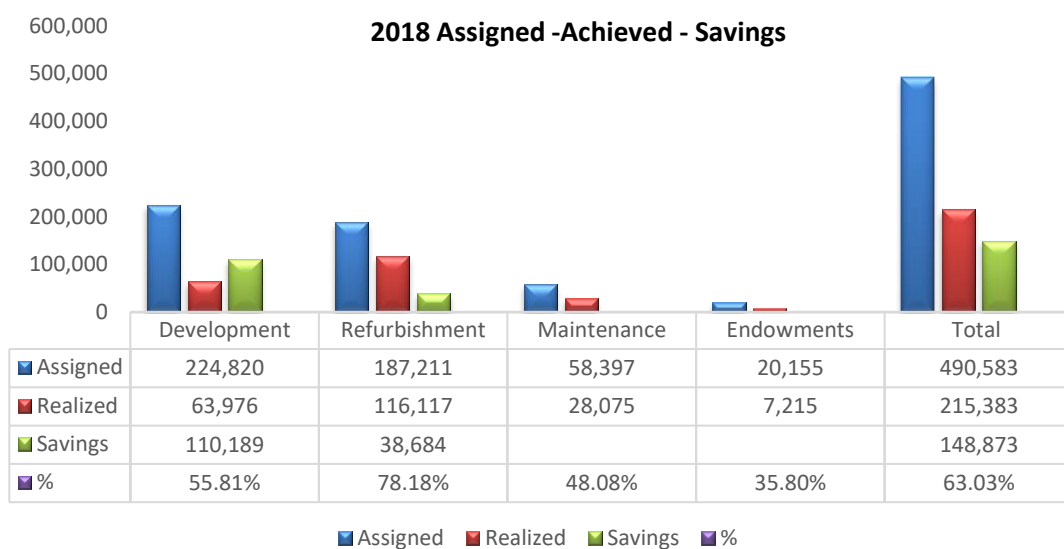
Activity	Value proposed for 2018 [thousand RON]
Development, of which:	224,820
<i>ongoing investments *</i>	181,223
<i>new investments</i>	43,597
Refurbishment	187,211
Capitalization maintenance, of which:	58,397
<i>Equipment's maintenance</i>	52,255
<i>Building's maintenance</i>	6,142
Facilities and separate equipment	20,155
Total:	490,583

\* From the amount of RON 181,223 thousand allocated for the ongoing investment works, the amount of RON 75,300 thousand is conditional upon obtaining of the new building permit from Hunedoara county council and Gorj county council for "HEA of the Jiu River in the Livezeni - Bumbesti sector" and RON 7,000 thousand for the withdrawal of HPP Vidraru from the HEA of the Argeş river on the Oeşti sector of Curtea de Argeş. Crossing the HEPP Oeşti"

The funds allocated in 2018 for development and refurbishing activities per branch is presented in the table below:

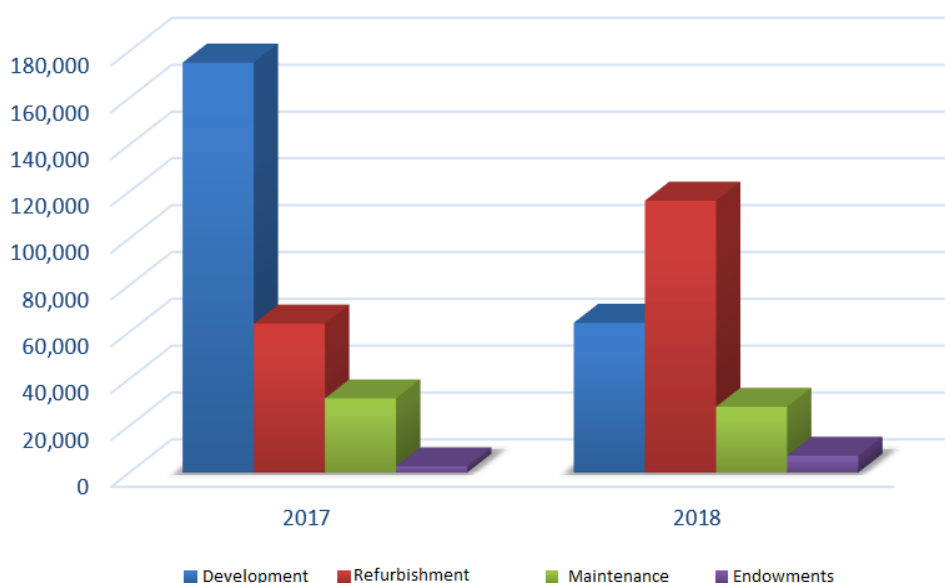
*Thousand RON*

Branch	Development	Refurbishment	Total
Bistrita	3760	92519	96279
Cluj	20420	460	20880
Curtea de Arges	42700	40492	83192
Hateg	24100	2144	26244
Portile de Fier	80000	3120	83120
Sebes	15590	1037	16627
Ramnicul Valcea	250	47440	47690
HE	38000	0	38000
<b>Total</b>	<b>224820</b>	<b>187212</b>	<b>412032</b>



The chart below shows the percentage of investment budget execution in the years 2015-2016-2017-2018, by activities:

### Situation of achievements by activity 2017 - 2018



#### 5.3.2 The development projects completed and put into operation in 2018 are as follows:

SH	Name of project	Fixed asset value RON
Bistrița	The buildings affected by the lake reef Izvorul muntelui, Alb rivulet	93,576
Bistrița	HEA of the Siret River in the Cosmești-Movileni sector. HEA Movileni. Rehabilitation works to protect the left side of the Furceni area. Regulatory documentation	2,894,737
Bistrița	HC Călimanești on Siret river	9,423,914
Bistrița	HEP Berești. Hydro-aggregate modernization no. 2	17,126,270
Hațeg	LEA 110 kV HEP Plopi - Stația Călan. stage I HPP Plopi -CHE Bretea.	3,085,887
Hațeg	HPP Orlea. Modernization of the station 6,3kV	255,637
Hațeg	HPP Hațeg. Modernization of the station 20kV	108,849
Hațeg	HPP Totești II. Modernization of the station 20kV	108,856
Porțile de Fier	Hydropower and energy complex Cerna-Motru-Tismana stage II. Intake Tismanița.	2,428,801
Porțile de Fier	Hydropower and energy complex Cerna-Motru-Tismana stage II. Intake Bistricioara.	2,891,368
Porțile de Fier	Hydropower and energy complex Cerna-Motru-Tismana stage II. 20 kV electrical line between HPP Clocotiș – Vaja Dam	765,971
Porțile de Fier	Hydropower and energy complex Cerna-Motru-Tismana stage II. 20 kV electrical line between Dam Clocotiș - HPP Clocotiș.	1,048,994
Sebeș	HEA of the Olt River deflected the Cornetu-Avrig sector HPP Racovita. Construction dam	19,122,376

SH	Name of project	Fixed asset value RON
Sebeș	HEA of the Olt River deflected the Cornetu-Avrig sector HPP Racovita. Central construction	38,304,201
Sebeș	HEA of the Olt River deflected the Cornetu-Avrig sector HPP Racovita. HA1 and HA2 - 110 kV station construction	450,326
Sebeș	HEA of the Olt River deflected the Cornetu-Avrig sector HPP Racovita. Dams - right bank pier	63,252,316
Sebeș	HEA of the Olt River deflected the Cornetu-Avrig sector HPP Racovita. Plant dam	15,338,596
Sebeș	HEA of the Olt River deflected the Cornetu-Avrig sector HPP Racovita. Plant Plant	19,364,549
Sebeș	HEA of the Olt River deflected the Cornetu-Avrig sector HPP Racovita. Hydro-aggregate no. 1 and Hydroelectric unit no. 2	70,698,535
Sebeș	HEA of the Olt River deflected the Cornetu-Avrig sector HPP Racovita. Connection to NES - LES 110 kV	7,722,521
Sebeș	HEA of the Olt River deflected the Cornetu-Avrig sector HPP Racovita. Command and data acquisition system (SCADA)	5,772,902
Total		277,369,559

### 5.3.3 Situation of complex investment objectives

For the 17 hydroelectric complexes with complex functions and low energy component under discussion at the Hidroelectrica Privatization Preparation and Monitoring Commission, the proposed solutions and the approval / approval degree on 31.12.2018 are the following:

1. EGMS decision to modify the technical and economic indicators for three investments:

- HEA Surduc-Siriu
- HEA of Strei river on sector Subcetate – Simeria
- HEA Bistra - Poiana Mărului - Ruieni- Poiana Ruscă

Drafting and approval of the CTE design theses and the contracting of the studies for the modification of the technical and economic indicators for the above-mentioned investments.

For HEA Bistra - Poiana Mărului - Ruieni - Poiana Ruscă, it was only in December 2018 that HSC was awarded for contracting the rest of the works.

2. For an investment, the Supervisory Board decision is issued and a substantiation note has been submitted to the AGM:

*HEA of the Olt River on the Izbiceni Danube sector. HPP Islaz - taking steps to obtain GD to repeal the investment approval documents*

3. For other twelve investments, Decisions were issued and substantiation notes were submitted to the Supervisory Board, with the following solutions:

*HEA of the Bistrita River on the sector Borca - Poiana Teiului :*

- abandonment of the works executed at Galu Stage, with all the final costs and implications resulting from the abandonment documentation to be elaborated, in accordance with the legal provisions in force;
- carrying out a feasibility study for the updating of the technical and economic indicators in the conditions of abandoning the works performed at the Galu Stage, in accordance with the legal provisions in force, for the reception and closing of this investment title.

*HEA of the Siret River in the sector Cosmești – Movileni :*

- abandoning the works for the Cosmești stage with all the related costs and implications;
- carrying out a feasibility study for updating the technical and economic indicators in case of abandonment of the works at Cosmești stage and completion of the Movileni stage, in accordance with the legal provisions in force, in order to receive and close this investment title.

*HEA Pașcani :*

- completing the works in an optimized value according to the GMD decision;
- carrying out a feasibility study to update the technical and economic indicators in an optimized version with a view to receiving and closing this investment title.

*HEA Răstolița :*

- completing the works necessary for commissioning HEA Rostolita to the following parameters:  $I_p = 35,2$  MW,  $E_m = 46,3$  GWh / year corresponding to the NNR dam rate = 720 mdM (minimum energy), including the commissioning of the secondary adduction sections up to now, in an optimized value according to the GMS decision;
- conducting a study of optimization and updating the technical and economic indicators for HEA Rostolita, which will result in the optimal variant of the goal completion and which will allow its reception and commissioning.

The current stage for obtaining GD for deforestation of accumulation reservoir Lake Rostolița is: the documentation for promoting the normative act of removing from the forest fund is under the approval of the National Forestry Regiment.

After National Forestry Regiment approval, the following steps are still to be performed:

- obtaining permits from the Forest Guard Brasov,
- obtaining opinions from the Ministry of Waters and Forests,
- passing the inter-ministerial approval procedure.

*HEA Runcu – Firiza :*

- the abandonment of the works carried out at HEA Runcu Firiza with all the related costs and implications and the closure of the investment title.

*HEA Dâmbovița Clăbucet :*

- abandoning the work done for the Nord Branch Făgăraș with all the related costs and implications;
- carrying out a feasibility study for updating the technical and economic indicators in the conditions of abandonment of the works performed at the Nord Branch Fagaras, in accordance with the legal provisions in force, in order to receive and close the investment title.

*HEA Cerna – Belareca :*

- Completing the works in an optimized value according to the GMS decision;
- carrying out a feasibility study for updating the technical and economic indicators in an optimized version with a view to finalizing, receiving and closing the investment title.

*Lake rectifier Sebeș. Stage I. Threshold to elevation 268 mdMN*

*Lake rectifier Sebeș. Stage II.*

Provides reconsideration of the opportunity and legality of the investment objectives “Lake rectifier Sebeș. Stage I. Threshold to elevation 268 mdMN”, and “ Lake rectifier Sebeș. Stage II”.

*HEA of Olt river defile on sector Cornetu–Avrig :*

- for the Căineni stage: finalizing the works in an optimized value according to the GMS decision;

- for the Lotrioara stage: completion in profitable conditions, other technical and economic indicators that allow the exploitation and preservation of the current potential and location;
- carrying out a feasibility study to update the technical and economic indicators in the optimized version, with a view to finalizing, receiving and closing the investment title.

It is necessary to update the documentation for the promotion of GD on expropriation in accordance with Law 255/2010 and its amendments (Law 233 / 15.08.2018 and GEO 99 / 15.11.2018).

Hidroelectrica will submit the updated phased documentation, i.e. the expropriation of Stage I only for the steps Racovița, Cornetu și Robești.

*HEA complex of the Olt River on the sector Făgăraș – Hoghiz :*

- abandonment of the works for the Arrangement of the Olt River on the Fagaras-Hoghiz Sector with all related costs and implications.

*HEA of Jiu River on sector Valea Sadului-Vădeni :*

- it is in the analysis phase the possibility of continuation the works and commissioning for the Curtișoara stage.

*HEA of Jiu River on sector Livezeni – Bumbești, by Decision no. 5378 dated 14.12.2017, the Bucharest Court of Appeal decided to cancel the Building Authorization no. 16 of 2012 issued by the Gorj County Council and the Building Authorization no. 7 of 2016 issued by the Hunedoara County Council.*

*Further steps will be taken to obtain new construction permits for both the execution of the safety and the completion works.*

### 5.3.4 Management of land

Hidroelectrica continuously carries out land acquisition activities necessary for the development, modernization and operation of hydropower objectives. Also, land cadaster works are carried out (identifying, buying, recording and renting land from third parties).

The objectives of land management are:

- Reduction of temporarily occupied areas to historical investment objectives and returning land to legal owners. We mention that land with a total area of 3.9717 ha were returned to owners, temporarily occupied by technological organizations for investment objectives at HEA Răstolita, which will reduce the renting costs by RON 44,483 / year.
- Providing data for preparing drafts of normative acts, regarding the acquisition of land for investment, in accordance with the legal provisions;
- Collecting and managing information, technically and legally, on the Hidroelectrica's land through its subsidiaries;
- Obtaining Ownership Certificates (OC) on the lands under Hidroelectrica's administration, as well as for the micro-hydropower plants taken over through the Government Decision no.554 / 2002, supplemented by the Government Decision no.1016 / 2002.

The status of the Certificates of ownership at land acquired during 2001 ÷ 2018 is presented in the following table:



No.	Branch/Plant	Issued certificates		Area (ha)	
		2001÷2018	Of which 2018	2001÷2018	Of which 2018
1	Bistrița	49	-	891.07	-
2	Buzău	43	-	315.02	-
3	Caransebeș	21	-	52.24	-
4	Cluj	49	-	86.64	-
5	Curtea de Argeș	105	-	346.97	-
6	Hațeg	49	1	69.04	0,0026
7	Oradea	42	-	254.79	-
8	Porțile de Fier	27	-	21.65	-
9	Râmnicu Valcea	125	-	50.62	-
10	Sibiu	36	-	26.65	-
11	Sebeș	33	-	24.30	-
12	Slatina	23	-	114.40	-
13	Târgu Jiu	41	-	180.76	-
	TOTAL	643	1	2.434.15	0,0026

- Obtaining all COs and increasing the share capital of the Romanian State share is also one of the measures that the Court of Accounts has taken since 2011 and is closely watched by the Hidroelectrica Management. Continuation of the activity for obtaining Certificates of ownership over land managed by Hidroelectrica, as well as for micro-hydropower plants taken over by Government Decision no.554 / 2002 and Government Decision no.1016 / 2002. We would like to mention that on 31.12.2018 for 161 premises in the total area of 132.46 ha, under Hidroelectrica, certificates of attestation of ownership have to be obtained in order to accomplish the task of completing the action for obtaining the Certificate of ownership ordered by measure no. 2 of Decision no.11 / 29.09.2011, and letter 40892 / 06.02.2017 issued by the Court of Accounts of Romania.
- Promoting the necessary documentation for the issuance of the normative acts in order to obtain the lands needed to finalize the works for the following investment objectives:
  - *Hydropower development Răstolița;*
  - *Hydropower development of Olt River on sector Cornet ÷ Avrig;*
  - *Hydropower development of Strei River on sector Subcetate ÷ Simeria.*
  - *Hydropower development Surduc – Siriu*
  - *Overhead Electricity Line 110 kV double circuit( d.c.) CHE Bumbesti - terminal 35 bis LEA 110 kV Tg. Jiu Nord-Parângu 2nd circuit, etc.*

We note that on 21.12.2018 was issued Government Decision No. 1032 regarding the approval of the site and the commencement of expropriation procedures for privately owned buildings which constitute the expropriation corridor of the 110 kV double-circuit (dc) Overhead Electricity Line HPP Bumbești - terminal 35 bis LEA 110 kV Tg. Jiu Nord-Parângu 2nd circuit "for connection to the National Power System of the Bumbești Hydroelectric Power Plant, objective of the public utility and national interest project" of Jiu River hydroelectric development on the Livezeni - Bumbești sector", the Gorj and Hunedoara Counties.

## 5.4 MAINTENANCE

The maintenance activity within Hidroelectrica is the main support for the safe operation of the hydro-energetic objectives. The importance of this activity lies in the following features:

- maintain hydropower plants in safe conditions;
- puts into operation damaged or malfunctioning installations;
- increase the technical performance of the equipment;
- ensures health and safety conditions for the operating personnel;
- eliminates risk factors for the environment and civil society;
- ensures compliance with legal requirements.

As an affiliated company, Hidroserv S.A. has benefited and benefits from the provisions of public procurement law that made possible to directly contract the services and maintaining work that this company performs to Hidroelectrica S.A. Based on framework agreements and subsequent agreements, Hidroelectrica S.A. has agreed with Hidroserv SA services and works programs according to the real needs of the company and the possibility of "keeping the electricity generation groups in operation at the nominal operating parameters, safely and with a degree of higher production capacities".

The contracted works were and are identified starting from the need for maintenance of Hidroelectrica S.A. established in the annual programs and updated through the monthly programs agreed between Hidroelectrica S.A. and sections of Hidroserv SA. We also mention that Hidroelectrica is obliged to maintain the costs of services and works provided by Hidroserv SA under conditions of use and management of the company's financial resources according to the principles of "economy, efficiency and effectiveness", while taking all measures what is its competence to support the reorganization process of its subsidiary.

### 5.4.1 Achieving Physical Equipment Maintenance Program

In 2018, maintenance works were scheduled for hydroelectric power plants for an average annual capacity of 155.7 MW, with an average power of 138.13 MW. From a physical point of view, 74 maintenance works were scheduled for the hydro-units, of which 60 LN2, 14 LN3, with a total of 63 maintenance works (85%), out of which 51 LN2, 12 LN3. A number of 5 maintenance works (5 LN3) are continuing in 2019.

The Hidroelectrica management has taken a series of measures to monitor and support Hidroserv's activity in order to remedy the malfunctions and carry out the maintenance work of the 2018 maintenance program. Of these, we can list:

- Daily monitoring the malfunctioning situations and means for remedy;
- Advance payment for works according to the contractual provisions using several advance payment mechanisms: advance invoice for materials and spare parts paid to Hidroserv or payment directly to the supplier based on the protocol concluded with Hidroserv.

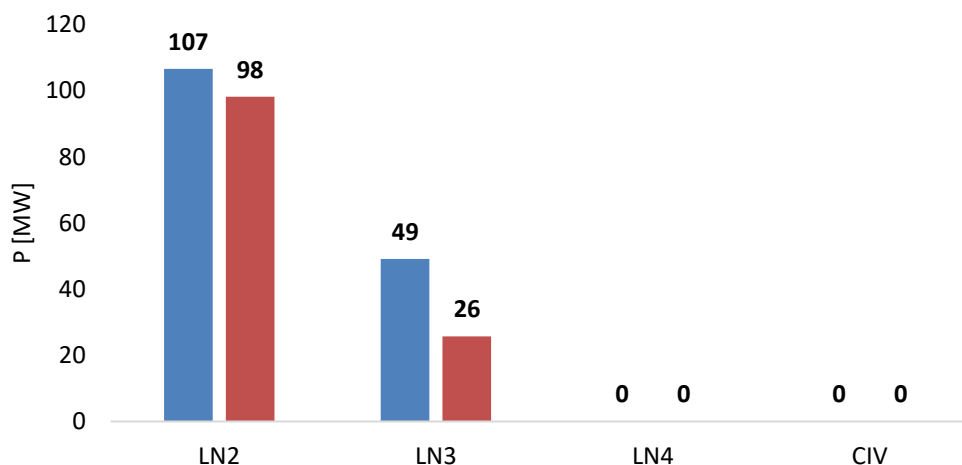
At a number of 16 hydro-aggregates, the service maintenance period exceeded the resting period foreseen in the annual maintenance program. This situation had two causes:

- the need for additional work to be done after the dismantling of the equipment and the hydro-unit subassemblies. (in some cases it was necessary to transport the equipment to the supplier for remediation)
- delays in delivery of equipment by third parties.

## Synthesis of the hydro-aggregate physical performance of the maintenance program 2018

	Programmed					Achieved					
	LN2	LN3	LN4	CIV	Total	LN2	LN3	LN4	CIV	Total	
Average power in maintenance (MW)	106.58	49.11	0	0	155.69	98.18	25.74	0	0	123.92	80
No of maintenance works	60	14	0	0	74	51	12	0	0	63	85

**Synthesis of the physical execution of the maintenance program  
by types of works in 2018**



#### 5.4.2 Achieving the equipment maintenance value program

At the end of 2018, Hidroelectrica's revenues and expenditures budget for the maintenance of basic energy aggregates, constructions, PRAM-AMC electrical installations, lifting and transporting machinery were estimated to total RON 150 million, of which RON 6.6 million reserve to the Executive, totaling RON 110.6 million, out of which, for the 4th level maintenance works with capitalization, a value of RON 10.1 million.

The low percentage of value achievement of the maintenance program in 2018 was mainly determined by the problems encountered by S.S.H. Hidroserv in the preparation of contracted maintenance works (providing the material basis). Works in value of 22.87 million contracted with SSH Hidroserv were not carried out in 2018 and are included in the maintenance program for 2019. The works are strictly necessary to ensure the availability and safe operation of LN1, LN2 and MCs, amounting to RON 85,693,502.

#### Summary of value-for-money achievements – 2018

Branch / Plant	Programmed 2018	Achieved 2018		
		Total of which:	LN 4	LN1, LN2, LN3, MC, LC
SH Porțile de Fier	35,179,054	26,918,763	4,252,684	22,666,079
SH Hațeg	11,838,299	8,888,633	41,104	8,847,529
SH Bistrița	18,872,241	10,507,798	1,616,999	8,890,799
SH Curtea de Argeș	23,035,395	17,187,829	0	17,187,829
SH Cluj	16,703,712	14,058,068	515,394	13,542,674

Branch / Plant	Programmed 2018	Achieved 2018		
SH Sebeș	15,413,593	12,360,484	0	12,360,485
SH Rm.Vâlcea	22,335,931	20,258,673	3,704,098	16,554,574
Executive	6,621,775	423,039	0	423,040
Total	150,000,000	110,603,290	10,130,279	100,473,010

LN – planned maintenance work on equipment and installations

MC – corrective maintenance

LC – construction works

From the analysis of the data presented, a percentage achievement value for Hidroelectrica is 77% of the total value planned for 2018. Out of the total achievements 87.28% was achieved with SSH Hidroserv S.A. (RON 96,538,341.89).

#### 5.4.3 Hydrotechnical Structure Tracking Activity and construction maintenance

The process of tracking the behavior of Hydro-technical Constructions (HC) under Hidroelectrica administration includes, according to legal requirements, the following main activities:

- Collection of data on building behavior through visual observations and measurements of HC - activity performed exclusively at the level of Hydro Power Plants, according to NP-087-2003 approved by Order 645/2003 of Ministry of Technology;
- Continuous updating of the HC database - an activity carried out by the HC Laboratory staff of the Hydro Power Plants and verified by executive staff;
- Verifying the state of hydro-technical constructions within Hidroelectrica S.A. - activity carried out by the HC Laboratory staff of the Hydro Power Branches and the executive staff according to PE 302/74 and the HC Annual Activity Program approved by the Hidroelectrica Directorate and carried out by the HC staff within the Executive;
- Expertise with authorized experts, hydro-technical constructions and HYME (hydro-electro-mechanical equipment) related to large water dischargers in order to obtain safe operating licenses and other types of construction expertise - activity carried out by the staff of MC Laboratories of Hydropower Branches and executive staff, according to NTLH-022/2002, NTLH-050/2008;
- Ensure the elaboration and approval of the Construction Behavior Analysis and Special Tracking Projects - a work carried out by the staff of the HC Branch Laboratories and executive staff, in accordance with NP-087/2003;
- Determination and centralization of restrictions in operation - activity carried out by the staff of the HC laboratories of the Hydro Power Stations and the executive staff;
- Analysis and approval of MC activity in hydro power plants - activity performed exclusively at the executive level, according to GEO 244/2000;
- Ensuring the activity of the Construction Conduct Tracking Commission - activity ensured at the executive level, according to GEO 244/2000;
- Annual information of CONSIB on the activity of HC Hidroelectrica S.A. - activity performed exclusively at executive level, according to GEO 244/2000.

### **Situation of hydro-technical construction expertise**

At present, all arrangements of S.P.E.E. Hidroelectrica S.A. have undergone the first round of expertise in accordance with the provisions of Law 466/2001 and of the normative acts incident to this Law, and for most of the works, it has been passed to the second stage of authorization.

Performing dams' expertise has confirmed the safety status of certain works that are old enough for the time factor to influence. Where appropriate, experts have indicated the measures and actions required to improve the surveillance activity or measures to improve exploitation.

### **State of construction and electro-hydro-mechanical equipment (EHME) for large water evacuation**

Constructions under the Hidroelectrica S.A. administration recorded a **normal behavior** in terms of the measured parameters, controlled and measured by measuring equipment and the visual observations made by the team of specialists, which allowed the operation under normal conditions.

#### **Situation of AMC**

For monitoring the construction status, about 32,348 AMCs are installed to monitor the state of construction, of which 17,355 AMCs with manual reading. There are 20 automatic UCC acquisition stations and 3 seismic monitoring stations in operation. AMC construction equipment is heterogeneous, comprising mainly appliances during the commissioning of works (approximately 70% of the works have exceeded 20 years since commissioning).

The rehabilitation of AMC systems is a prerequisite for Hidroelectrica S.A. To date, rehabilitation works for AMC systems for Vidraru and Izvorul Muntelui dams have been carried out and rehabilitation works for the AMC systems of the Cerna, Vadeni and Târgu Jiu dams are to be completed.

### **Centralizing and interpretation of data from HC measurements within the HC-net database**

In 2018 the activity of completing the centralized electronic database with HC-NET continued. The data acquisition is mainly done by manual input, except for the works in which UCC automatic acquisition stations.

The data are loaded weekly based on the measurements performed by the HC laboratories within the Hydro Power Subsystems, according to the special tracking projects.

From the processing of the measurements it results that the construction part of the production assets exhibits a behavior that falls within the normal evolution boundaries indicated by the behavioral functions prescribed by the designer.

#### **EHME BEHAVIOR FOR EVACUATION OF LARGE RESERVOIRES**

In 2018 hydro-mechanical equipment for large reservoirs registered a **normal behavior**, which allowed safe transit of servitude and large water flows (where applicable). This has also been confirmed in EHME expertise.

## **6. STRATEGY AND CORPORATE BUSINESS**

Hidroelectrica has as its main objective the development of a sustainable energy system, focusing on achieving its strategic objectives, outlined in such a way as to maximize the opportunities for progress and to ensure long-term corporate success.

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

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

### **6.1 Strategic activity and institutional relations**

In 2018, the strategic activity and institutional relations focused mainly on the following directions of action:

- Developing the investment strategy, which implied a continuous analysis of the company's business context, identifying strategic options and evaluating the best options;
- Identify medium and long-term goals of the company and urgent directions to be achieved in order to strengthen the company's strategy;
- Development of relations with state institutions: Government of Romania, Ministry of Energy, etc
- Informing shareholders about the company's projects and developments;
- Carrying out documentation and analysis activities, materialized in summaries, presentations and reports requested or made available to shareholders, Hidroelectrica management, employees or other interested parties;
- Carrying out the relationship with potential investors interested in the opportunity to buy micro-hydro power plants, as well as with the companies that bought micro-hydro power plants over time;
- Monitoring the fulfillment of post-privatization contractual conditions of micro-hydropower plants.
- Identify medium and long-term goals of the company and urgent action directions to be achieved in order to strengthen the company's strategy;
  - o Rehabilitation of hydropower plants;
  - o Developing new production capacities;
  - o Unlocking the situation of hydro-energetic facilities with complex uses and low energy component, at different stages of execution;
  - o Diversifying the production portfolio through energy production projects, especially from renewable sources (wind, solar, biomass), but also involvement in other economic areas, taking into account the current conditions and the evolution of the energy market at national and regional level;
  - o Listing the company;
  - o Implementation of new technologies in the production of electricity.

Developing the relationship and ensuring the interface with the state institutions: the Romanian Government, the Ministry of Energy, etc.;

- Carrying out documentation and analysis activities, materialized in the summaries, presentations and reports requested or made available to all interested parties;
- Documentation of answers / correspondence with various institutions;
- Post-privatization contracts run MHPP:
  - o Concluding an addendum to the land lease agreement for SHPP Tomșani 3;
  - o Initiation of land acquisition assessment services for MHPP Tomșani 3;
  - o Analysis of potential demand for micro-hydro-electric buyers in the Hidroelectrica patrimony;
  - o Post-privatization correspondence regarding the legal status of the land sold to the micro-hydro power plants;
  - o Elaboration of Task Book for the assessment of land belonging to micro-hydropower plants;
  - o Making a visit to finalize an active sale and purchase contract for micro-hydropower plants in the Suha Mare and Suha Mica river basins, Suceava County and micro-hydropower plants in the Ialomița river basin: MHPP Ilfoveni, MHPP Adunați, MHPP Bunget 1, MHPP Bunget 2 and MHPP Brătești;
  - o Correspondence with companies that bought micro hydroelectric power plants from Hidroelectrica.

## 6.2 Corporate business activity

The development of the company's investment strategy implied the initiation and implementation of strategic actions / initiatives to increase the value of the company by realizing or acquiring new capacities for the production of renewable energy, as well as by approaching new areas of economic and industrial activity.

- *Market study on the development opportunities* prepared by Horvath & Partners Management Consultants SRL in order to identify and evaluate Hidroelectrica's development opportunities in Romania and in the region, both in the electricity sector and in other related fields throughout the value chain (production, trading, distribution, supply).
- *Identifying and promoting opportunities for accessing European funding* for priority projects of the company selected together with the European Advisory Services and Research Group SRL:
  - *Achieving an E-Mobility project with national distribution and to the extent of acceptance, the acquisition of electric cars for the company fleet in Bucharest and for the 7 territorial branches.*
  - *Developing a Renewable Energy Research, Development and Innovation Center.*
  - *Establishing museums, open to the public in certain historic micro-hydroelectric plants of Hidroelectrica and the establishment of educational centers, with the maintenance of existing energy groups.*
- *Business Plan 2018-2023 of the Hidroelectrica Group:* Upgrading to 2018 targeting 2023 of the Hidroelectrica Group Business Plan for 2016-2021 prepared by Horvath & Partners Management Consultants SRL. According to the strategic directions defined in the Business Plan, Hidroelectrica will carry out the following actions:
  - Completion of investment objectives with advanced stage of development and favorable financial indicators;
  - modernization and rehabilitation of assets with the highest rates of profitability;
  - identification of the asset portfolio and taking all necessary measures to optimize production capacities and their availability;
  - implementing efficient solutions for finalizing the projects with complex uses;
  - increasing the technological level of hydroelectric power plants and improving their operation over the whole life cycle;
  - improvement of the maintenance function;
  - diversification of the production portfolio through energy production projects, especially from renewable sources;
  - developing the Company's business portfolio through new projects;
  - developing the investment project management capabilities.

The Business Plan and the Updated Financial Model have been approved at the level of the Executive Board and the Supervisory Board for subsequent approval of the General Meeting of Shareholders.

- *Purchasing production capacity from renewable energy sources (RES) wind and solar technology* Considering the strategic directions of Hidroelectrica regarding the diversification of the company's activity by realizing or acquiring renewable electricity production of wind and solar technology, as well as the market analyzes made in 2018 by two major banks in Romania, identifying the main opportunities on the market, including the key elements of technical, economic and commercial parameters, was realized an internal analysis of the opportunity, risks and a financial modeling for determining the profitability thresholds of such a purchase, highlighting the main elements to be taken account for a possible purchase. Also, for contracting a consultant, a Tender Book was prepared for the acquisition of due diligence services for the legal, financial,

technical and assistance assessment of the acquisition of electricity generation capacities from renewable sources, by concluding a framework agreement and a market analysis to determine the estimated value of this contract.

- *Liquidation of Hidroelectrica Trading doo Belgrade* - preparing the documentation on the approval by the General Assembly of the Shareholders of the dissolution and liquidation, for the company established in the Republic of Serbia, in Belgrade in 2014. By the decision of the Extraordinary General Meeting of Shareholders no. 30 of 23.11.2018, the dissolution and liquidation of the subsidiary from the Republic of Serbia was approved.
- *Concluding a collaboration protocol between Hidroelectrica - Ministry of Environment* with a view to identifying and implementing optimal solutions for accelerating the processes dedicated to environmental protection and electricity production in hydropower plants, applicable for:
  - Consolidation of biodiversity in the Jiu defile and identification of solutions to ensure a ecological flow, necessary to support the biological communities of flora and fauna and the economic and social needs of the local community;
  - Raising awareness at the level of the Ministry of Environment and the structures / authorities with responsibilities in the management of waste that reaches surface waters and their effects on the health of the population and the environment.

### 6.3 International Relations, Investor Relations, Representation and IPO

#### 6.3.1 International Relations

- The international relations activity was focused on initiating, developing and strengthening the international cooperation relations with external partners, including the Commercial Office of the Embassy of the Republic of Korea in Bucharest - KOTRA, SYSCOM, Verbund AG, ITOCHU Corporation, STROITEL-P, VGB PowerTech Hydro Germany, Concorde Securities, Rockcreek Capital, Hold, etc., as well as with the professional organizations and associations to which the company is affiliated, including participation in the meetings of the Board of Directors and the General Assembly of CNR-CME and CRE.
- The draft of Memorandum of Understanding with Verbund Hydro Power GmbH and the Confidentiality Agreement annexed thereto was drafted between April and June 2018, holding negotiations and correspondence with representatives of the Austrian company in order to conclude these agreements agreed by both parts. The Memorandum of Understanding between HIDROELECTRICA - VERBUND was approved by the Decision of the Extraordinary General Meeting of Shareholders Hidroelectrica no. 29 / 19.10.2018 and was signed by the representatives of the two companies on 23.10.2018, the main directions being the following:
  - To jointly develop projects with high added value for both companies by implementing design, construction and equipment solutions based on the latest solutions and technologies in the field, regarding:
    - a. implementation of new efficient solutions and technologies for the optimization of Hidroelectrica projects at different stages of execution, in relation to well-defined technical and economic criteria, taking into account current market conditions and forecasts on the evolution of the energy market at national and regional level;
    - b. identifying, analyzing and implementing pumped storage solutions appropriate to the Romanian energy sector; and



- c. other new projects identified as being of interest.
- o Exchange of experience and know-how on :
  - a. Dispatching energy;
  - b. Unattended operation of hydroelectric power plants through control centers;
  - c. Optimization of maintenance and repairs; and
  - d. Implementation of innovative solutions and technologies for the implementation of EU environmental directives, including ensuring the longitudinal connectivity of watercourses (e.g. fish scales).

The representatives of the two companies presented the proposals for the organization of the joint activity, the projects of interest and established the following actions for the meeting on 23.10.2018, the correspondence will continue.

- Dissemination of information on the organization of the international conference FOREN 2018 organized under the aegis of the World Energy Council at the level of Hidroelectrica specialists, sending the participation forms as well as the works done by the representatives of the company in Romanian and English and having correspondence with the organizers of the event;
- During the analyzed period, were performed necessary formalities for the dispatch of 43 Hidroelectrica specialists abroad for business trip, for 119 delegations.

#### 6.3.2 Activities related to the Hidroelectrica listing process

The activities related to the listing process of Hidroelectrica consisted mainly during this period:

- Ensuring the interface with shareholders, privatization commissions, consultants and investors in preparing the company's listing process;
- Preparing answers to requests for information received from specialized financial analysts on the energy market regarding the evolution of Hidroelectrica's activity and the prospects for development;
- Monitoring the correspondence, elaboration and transmission of the information requested by the state institutions regarding the issues related to Hidroelectrica's main activities and important activities relevant for IPO;
- Drawing up, based on the information received from the other departments, presentations, information, materials for the various events of the company's presentation to potential investors, as well as for the meetings of privatization commissions;
- Preparing the Commission meetings to coordinate the privatization process of Hidroelectrica S.A. and the Commission for preparing and monitoring the privatization process of Hidroelectrica S.A. throughout the year 2018.
- Ensuring the smooth running of the consultancy contract for listing carried out with the Mediation Synicate during 01.01-06.08.2018;
- Drawing up on the basis of information received from other departments of presentations, information, materials for the meetings of the privatization commissions, as well as for the weekly meetings with the Mediation Synicate, the shareholders, the other consultants;
- Evaluating the status of uploading documents on the internal platform and updating the composition of the VDR project team based on Decision no. 1004 / 05.07.2018 to ensure the preparation and coordination of the departments involved in the organization of the internal platform for the virtual VDR data room in order to carry out the legal and financial due diligence analysis;

- Collecting information and analyzing periodical reporting of energy companies listed on BVB in Romania and abroad;
- Carrying out the membership formalities as a founding member of the ARIR professional association.
- Initiating discussions with the Mediation Syndicate and carrying out necessary actions for the conclusion of the Addendum no. 7 concerning the prolongation of the validity of the Letter of Engagement signed on 07.02.2014. Given that the validity of the Letter of Engagement, signed by Hidroelectrica S.A. with the mediation syndicate formed by Morgan Stanley & Co. International PLC and Raiffeisen Bank S.A., ceased on August 7, 2018, the Mediation syndicate transferred to Hidroelectrica S.A. the acceptance of the extension of the Letter of Engagement, as well as the form of the Addendum no. 7, which proposes to extend the validity of the Letter of Engagement until August 7, 2019 (one year). Hidroelectrica has invited the Manager of the Syndicate to a meeting, to discuss and clarify all issues related to the extension of the validity of the Letter of Engagement. Raiffeisen Bank S.A submitted on 11.07.2018 to Hidroelectrica S.A. a notification registered under no. 69809 / 12.07.2018 regarding the bank's decision to optimize the activity of intermediation of the transactions on the regulated markets by renouncing to the membership of the Bucharest Stock Exchange and distribution of financial instruments through the territorial agencies network. Thus, for the mediation of the public offers provided by Raiffeisen Bank Romania, this service would be centrally insured by an entity of the Raiffeisen Centrobank AG specialized in financial trading instruments, and for the distribution to small retail investors will subcontract, as a distribution agent, a top Romanian bank with a national distribution network. Under these circumstances, given that the Mediation Syndicate no longer fulfilled the requirements of the Terms of Reference on the basis of which the mandate was granted, EGMS of Hidroelectrica dated 6 August 2018 did not approve the extension of the validity of the Letter of Engagement signed on 07.02.2014 by Mediation Syndicate formed by Morgan Stanley & Co International PLC and Raiffeisen Capital & Investment SA and Hidroelectrica.

In 2018, the objective was to develop new activities and added value projects for the company to ensure sustainable growth and continued brand consolidation.

## 6.4 The predictable development of the company

### 6.4.1. Financial modeling of the company targeting 2023

In the context of the legislative changes that occurred at the end of 2018 in the field of electricity, by issuing GEO no. 114/2018 and the ANRE Order no. 10/2019, relating to:

- between 01.03.2019-28.02.2022 providing electricity for households under regulated regime,
- the amount of electricity to be delivered from Hidroelectrica portfolio at a maximum of 65% of the total electricity produced, at a regulated price to be set by ANRE, considering a profit of 5% over the recognized production costs,
- introducing an additional 2% of the turnover,

The table below shows the impact of these changes on the Company's main indicators.

Thousand RON

Indicators	Scenario	2019		2020		2021		2022		2023		
Turnover	initially	4,331,754		4,609,291		4,901,841		4,999,803		5,101,115		
	base	3,749,602	87%	3,488,740	76%	3,811,278	78%	4,999,181	100%	5,259,775	103%	
	optimistic			4,159,337	90%	4,468,067	91%	5,106,761	102%			
Total expenses	initially	-2,093,626		-2,026,215		-2,167,563		-2,224,122		-2,270,650		
	base	-2,237,627	107%	-2,170,118	107%	-2,312,411	107%	-2,382,713	107%	-2,457,979	108%	
	optimistic			-2,170,715	107%	-2,326,409	107%	-2,395,945	108%			
Gross profit	initially	2,239,589		2,590,306		2,744,776		2,787,203		2,837,962		
	base	1,589,977	71%	1,404,167	54%	1,611,908	59%	2,703,383	97%	2,905,191	102%	
	optimistic			2,074,167	80%	2,262,545	82%	2,807,796	101%			
EBITDA (thd RON)	initially	2,941,848		3,333,591		3,550,438		3,622,134		3,691,212		
	base	2,210,789	75%	2,064,063	62%	2,312,139	65%	3,464,674	96%	3,667,684	99%	
	optimistic			2,734,062	82%	2,954,931	83%	3,559,022	98%			
EBITDA(%)	initially	67,91%		72,32%		72,43%		72,45%		72,36%		
	base	58,96%	87%	59,16%	82%	60,67%	84%	69,30%	96%	69,73%	96%	
	optimistic			65,73%	91%	66,13%	91%	69,69%	96%			
CAPEX	initially	5,339,250										
	base	5,622,588										105%
	optimistic											
Cash flow	initially	1,379,446		2,593,497		2,190,992		2,644,170		3,108,259		
	base	1,030,151	75%	1,841,711	71%	1,014,249	46%	1,491,800	56%	1,872,514	60%	
	optimistic	1,030,151		2,083,095	80%	1,323,935	60%	1,657,188	63%			
Total equity	initially	18,022,950		20,172,054		20,623,944		21,001,540		21,390,854		
	base	16,699,766	93%	18,329,552	91%	18,643,367	90%	19,723,400	94%	20,161,529	94%	
	optimistic	16,699,766		18,892,351	94%	19,252,795	93%	19,935,075	95%			

The three scenarios are the following:

- **INITIALLY:**

The projections of the main indicators prior to the issuance of GEO no. 114/2018;

- **BASIC:**

up-to-date the original scenario and inclusion of legislative changes in GEO no. 114/2018 and the ANRE methodologies, referring to Hidroelectrica's obligation to supply on the regulated market between 2020 and 2022 a maximum of 65% of the produced electricity at a regulated price to be set annually by ANRE, the introduction of the 2 % of turnover, as well as the additional distribution of a 35% dividend from the available reserves credited to other reserves account;

- **OPTIMIST:**

modifying the basic scenario by reducing the percentage of electricity supply at a regulated price in 2020-2022, from 65% to 32.5% of total Hidroelectrica.

Concluding, the legislative changes that occurred at the end of 2018 will have a significant impact on the performance indicators for the years 2020-2021, during which the largest amount of electricity delivered to the households will be registered.

Nevertheless, as we can see, the company maintains its investment program at the level prior to the occurrence of these legislative changes, as investing in new production capacities as well as the upgrading of existing ones, represent the main engine for the company's development for the next 5 years.

#### 6.4.2. Other issues with possible impact on the predictable development of company

##### **Ecological flow and passages for the migration of aquatic fauna**

At the level of the Ministry of Environment and the National Authority for Romanian Waters there is a proposal for a legislative act transposing the provisions of the Water Framework Directive, to be promoted by the Government Decision in the next period, referring to the methodology for calculating the ecological flow to be ensured by all water users in the internal rivers in Romania. Following discussions between representatives of the Ministry of Environment, ANAR and INHGA and Hidroelectrica representatives, has resulted a major impact on Hidroelectrica's energy production, with possible significant financial losses.

Hidroelectrica expressed its view that it can not accept these ecological flows without compensation for the estimated losses and informed the relevant ministry in this respect.

Another element to be considered is the obligation of harmonization with the European environmental protection policies related to the creation of passages for the migration of aquatic fauna to dams and water capture. It is necessary to develop documentation to identify applicable and economically feasible technical solutions to enable the movement of aquatic fauna or to support requests for exemption of large facilities from these provisions by justifying the disproportionate costs or the technical failure of compliance solutions.

##### **Increasing royalties for hydroelectric facilities under concession**

A working committee was set up at the Ministry of Energy as a result of the Court of Accounts' action on the renegotiation of the royalty for Hidroelectrica concessions. In this respect, there will be a negotiation between the representatives of the Ministry of Energy and the representatives of Hidroelectrica. The increase in this royalty could impact the financial statements but we do not currently have a size to estimate the impact of the new royalties on the Company's financial statements, and we will be informed about the negotiations that will take place.

##### **Building permit for hydropower development Bumbesti –Livezeni**

The main problem HIDROELECTRICA faces with regard to biodiversity is the establishment of new protected areas in areas where investment projects are in progress. Such a situation is the one we are facing in the project "Jiu River Hydroelectric Development on Livezeni-Bumbesti Sector", project stopped in December 2017, at the

time it was already completed in proportion of about 90%, with an amount already invested until that time of approx. € 200 million.

Although the project started in 2003 and the protected area, namely the Jiu Defile National Park, was set up in 2005, and subsequently ROSCI0063 - Jiu Gorge, building permits for the project were canceled in December 2017 by a court decision, based on which it was necessary to re-evaluate the effects of the project in relation to the protected natural habitat status of the area where the works are carried out.

In order to obtain the environmental agreement for the continuation of the works, the Notifications were submitted, according to the MMP Order no. 135/2010, together with Urbanism Certificate no. 68/2018 issued by Gorj County Council, at Gorj and Hunedoara Environmental Protection Agencies. APM Gorj issued the Decision of the initial evaluation stage no. 5870 / 28.06.2018 and APM Hunedoara issued the Decision of the initial assessment stage no.5904 / 2018, which finally determines the necessity of starting the procedure of environmental impact assessment and adequate evaluation.

In 14.09.2018 a service contract was concluded with the Association between KVB Consulting & Engineering SRL for the elaboration of the environmental documentation necessary to obtain the environmental agreement at "Jiu River HEA on the Livezeni - Bumbești sector, following the legal procedures specific to the reauthorization of the project.

#### 6.4.3. Research and development activity

Given the advanced age of energy equipment in a significant number of Hidroelectrica power plants as well as old technologies used, lack of digitalization, modern storage solutions, artificial intelligence in the company's activity, there is a need to apply the most new technical solutions on the market and business models in the company. Thus, Hidroelectrica will pursue the diversification of its activity in other fields related to the main object of activity, through the creation of a research-innovation center in order to implement new technologies for the efficient functioning of the energy equipments owned, as well as a new approach to design, research, innovate, at the company level in the field of renewable sources, a center that will include a simulation laboratory for training of the company's employees.

Hidroelectrica aims at creating a complex infrastructure for research, development, innovation and refinement, focused and strong, in the field of alternative energies, which will lead to the creation of the optimal conditions for a sustainable development of the energy sector in Romania through the efficient use of new non-polluting resources energy. The company will benefit directly and as a matter of priority from the results of the activities carried out by the mixed teams of specialists and researchers within the Center, through the rapid implementation of the studied and refined solutions in the projects addressed. Thus, the complex projects for the upgrading and upgrading of the production capacities in the Hydropower portfolio will include the results of the researches carried out in order to make more efficient use of resources and the implementation of new technologies with low carbon emissions.

#### 6.4.4 Communication, PR and CSR

The communication, PR and CSR activity focused on the following activities:

**Partnerships / participations in conferences / events in areas of interest to the company:** the conference "Four months to the GDPR shock, 15 February 2018 (free participation); the Seventh Edition of the Summit on Energy - ZF Power Summit, 19-20 February 2018; the 5<sup>th</sup> edition of the "INSOLVENCY CODE" Conference, February 27, 2018; Career Conference in Energy Industry 2018, 5-10 March 2018; Intact Professional Debates on "Intelligent

Transition to a Digitized and Sustainable Energy Sector", March 7, 2018; National Corporative Football Championship, 14th edition, March - June 2018; Gala Energy Center, March 15, 2018; the debate on "Coherent Public Policies for Efficient and Transparent Procurement", March 20, 2018 (free participation); the 7th edition of the Conference "Future of the Romanian Capital Market", March 27, 2018; Spring Cocktail 2018: A New Perspective - The Year's Eve in Energy, March 28, 2018; Republik of Sport - April 2018 (basketball); Conference "Inter-institutional Cooperation for the Benefit of Business and Consumers", April 19, 2018; "ASE - 105 YEARS OF ACADEMIC PERFORMANCE", April 16-21, 2018; Romanian Hydro Energy Conference - Dorin Pavel, May 18, 2018; FOREN 2018 (June 10-14, 2018, Costinesti); The Energy Market - Opportunities vs. Challenges", June 18, 2018; Energy Focus Gala "Ladies in Energy" June 25, 2018; Intact Professional Debates conference on "ROMANIA - ENERGY HUB. A Romanian interconnected Romanian energy market", June 26, 2018; the "Presidency of Romania at the EU Council, Challenges and Opportunities for the Energy Sector", July 2, 2018; event "Shagya Cup, 4th edition, Equestrian Endurance, September 7-8, 2018; the 6th edition of the Cybersecurity Congress, September 13-14, 2018; the action organized by Let's Do It, Romania! on September 15, 2018, on the occasion of the "World Clean-up Day", an event called "National Cleaning Day"; the "Capital Market Forum" event, September 24, 2018; the "Second Congress of Bilateral Economic Diplomacy of the International Union of Bilateral Chambers of Commerce and Industry", which took place on October 15, 2018 at Casa Capsa Hotel in Bucharest; the conference "How can the Romanian industry meet the investment needs and modernization of the national energy system", which took place on October 24, 2018 and was organized by Energy-Center.ro, in collaboration with the Romanian Energy Center; the 12th edition of the "National Symposium on Informatics, Automation and Telecommunications in Energy - SIE 2018", which took place on October 24-26, 2018, in Sinaia; within the XXVth edition of the Bucharest Top 20 Companies Gala, organized by the Chamber of Commerce and Industry of Bucharest on October 31, 2018, Hidroelectrica won 1st place in the Domain of Industry, the group "Electricity Production" the category "Very large enterprises"; the debate on "The new energy strategy, a challenge for market players. What does the Consumer Win?", organized by the DC Media Group Press Trust on November 6, 2018, at Crowne Plaza Hotel, Bucharest; in the XXV-th National Top of Galleries, held on November 7, 2018 at the Romexpo Exhibition Center, Hidroelectrica won 1st place (industry, power generation group, very large enterprise category). The event is organized exclusively by the Chamber of Commerce and Industry of Romania; the 20th edition of the Focus Energetic Conferences, held on November 7, 2018, at Athenae Palace Hilton, Bucharest. During the conference was debated the topic "How should we prepared for the winter" ("The challenges of winter 2018 - 2019 for the national energy system"); the scientific anniversary symposium entitled "1918-2018: 100 Years of Industry in Romania", held between November 14-15, 2018, was organized by the Romanian National Committee of the World Energy Council (CNR-CME), in partnership with the Polytechnic University of Bucharest (UPB), the Ministry of Economy and the Romanian Association of Engineers (AGIR); annual conference on "Prepare for NEXTenergy CARE and INVEST for the Future!", Organized by the InvesTenergy publication, under the auspices of the National Regulatory Authority for Energy - ANRE, which took place on November 20, 2018 at Intercontinental Hotel Bucharest; the Bursa 2018 gala, held on November 20, 2018, at the Parliament Palace, Bucharest; the annual Profit.ro "Profits with Profit ... made in Romania" gala, which took place on November 20, 2018, at JW Marriott Bucharest Hotel. At the event, the 12th edition of the Top 100 Most Valuable Companies was launched, with winning companies being awarded in this gala (Hidroelectrica won 2nd place); the 29th Meeting of the Energy Charter Conference held on November 27-28, 2018, an event organized by the Romanian Energy Center Association under the title "Stimulating Innovation to Ensure Energy Security, Sustainability and Prosperity"; the 6th edition of the Energynomics.ro Awards 2018,

which took place on December 5, 2018 at the National Military Club, Bucharest. The event was organized by Wing Media Energy Consulting; "Reunion to CENTENAR" event organized by Financial Intelligence on December 10, 2018 at the JW Marriott Grand Hotel, Bucharest.

***Organizing press conferences, events:***

- organizing a press conference held by the Hidroelectrica Directorate on **May 21, 2018** presenting the company's audited financial results for 2017, as well as other information related to the company's activity in the coming period;
- organizing a press conference held by the Hidroelectrica Directorate on **August 7, 2018**, presenting the financial results of the company during the first six months of the current year, as well as other information related to the projects and the activity of the company during the following period;
- organizing a visit on August 9, 2018 at the Dimitrie Leonida power plant (Stejaru), followed by a press conference at the Bistrita branch in Piatra Neamt. At the event, Ms. Gratiela Gavrilescu, Deputy Prime Minister, Minister of Environment, and Bogdan Badea, President of the Hidroelectrica Directorate, signed a collaboration protocol, whose aim is "the cooperation in identifying and implementing optimal solutions for accelerating the processes dedicated to the environmental and energy protection by developing specific projects for the production of electricity in hydropower plants, to support the improvement of environmental conditions, biodiversity conservation and sustainable development." The event was also attended by Mr. Anton Anton, Minister of Energy, Mr. Ion Asaftei, Vice President of the Neamt County Council, Mr. Robert Szep, Deputy Chief of Environmental Guard.
- co-organizing the XXIIth edition of the "Trophy of the Energy" professional competition held in Băile Felix, July 9-13, 2018.

Elaboration and transmission of **responses to requests** from journalists and other interested parties, requested under the provisions of Law no. 544/2001 on free access to information of public interest.

Publication of five interviews with Mr. Bogdan Badea - President of the Hidroelectrica Directorate in specialized magazines: Energynomics.ro Magazine (first quarter edition 2018), Bursa newspaper (January and March 2018), Magazin Ecologic (May 2018), Evenimentul Zilei.

## **7. HUMAN RESOURCES**

The human resources activity is carried out in accordance with the organizational structure of the company in force since 04.11.2017, and has the following objectives:

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

### **Evolution of personnel in 2018**

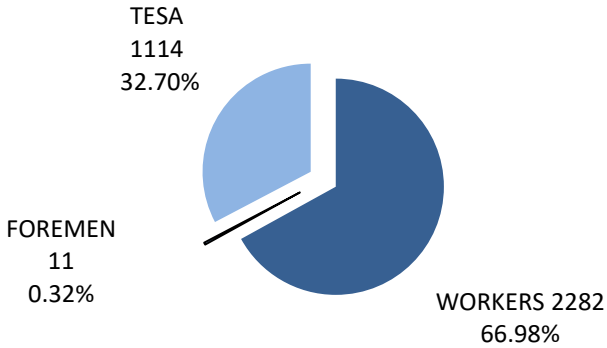
At 31.12.2018 the actual number of employees was 3381, plus 26 contracts suspended for various causes (3405 full-time and 2 part-time).

The average number of personnel projected by the 2018 Budget was 3493 employees with an average of 3305 employees.

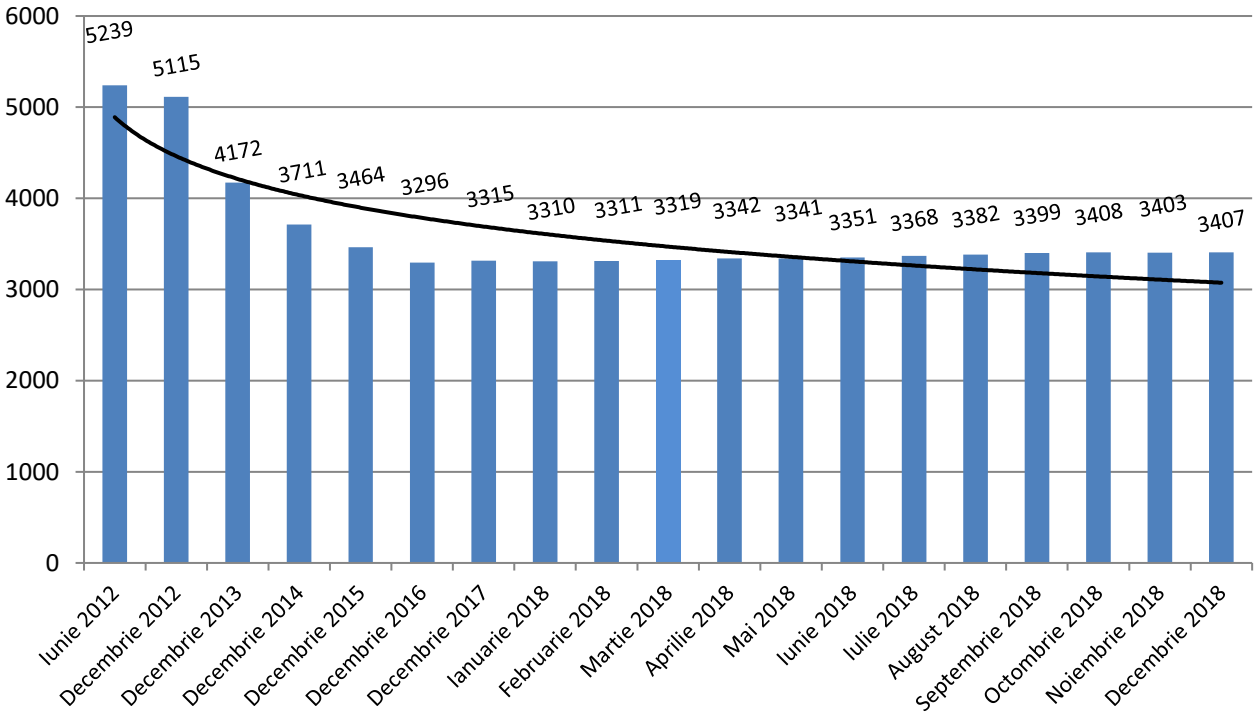
The average gross basic salary projected by the 2018 Budget was RON 4326 and the average gross basic salary was RON 4356.

Hidroelectrica exploits the hydro-energetic potential with operational personnel organized in a continuous shift program. In addition to this category of personnel, the company employs technical, economic and administrative staff (TESA) and foremen.

**Number of personnel at 31.12.2018: 3407 employees and structure of the number of personnel by category**



**Evolution of the number of employees in 2012 - 2018**





<b>TOTAL HE</b>	<b>Positions at the end of Q II</b>	<b>Additional posts in the Q III</b>	<b>Additional posts and / or reduced QIV</b>	<b>Posts at 31.12.2018, of which</b>	<b>Vacancies on 31.12.2018</b>	<b>Posts occupied 31.12.2018</b>
	<b>3588</b>	<b>1*</b>	<b>0</b>	<b>3589</b>	<b>298</b>	<b>3391</b>
Employees on the positions of suspended Individual Labour Contract holders (2 employees per job)						<b>16</b>
Employees without post (on notice with ILC suspended)						<b>0</b>
<b>Total employees of which:</b>						<b>3407</b>
Employees with suspended ILC for childcare, detachments or elective functions						<b>26</b>
No of employees						<b>3381</b>

\* supplemented post on 07.02.2018 to implement decisions on annulment of the dismissal decision no.534 / 03.14.2016 and re-employed in a position to SH Hateg.

#### The payroll fund achieved in 2018

<b>Budget chapter</b>	<b>Name of Budget chapter</b>	<b>Budget 2018</b>	<b>SALARIES achieved JANUARY DECEMBER 2018</b>	<b>FUND -</b>	<b>Achieved %</b>
<b>C0=C1+C2</b>	<b>PAYROLL RELATED EXPENSES</b>	<b>363,103,205</b>	<b>352,385,936</b>		<b>97.05%</b>
<b>C1</b>	<b>Payroll expenses</b>	<b>333,409,089</b>	<b>324,180,210</b>		<b>97.23%</b>
<b>C.2</b>	<b>Bonuses</b>	<b>29,694,116</b>	<b>28,205,726</b>		<b>94.99%</b>
<b>C.3</b>	<b>Other personnel expenses *</b>	<b>4,800,000</b>	<b>12,533,115</b>		<b>261.11%</b>
<b>C.4</b>	<b>Expenditure relating to the mandate contract and other management and control bodies, commissions and committees</b>	<b>3,273,424</b>	<b>2,461,041</b>		<b>75.18%</b>
<b>C.5</b>	<b>Expenditure on social insurance and social security, special funds and other legal obligations</b>	<b>8,419,070</b>	<b>11,617,153</b>		<b>137.99%</b>
<b>C</b>	<b>PERSONNEL EXPENSES (C=C0+C3+C4+C5)</b>	<b>379,595,699</b>	<b>378,997,245</b>		<b>99.84%</b>

\* Exceeding the amount provided in Budget 2018 under the heading "Other personnel expenses" is due to the implementation by Hidroelectrica of court judgments as follows:

- sentence 3201 of 13.04.2018 issued by the Bucharest Tribunal in file 41868/3/2017 and sentence 2912 of 03.04.2018 issued by the Bucharest Tribunal in file 90/3/2018 concerning the payment of the holiday bonus for July-December 2018 to 2901 applicants, the amount being of RON 6,179,775. Please note that in file 41868/3/2017 the final solution of the Bucharest Court of Appeal was favorable to Hidroelectrica, so that the amount of RON 6,029,768 should be recovered from the applicants;

- Civil Sentence no. 1446 / 01.10.2017 of the Alba Tribunal, remaining final by the Civil Decision no. 21 / 15.02.2018 of the Court of Appeal Alba Iulia in the file 59181/3/2010 and the Civil Decision no. 23 / 15.02.2018 of the Court of Appeal Alba Iulia in the file 59233/3/2010 regarding the payment of unpaid amounts representing the interest and the inflation related to the grid differences in 2016, the amount being – RON 2,643,006.

### External / internal personnel recruitment

In 2018 the following competitions took place:

Month/ Year 2018	Total number of contests conducted + announced	From which:Total number of competitions conducted and completed	Number of posts open to contests conducted and completed	No. of enrolled candidat es	No. of accepted candidates
January	18	6	6 posts (4 TESA, 2 workers)	12	5
February	36	22	31 posts (13 TESA, 18 workers)	76	24
March	24	22	37 posts (13 TESA, 24 workers)	115	34
April	14	3	5 posts (3 TESA, 2 workers)	12	3
May	56	30	42 posts (30 TESA, 12 workers)	79	36
June	50	31	35 posts (27 TESA, 8 workers)	87	29
July	44	27	44 posts (26 TESA, 18 workers)	104	41
August	41	30	50 posts (37 TESA, 13 workers)	88	32
September	26	15	18 posts (8 TESA , 10 workers)	44	17
October	41	27	28 posts (14 TESA , 14 workers)	50	22
November	43	30	39 posts (21 TESA , 18 workers)	71	31
December	32	14	21 posts (15 TESA , 6 workers)	32	14
<b>Total</b>		<b>257</b>	<b>356 posts (211 TESA, 145 workers)</b>	<b>770</b>	<b>288</b>
Employment rate January, February, March, April, May, June, July, August, September, October, November and December = Number of occupied posts / number of posts in competition = 288/356 = 80.90%				No. candidates on a post = 770/356 = 2.16 candidates	

### Training and personal development

The main activities in the field of training and development in 2018 were as follows:

#### Teambuilding

Conduct and performance the contract to support three teambuilding sessions with top management of Hidroelectrica.

#### Training

1. Course CFP-CFG for the Internal Control Department (4 persons).
2. Participation in the CSR course - Avangarde Academy, 3 employees during 12-13 March 2018.
3. The activity of elaborating and approving the documents necessary for the participation of the employees in training courses continued.

4. Conducting two teamwork training sessions for employees with secondary and higher education (job managers) at Tierna, Baile Herculane.

### Authorizing personnel

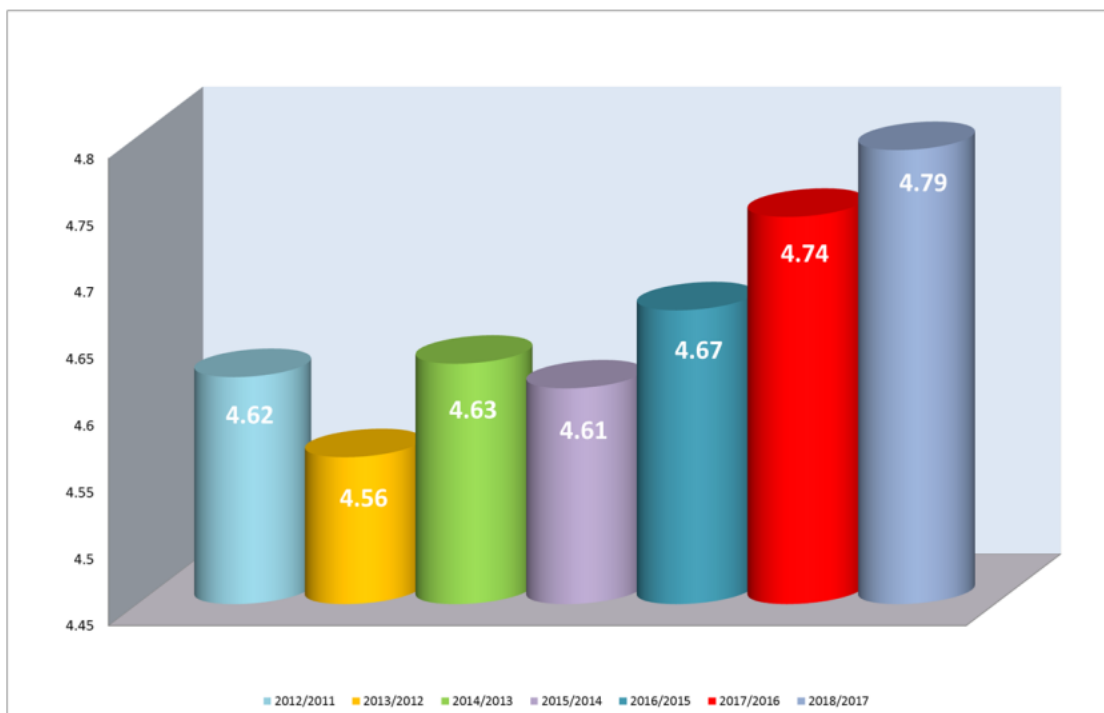
The personnel's licensing activity continued as needed by branches. Among our activities we can enumerate:

- ANRE has authorised 40 electricians (for categories IIIB and IVB).
- Personnel authorization according to the needs of the branches (8 technical personnel responsible for the execution of the RTE, 1 project VP verifier) and updating the navigation documents for one person.
- Participation in the LFI Circulation Safety Certification Examination - at SH Porțile de Fier.
- Participation of an employee at the training stage in order to extend the crane operator authorization of the group E and forklifter - at SH Curtea de Argeș.
- Conducting the training period at the end of validity for ISCIR service personal (cranes and stackers) - at SH Bistrița (22 employees).
- Participation of an employee in the training course in road transport - Attestation of oversized freight and people transport - at SH Bistrița.
- Extending the validity of navigation documents by the Romanian Naval Authority for a SH employee Portile de Fier.
- Participation of 4 employees from CFEE Siriu- SH Curtea de Arges in the theoretical training course for authorization of ANRE IIB and IIIB grades.
- Conclusion of the service contract "Preparation / improvement of managers for the transport of goods and passengers by road / 2 trainees"
- Authorization by ANRE of 61 employees and extension of authorization for 3 others.
- Employee participation for authorization as technical executor (RTE)
- Settlement fees for issuing RSVTI operators' licenses (module B)
- Participation of employees in the theoretical training course for the authorization of electricians

### Personnel assessment

1. Early 2018 has started personnel's assessment carried out in 2017 using the Gallup tools, namely the Involvement of the Internal Hidroelectrica Customer and the Hidroelectrica Employee Involvement. The employee's evaluation questionnaires, with Gallup tools, were analyzed and processed, the final report was prepared and the individual reports were reported to each evaluated employee. The following graphic presents a comparative situation on a scale of 1 to 5 of Hidroelectrica's internal customer involvement for 2012-2018:

## Involvement of domestic clients - Hidroelectrica average Comparison 2012 - 2018



- Involvement of the Hidroelectrica Internal Customer (HIC) - short description** - a tool that measures the quality of internal interactions between employees and / or between compartments, on the direction of professional collaboration in achieving the assumed performance objectives.  
 The questionnaire included 7 statements that make up the internal customer engagement score and the respondents were asked to state on a scale from 1 (strong disagreement) to 5 (strong agreement) to what extent they agree.

### The HIC tool is used for:

- promptness in performing the service tasks;
- collaboration in solving problems;
- application of professional and managerial skills;
- quality and accuracy of work;
- team work;
- ability to receive and give feedback

- Hidroelectrica's Employee Involvement (HEI) - short description** – a tool that measures the ability of the manager to generate increased performance indicators through methods to stimulate the level of employee emotional involvement. Evaluation from the perspective of "Hidroelectrica's Employee Involvement (HEI)" implies the evaluation of managers by the members of the subordinating team.

The Hidroelectrica applied questionnaire is developed by GALLUP and included:

- 12 questions validated by Gallup, "Q12"
- a question of general satisfaction regarding the job in Hidroelectrica SA, Q0.

### The HEI tool is intended for:

- the ability of the manager to generate the increase of the professional performance indicators by means of stimulating the level of emotional involvement of the employees;
- empathy, empowerment;

- developing subordinate team members.

According to GALLUP, employees are of three types: emotionally involved, unemotionally involved and actively uninvolved.

#### Emotionally involved

These employees are emotionally involved in the organization they are part of, are loyal, more productive, less prone to accidents at work and absenteeism, do not leave the company in less than a year.

#### Unemotionally involved

These employees work "to minimum", are less productive, less emotionally involved in their organization - more days of absence, higher willingness to leave the company.

#### Actively uninvolved

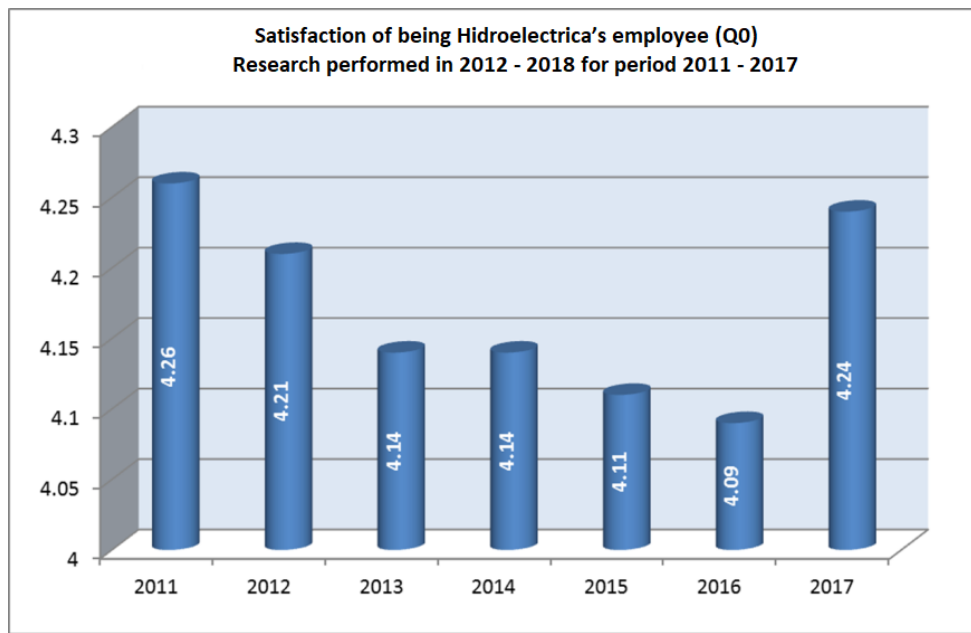
These employees work against company interests, physically present at work but psychologically absent. They are unhappy with their situation and repeatedly share their negative opinions with colleagues, have the most days of absence, the highest rate of incidents of work, are the most willing to leave the company.

The results of 2018 research for the 2017 activity obtained by the HEI tool, outline Hidroelectrica's strengths and weaknesses, resulting from employees' answers to the 12 questions. The sample comprised 757 Hidroelectrica employees.

(Responses are expressed in percentiles).

		Hidroelectrica 2011	Hidroelectrica 2017	
	Indices of emotional involvement (Average = 4.20)	61	44	STRENGTHS 2017
N	Sample size	1415	757	
Q0	General satisfaction	81	54	
Q1	I learn and develop myself	75	52	
Q2	Progress in the past 6 months	26	25	Personnel oriented to quality
Q3	Very good friend	53	54	Opinion matters
Q4	Personnel oriented to quality	77	80	I do what I do best
Q5	Mission / Purpose	78	53	I know what people expects from me
Q6	Opinion matters	53	75	WEAKNESSES 2017
Q7	Encouraging development	51	52	
Q8	It cares about me	54	54	
Q9	Recognition	25	26	Progress in the past 6 months
Q10	Chances to be the best	78	77	
Q11`	Materials and equipment	78	51	Recognition
Q12	I know what peoples expects from me	81	81	

Regarding the satisfaction of being Hidroelectrica's employee, respectively the answer to the question Q0, the following graph shows a significant increase in employee satisfaction with Hidroelectrica's employer over previous years:



## 8. RISK MANAGEMENT AND PROTECTION OF PERSONAL DATA

During 2018 continued the actions for implementing a risk management system appropriate to Hidroelectrica's activity and in accordance with the legislation in force.

Thus, the risk management activity was focused on the following components:

- I. Establish an appropriate framework for risk management activity (structure, mechanisms, roles and responsibilities, procedures)
- II. Performing Company-wide Risk Register;
- III. Achievement of the Risk Profile and the Plan for the implementation of risk control measures at company's level and risk appetite.
- IV. Monitoring of distinct risk categories.

**a) Establishing an appropriate framework for carrying out the risk management activity was achieved through:**

- Completion of recruitments open in 2018 for the necessary competences in the Risk Management Department.
- Defining the Risk Management Team (first line of defense), in accordance with the legal requirements of the GSCG no. 600/2018 on the approval of the Internal Code of Managerial Control of Public Entities.
- Internal training sessions on risk management activity, respectively:
  - Providing support for training the Risk Management Team on the implementation of the Risk Assessment Process, the Risk Registers drafting and the Implementation Plan for risk control measures at organizational level;
  - training the members of the managers' team, branch management teams and the risk management team through open training sessions at Hidroelectrica office and online.

- Provide direct support through internal counseling sessions to identify and assess risks establish control measures, risk indicators and risk tolerances to be monitored at the organizational structure level.
- Define and document the risk management processes in Hidroelectrica's activity with the purpose of drawing up the main lines of the risk management activity, by approving specific internal procedures aimed to:
  - Classification and monitoring of risks and updating the classification at the level of Hidroelectrica through which is established Risks taxation in the company;
  - Defining the risk assessment tools set out in the Company-level Risk Taxation;
  - Process risk assessment that includes risk identification, assessment and monitoring;
  - Monitoring and reviewing the risks of a process by analyzing the established risk control measures and reviewing identified risks;
  - Managing the Risk Register, i.e. centralizing and analyzing the risks identified at the level of each organizational structure, including evaluation and establishing risk control measures;
  - Achievement of the Company Risk Profile as at 31.12.2018 based on the Risk Register together with the Risk Control Measures Implementation Plan and Risk appetite for risk tolerance limits for 2019;
  - Credit risk assessment that involves an analysis of the banks and credit institutions that Hidroelectrica collaborates with, to establish appropriate risk management measures;
  - The counterparty risk assessment that involves analyzing client companies in the energy market and / or suppliers with which Hidroelectrica cooperates and Hidroelectrica suppliers with significant exposures to establish appropriate risk management measures.

**b) *Establishing the Risk Register at the company level*** consisted in centralization of the Risk Registers at the level of the organizational structures, analysis of risk according to risk rating and their classification according to the internal procedures.

The initial risk register at the end of 2018 includes the inherent risks (without any mitigation measures) and identifies the residual risks estimated as a result of the implementation of measures specified by risk managers, where applicable.

The structure of identified risk types, only in the documented processes, according to Hidroelectrica taxonomy as on 31.12.2018, has the following weightings:

Type of risk	%
Compliance risk (legal)	9.14
Credit risk	1.71
Liquidity risk	0.57
Environmental risk	4.57
Operational risk	60.57
Market risk	1.71
Reputation risk	0.57
Strategic risk (includes the economic environment)	16.57
Technical risk	4.57
<b>Total</b>	<b>100.00</b>

- c) Achieving the Risk Profile as on 31.12.2018 and the Risk Control Implementation Plan at company's level** started from the Risk Register through which the inherent and residual risks were identified and evaluated.

The risk profile as on 31.12.2018 represents the risk situation within the company at that date, i.e. their structure based on the risk classes established in the Company's Taxonomy and on the scoring level, respectively catastrophic, extreme, high, medium and low risks.

At the same time, the Risk Profile also includes the Plan for the implementation of risk control measures, mentioning the risk mitigation measures set for each risk, the risk indicators to be monitored together with the established risk tolerance limits.

These documents also add the risk appetite that summarizes the tolerances considered admissible and the limits of the risk indicators where they could be established.

**d) Monitoring of distinct risk categories.**

From the perspective of the main risks out-of-process, by distinct categories, we mention first the subsidiary credit risk with the counterparty credit risk. The management of these two types of risks has been formalized within the risk management department through stand-alone procedures:

**Credit risk**

Credit risk defined as a broader category also includes risk of counterparty, concentration, settlement, and country risk. It represents the possibility of recording financial losses or failing to realize the estimated results due to the possibility that a counterparty fails to fulfill its obligations under the terms agreed.

Hidroelectrica has pursued a monitoring of banks and credit institutions with which it collaborates with specific indicators that take into account the solvency but also other relevant indicators in order to establish an optimal level of exposures for each financial institution.

**Counterparty risk**

In Hidroelectrica, the management of risk involved the analysis of the client companies on the energy market and / or suppliers with which Hidroelectrica cooperates in order to establish appropriate measures, namely: the establishment of indicators to be monitored, the development of an internal risk profile for these counterparties based on the indicators analyzed, the monitoring of counterparty exposures and the analysis of EFET indicators and the revision of the specific conditions of the EFET risk management contract.

Other types of risks to which Hidroelectrica's activity is exposed and which are largely managed and monitored through internal procedures or operational routines at the organizational structure that is directly exposed:

According to the financial reports based on the Order of the Ministry of Public Finance no. 2.844 of 12 December 2016, the exposure to credit risk recorded from an accounting point of view is as follows:

31 December 2018

31 December 2017



Trade receivables	445,823,203	341,970,000
Cash and cash equivalents	75,763,691	105,578,061
Restricted cash	10,257,471	-
Other financial assets	2,496,667,070	1,687,518,238
<b>Total</b>	<b>3,028,511,435</b>	<b>2,135,066,299</b>

Currently, the Company has operational procedures for analysis and valuation of counterparty risk, registered as a result of trading on the regulated energy markets, the counterparty risk registered in relation to Hidroelectrica suppliers and the credit risk related to cash deposits in banking deposits. Annually or on request The Risk Management Department produces analysis reports and recommendations for the Hidroelectrica Directorate.

#### Exchange rate and interest rate risk

The company's contractual exposures are recorded primarily in national currency, so that exposures in currencies are relatively small in relation to the size of the business. No derivatives are used for hedging or speculation purposes.

Financial reports according to OMFP 2844/2016 indicate the following exposure value

	31 December 2018			
	EUR	USD	CHF	HUF
Cash and cash equivalent	241,226	202,183	289,836	217,915
Trade payables and other payables	(19,594,292)	-	-	-
Short and long term loans	(110,825,604)	-	-	-
<b>Net exposure at the level of the financial position</b>	<b>(130,178,670)</b>	<b>202,183</b>	<b>289,836</b>	<b>217,915</b>

	31 December 2017			
	EUR	USD	CHF	HUF
Cash and cash equivalent	38,279,134	177,750	27,261	225,175
Trade payables and other payables	(15,296,754)	-	-	-
Short and long term loans	(200,122,689)	-	-	-
<b>Net exposure at the level of the financial position</b>	<b>(177,770,309)</b>	<b>177,750</b>	<b>27,261</b>	<b>225,175</b>

The impact of sensitivity analyzes indicates that the profit would have been negatively affected only with a 10% depreciation of the national currency against the currencies analyzed (EUR, USD, CHF, HUF 100)

Considering the specificity of the activity, the contractual exposures and the leverage ratio of the company, the interest rate risk is low, so that the sensitivity analysis of the fair value of the instruments with the fixed interest rate and the cash flows of the interest rate instruments variable, carried out under OMFP 2844/2016, indicates that a change in interest rates at the reporting date would not affect profit or loss.

#### Price risk

Price risk implies the recording of financial losses or non-achievement of estimated results due to adverse changes in market prices or factors that may influence price developments.

Managing this risk was achieved through a mix of measures that ensured the optimal use of available hydrological resources (in the case of 2018 over-average rainfall) but also their medium and short-term capitalization on regulated markets, so that Hidroelectrica's profitability goals to be fulfilled.

### Liquidity risk

Liquidity risk is the risk of financial loss or non-realization of estimated financial results due to the company's inability to honor its short-term payment obligations at any time due to lack of liquidity.

In view of the company's profitable situation, the provision of a positive cash flow and the placement of financial assets in liquid instruments led to the payment of current and extraordinary obligations (e.g. additional dividends) on time and without significant efforts. Currently, the company does not face a liquidity risk. Related exposures in gross unrealized value are:

Financial Liabilities	Accounting value	Contractual cash flows		
		Total	Less than 1 year	Between 1 – 5 years
31 December 2018				
Trade payables	171,181,820	171,181,820	155,933,031	15,248,789
Loans	110,825,604	111,598,196	43,018,860	68,579,336
Total	282,007,424	282,780,016	198,951,891	83,828,125
31 December 2017				
Trade payables	141,860,860	141,860,860	134,402,810	7,458,050
Loans	200,122,689	201,798,734	90,305,822	111,492,912
Total	341,983,549	343,659,594	224,708,632	118,950,962

### Other risks taken into account for their monitoring and management distinct from those identified in the trials

For a number of other identifiable risks beyond the documented processes, work and awareness sessions were initiated and risk assessment tools to be implemented in the coming period were identified. The risks envisaged for this approach are sometimes governed by self-regulation, such as the operational case for OSH and SU, or operational information technology or cyber-security activities under the NIS and GDPR Directives, or of the hydrological one according to ISU and ANAR regulations. These include environmental, maintenance, refurbishment and legal risks.

The methodology for analysis and aggregation has been approved, with the first reports to be made during 2019.

### PROTECTION OF PERSONAL DATA

Since 2018, the Department of Risk Management has also taken responsibility for the first implementation steps to comply with EU REGULATION (EU) 2016/679 of 27 April 2016 on the protection of individuals with regard to processing personal data and on the free movement of such data and repealing Directive 95/46 / EC.

Subsequent to the implementation date of the regulation, May 25, 2018, the manager of the Department of Risk Management also assumed the position of the person responsible for personal data protection at Hidroelectrica, being registered as a DPO at ANSPDCP.

From the perspective of the relevant activities completed with the purpose of compliance, we mention:

- creation of the first registry of the processing activities according to the requirements of art. 30 of Regulation 679/2016;
- departmental planning has been completed with GDPR compliance activities, with an implementation horizon during 2018.
- an electronic and physical course support has been carried out to examine all Hidroelectrica employees on this subject in order to provide information on the rights and obligations of Hidroelectrica employees at all levels;
- all Hidroelectrica employees, who during May 2018 were not in interruptions / suspensions of working contracts were enrolled and examined in writing or through e-learning system.
- notification forms to natural persons whose personal data are processed as part of their current activities in Hidroelectrica were sent by post or e-mail, if applicable;
- the necessary internal advice was provided to determine the content of a minimum of contractual clauses related to the GDPR provisions that are required to be included in the procurement agreements.
- have been disseminated at the project team level the main provisions of Law no. 190 of 18 July 2018 on implementing measures for Regulation (EU) 2016/679.
- during the fourth quarter, following an internal control activity, the contracts in force at Hidroelectrica level, which contain the personal data protection clauses, have been inventoried and the deadlines for introducing them by an addendum were set.
- together with the main departments concerned by the personal Data Protection Impact Assessment (DPIA) under Decision no. 174/2018 of ANSPDCP, the internal landmarks and the methodology were discussed, aiming to contract the services of a consultant for assistance in carrying out the evaluation during the next period.

## **9. PROCESS MANAGEMENT. INTERNAL AUDIT**

### **HIDROELECTRICA MANAGEMENT SYSTEM**

Strategic planning within HIDROELECTRICA S.A. has as reference the Hidroelectrica Constitutive Act, the requirements of SR EN ISO 9001: 2015 Quality Management Systems - Requirements, SR EN ISO 31000: 2018 Risk Management - Guidelines and OSGG 600/2018 updated for approval of the Managing Internal Control Code of Public Entities. The requirements of these regulations are convergent and can be found in the documents resulting from the implementation and running of the M01.001 Strategic Planning, implemented by the Supervisory Board.

In order to efficiently and effectively carry out the activities within the company, the Supervisory Board has implemented the M02.001 Evaluation Modeling Processes Mapping and Managerial Internal Control System of Hidroelectrica and M02.010 Implementation Assessment Process that establishes the framework / regulation,

management and execution of activities / operations in a professional, coherent, transparent, integrated and simple manner, having a constructive and common approach at the level of the whole company.

Through HIDROELECTRICA POLICY, approved by the Supervisory Board, Hidroelectrica is based on a management system according to the requirements of the quality, environment and safety and health management standards, monitored and continuously adapted / optimized, having as reference the identification, implementation and monitoring applicable requirements, the Plan-Perform-Check-Action cycle and risk-based thinking. This compliance is demonstrated by the certification of SR EN ISO 9001: 2015, the environmental management system - SR EN ISO 14001: 2015 and the SR OHSAS 18001: 2008 occupational health and safety management system SR OHSAS 18001: 2008 by Hidroelectrica IQNET Partner (The International Certification Network) - RENAR accredited certification body.

### 9.1 Process management

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

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

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

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

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

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

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

## 9.2 Internal Audit

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

The Public Internal Audit Department carries out insurance and advisory missions both at Hidroelectrica Executive level and at branch level with the mission of increasing and safeguarding the value of the company and determining the effectiveness of the management system by providing objective risk-based assurance and counseling and support for company management.

During 2018, 18 insurance missions and 57 counseling missions were carried out, following which the procedures for the audited processes were implemented and / or updated. For each of these processes, multiple meetings were held with Hidroelectrica employees both in executive and subsidiaries, responsible for their documentation and process owners to ensure standardized and unitary documentation.

The activity of Hidroelectrica's public internal audit department consisted in 2018 in the performance of the audit missions, a real support in the optimization of the processes, bringing value in a visible way. Also, in many situations, through counseling activities, a conciliating environment was provided between the various organizational structures of the company.

## 10. IT SUPPORT

### Implementation of the ERP-SAP project

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

The hardware and software equipment in the new infrastructure was configured and migrated to the final ERP in mid-2018. The two hardware nodes are temporarily mounted in both the current office and Constantin Nacu Street, and will be moved to specialized data centers.

### Global Data Protection Regulation (GDPR)

One of the major projects for this year is the GDPR (Global Data Protection Regulation) issue, including the following concrete steps:

- A series of internal measures have been launched to limit the possibility of extracting personal data from existing IT systems (Active Directory, SAP etc).
- DLP Data Loss Prevention systems, Document Management System systems, data protection and data encryption systems have been developed together with SIEM-type monitoring systems.
- DLP system purchase has started

#### IT security and cybersecurity systems

One of the priority activities within the IT department has always been to provide an optimal IT security system. The dangerous increase of the big cyber attacks on critical national infrastructures and especially in the energy sector requires us to take important measures in this segment. In view of the imminence of the entry into force of the NIS Directive, the IT department continues its activities to improve IT security by:

- Activities OF separation of SCADA network from the office area;
- Review and Restriction of IT Security Protocols;
- Start the purchasing of an asset management system and a secure mobile access solution for company's resources.

#### Automation solutions for refurbishment, industrial applications

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

The contract for the elaboration of the feasibility studies "Modernization of SCADA systems central station PDF " and "Modernization of central monitoring and diagnosis system PF1" was started. Automation systems and SCADA were put into operation at HPP Rucar and HPP Dragoslavele.

Waste batteries from most UPS systems and inverters in industrial and automation areas have been replaced, as well as additional inverters have been purchased to maintain the quality of insured service parameters.

The SCADA and communications server virtualization project continued following migration to the new hardware platforms purchased.

Also, the first stage of the attentioning-alarm systems was started.

#### Reconfiguration of the communications system

The company's communications system is one of the most complex in the country and allows data collection from over 250 locations. Most of the main communications channels are redundant in nature and run on a variety of transport media (fiber, radio, ethernet) and more than one communications operator.

The upgrading work of the communication channels capacities was continued and a solution was installed at the end of the year allowing the unitary monitoring of the over 2500 communication nodes of Hidroelectrica.

## 11. LITIGATIONS

The Company is involved in the following litigations:

### A. *Arbitral litigations*

*A. The arbitral file no. ICC 20540/MHM*

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

Petitioner: Hidroelectrica SA

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

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

- (i) to oblige the defendants to replace the works with deficiencies with ones conforming the Contract or, alternatively, to pay the amount of RON 165.8 million representing contract’s value of the works with deficiencies plus the related interest;
- (ii) order the parties to pay damages for the damage suffered as a result of the non-fulfillment of the object of the Contract, in the form:
  - Petitioner will have full ownership of the works with deficiencies; and;
  - payment of damages for any damage suffered as a result of failing to fulfill the object of the Contract, namely
    - (a) RON 82.6 million if the parties will be obliged to replace the works with deficiencies or, if not,
    - (b) RON 573 million.

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

- (i) reject the claims of the Company in its entirety;
- (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;
- (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.

The company has estimated the value of claims against Andritz and Voith at RON 738.9 million. The estimated value of Andritz and Voith is RON 63.9 million.

In March 2018, the final pleadings took place. Subsequently, the arbitral tribunal called on the parties for a series of clarifications. The arbitral tribunal also decided that the arbitration hearing on these clarifications should take place in Vienna on 7 June 2019.

On 31 December 2018, the Company records a provision relating to the entire amount of the guarantee letter executed. Regarding the remaining amount of **RON 28.3 million** from the Andritz and Voith request, considering the uncertainties generated by the complexity of the file, the Company treats the amounts requested by Voith and Andritz as contingent liabilities

*B. The arbitral file no. 20901/MHM*

Arbitral litigation regarding Contract no. 16636 / 31.10.1997 on the upgrading 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“)

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

1.A. Mainly: to order Andritz to pay the Company damages for the loss suffered as a result of non-fulfillment of 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 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.

The file is in the stage of preparation and planning of future sessions and stages.

Taking into account the uncertainties generated by the incipient phase of the file and its complexity, on 31 December 2018, the Company considers contingent debt the amount of **RON 72.5 million** requested by Andritz.

### ***C. The arbitral file no. ICC 22482/MHM***

Arbitral litigation regarding Contract no. 21 / 50765 / 09.11.2001 on capital repairs and the modernization of the hydropower plant Portile de Fier II.

Petitioner: Andritz Hydro GmbH and Andritz Hydro GmbH (together „Andritz“)

Defendant: Hidroelectrica

Andritz asks 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

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



- Stage of the fund.

In May 2019, the arbitral tribunal filed with the International Court of Arbitration, for review, the draft of arbitral decision on the competence and admissibility stage. The arbitral award on the competence and admissibility will be communicated to the parties after verification procedure shall be completed. In case of an unfavorable decision for Hidroelectrica, the arbitral tribunal will proceed to the next stage, the fund analysis.

Considering the uncertainties determined by the early stage of the file, on 31 December 2018 the Company considers contingent debt the amount of **RON 60.7 million** requested by Andritz.

## ***B. Litigation regarding the execution contracts of the investment projects***

### **I. Litigation regarding file 44443/3/2016 against Hidroconstructia SA**

Hidroconstructia SA filed claims in amount of RON 32.8 million, representing the equivalent of the costs generated by the ceasing 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 the Hidroconstructia before the insolvency of the Company;
- thus, as a claim before the insolvency proceedings, it had to be 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 tribunal of the Bucharest Court of Appeal rejected Hidroconstructia SA request, the decision being contested by both parties.

In April 2019 the Bucharest Court of Appeal upheld the appeals made by the parties and sent the case back to the Bucharest Tribunal.

Considering the uncertainties generated by Hidroconstructia's claims as well as the court decisions, on 31 December 2018, Company considers as contingent debt the amount of **RON 32.8 million** requested by Hidroconstructia.

### **II. 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*.

The Consortium asked the court the following:

- (i) the delivery of a court decision to replace an addendum on the execution contract, an addendum having as object additional works executed by the Consortium from 2010 until now and establishing the value of the respective works in the amount of RON 68 million; and

- (ii) obliging Hidroelectrica to pay the amount of RON 68 million representing the liabilities resulting from the execution of the works.

Subsequently, the claims in point (ii) have been dispelled, 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.

The current appeal of the Consortium against the decision of April 2018 is judged. The next hearing is on 27.06.2019.

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

- in the event that the final decision of the court is unfavorable to the Company, an addendum will be concluded in accordance with the request mentioned in point (i) above;
- Consortium Romelectro - Hidroconstructia - ISPH will initiate the writ of execution procedure for the amount of RON 68 million;
- The Company will challenge the writ of execution procedure, arguing that the Consortium was denied the right to claim this debt through the syndic judge's decision.

Based on the analysis carried out, the Company considered as contingent liabilities the Consortium's claims, amounting to **RON 68 million**.

### ***C. Litigation on file 3200/2/2018 against Ministry of Energy***

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

The Ministry of Energy has requested the following:

- (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
  - to change the amount of the royalty at the value of the annual amortization of assets received in the concession.
- (ii) Subsequently, the Ministry of Energy supplemented the action in court, requesting Hidroelectrica to pay RON 373 million, representing the difference between the amortization of the assets received in concession and the royalty paid between 2013-2018.

The litigation is at an early stage, the next term being June 12, 2019, when will be debated the approval of the evidence of the expertise required by the Ministry of Energy.

Considering the uncertainties generated by the early stage of the file, in December 31, 2018 the Company considers contingent liability the amount of **RON 373 million** requested by the Ministry of Energy.

### ***C. Litigations completed during the year in favor of the Company***

#### **I. The UNCITRAL Ad Hoc Arbitral File [EFT] - completed in 2018**

Arbitration dispute concerning the RO 22 E Contract having as its object the supply of electricity to EFT Energy Financing Team AG („EFT”).

Petitioner: EFT

Defendant: Hidroelectrica SA

EFT asked the Arbitral Tribunal for the following:

- (i) Order Hidroelectrica to pay damages of RON 198.7 million for the repair of the damage resulting from non-performance of the Contract RO 22 E
- (ii) Pay 5% interest on the amount in (i) starting on 6 December 2013

In December 2017, the Tribunal issued the Final Decision declaring that the Official receiver validly denounced the EFT Agreement on August 1, 2012, thus the Arbitral Tribunals will have to decide on the possible damages to which EFT would be entitled to a later date.

In December 2018, the Arbitral Tribunal issued the Final Arbitral Decision by rejecting EFT's claims in full, stating that the law applicable to the EFT entitlement to possible redress as a result of denunciation of the Contract is the Romanian law applicable to Hidroelectrica's insolvency, namely Law no. 85/2006, and not the law chosen by the parties as being applicable to the Contract, namely the Swiss law, as EFT pretended.

#### **Tax Legislation Framework**

All amounts due to the State for taxes and fees have been paid or recorded at the balance sheet date. The Romanian tax system is in the process of consolidation and constantly changing, with different interpretations of the authorities in relation to fiscal legislation, which may give rise to additional taxes, fees and penalties. If the state authorities discover violations of the legal provisions in Romania, they may, as the case may be, confiscate the amounts in question, impose additional tax obligations, apply fines, apply late payments (applied to the actual payment amounts). Therefore, the fiscal sanctions resulting from breaches of the legal provisions may reach significant amounts to be paid to the State.

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

In Romania, the fiscal exercise remains open for verification for a period of 5 years.

## **12. NON-FINANCIAL DECLARATION FOR THE YEAR 2018**

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

Hidroelectrica group comprises:

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

- Hidroelectrica Trading d.o.o. Belgrade having as main object of activity trading electricity in the Republic of Serbia.

#### **12.1.1. S.P.E.E.H. Hidroelectrica S.A.**

Hidroelectrica is the most important energy producer among energy producing companies, supplying annually more than 25% of total production and the main provider of ancillary services.

The main activities of the company consist of:

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

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

- License No.332 / 2001 for the commercial exploitation of electricity generation capacities, including the provision of system services, updated by ANRE Decision no.509 / 2017, valid until 24.07.2026.
- License No.932 / 2010 for the supply of electricity, updated by the ANRE Decision no. 768/2016, valid until 01.06.2020.

On December 31, 2018, Hidroelectrica S.A. had under administration 208 hydropower plants and pumping stations, with a total installed capacity of 6,444 and a number of 3,321 employees.

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

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

#### **Mission**

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

#### **Vision**

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

#### **Values**

Performance, Integrity, Creativity, Teamwork and Social Responsibility

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

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

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

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

Hidroelectrica is a sole shareholder in S.S.H. Hidroserv S.A. and Hidroelectrica Trading d.o.o. Belgrade.

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

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

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

Taking into account the negative evolution of the economic and financial indicators, the Hidroserv Board of Directors requested insolvency of the company and the syndic judge, at the close of the hearing, on 10.10.2016, within the file no. 36365/3/2016, on the role of the Bucharest Tribunal - VII Civil Division, ordered the opening of insolvency proceedings.

#### **12.1.3. Hidroelectrica Trading d.o.o. Belgrad**

Hidroelectrica Trading d.o.o. Belgrade is a Limited Liability Company, based in Belgrade, Republic of Serbia, with a registered capital of EUR 500,000 (of which EUR 50,000 was paid-in), set up on 31.10.2014, with the main activity the trading of electricity.

The subsidiary is in the winding-up procedure following the decision of the Extraordinary General Meeting of

Shareholders of November 2018, which approved the dissolution and liquidation of the subsidiary in the Republic of Serbia.

## 12.2. Environmental issues

### Policies adopted for the protection of the environment

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

The compliance of the Hidroelectrica Environmental Management System with the requirements of SR EN ISO 14001: 2015 is certified by SRAC through Certificate No 95 valid until 21.06.2021.

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

The basic input of the HLL, Environment and Department for maintaining and improving the environmental component of the Integrated Management System is to control significant environmental aspects and increase compliance with applicable legal requirements and other requirements the organization has subscribed to.

Hidroelectrica's management, aware of the major environmental impact on habitats and organisms in general, and human health in particular, has been constantly concerned with complying the legal obligations in the field of environmental protection, applicable to business, compliance with regulatory obligations, minimizing the environmental impact due to activities carried out and preventing accidental pollution of water and other environmental factors, including through the effective management of waste.

Management was also concerned about ensuring good collaboration with environmental authorities and other stakeholders.

In order to achieve this objective, namely achievement of performance standards in line with the international environmental protection requirements, the environmental component of the integrated management system had the following directions of action:

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

### Environmental policy outcomes

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

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

### **Regulatory acts**

At the end of 2018, 207 hydropower objectives, necessary to be licensed, were holding an environmental permit within the validity period, and a number of 3 objectives were in the renewal procedure. All environmental permits for HE patrimony objectives are issued without compliance programs.

The operating conditions imposed by the environmental permits refer to the monitoring of the environmental factors and to the observance of the environmental legislation applicable to the performed activity. During 2018 there were no exceedances of the legal limits of the measured indicators.

### **Environmental Authorizations 2018:**

As a result of the amendment of the legislation on the validity of environmental permits at the end of 2018, branch offices were empowered to submit applications and documentation required for obtaining annual visas. In December 2018 a number of 39 visa applications for environmental permits were filed with the County Environmental Protection Agencies: 7 at SH Bistrita, 7 at SH Cluj, 4 at SH Curtea de Arges, 13 at SH Rm. Valcea, 8 at SH Sebes.

### **Environmental agreements 2018:**

Applications and documentation necessary to obtain the environmental agreements for the projects were submitted:

- "Consolidation of the right bank of Topolicea dam"- SH Bistrița;
- "AHE Cerna-Motru-Tismana" – SH Porțile de Fier;
- "Protect Teleajen left bank along the polder Văleni" – SH Curtea de Argeș;
- "CHE Băbeni. Ensuring transit of flood flows on the Bistrita River, in the area of detention in accumulation Băbeni" – SH Rm. Vâlcea;
- " LEA repair 0.4 kV circuit Casoca Village in PT 1 Casoca, com Siriu, Buzau county– SH Curtea de Argeș;
- " LEA repair 0,4 kV Garle inlet circuit from PT 86 Lunca Jariștei, Siriu, Buzău county–SH Curtea de Argeș;

Environmental agreements have been obtained for 4 maintenance works at the 0,4 KV LEA in Buzău County; The decisions of the framing stage (the environmental agreement) Surduc dam - obtaining land from the forestry fund and for the project "Rehabilitation of the polder Izvoarele sealing" were obtained, both at SH Curtea de Argeș;

The decision was reached on the stage of framing (environmental agreement) from APM Gorj for the project "AHE Cerna-Motru-Tismana. Stage II. Main admission Bistrita-Tismana. Repair areas with gallery deficiencies". The contract for elaboration of the environmental documentation necessary for obtaining the environmental agreement at AHE of the Jiu River on the Livezeni - Bumbești sector was concluded. Continue work";

The presentation memo necessary for the procedure was elaborated and the NAPM requested completions to its first form.

### **Environmental protection works**

In order to observe the legal obligations and to control the significant environmental aspects, environmental protection measures were carried out, amounting to RON 2,273 thousand, including the fees paid for obtaining the regulatory acts.

The most important categories of environmental protection actions / works carried out in 2018 were:

- Water pollution prevention and water treatment works SH Bistrita, SH Cluj, SH Curtea de Argeş, SH Haţeg, SH Râmnicu Vâlcea and SH Sebeş, representing 19.92% of the total value of the environmental protection works;
- Prevention and protection against floods and floods effects in SH Bistrita, SH Cluj, SH Curtea de Argeş, SH Haţeg, SH Rm. Vâlcea and SH Sebeş, representing 18,64% of the total value of the works for environment protection;
- Actions for waste management, both generated from their own activity and waste collected from the retention and water intakes, were carried out in all branches of the company, representing 49.573% of the total value of the works of protection nature environment;

In 2018 there was only one environmental event, namely on 03.04.2018, at HPP Vidraru, there was a crack of a pipeline following the process of oil waste extraction to the oil tank no. 4, followed by loss of approx. 30 liters of used oil. Actions have been taken to decontaminate the affected soil. Environmental authorities have been notified in accordance with the legal provisions.

### **Environmental risks and management modes**

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

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

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

- Variation of water level in the lake;
- Large water management;
- Accidents at the dam and piers;
- Infiltrations;
- Production of fires and explosions;
- Faults that may occur at laboratory equipment, electrical installations that may cause fire, explosions, waste;
- Use, handling and storage of toxic and dangerous substances;
- Generation and storage of hazardous waste;
- Storage and disposal of waste within the hydropower facility;



- Change in land use by third parties;
- Existence of site organizations executed with third parties.

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

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

### **Biodiversity**

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

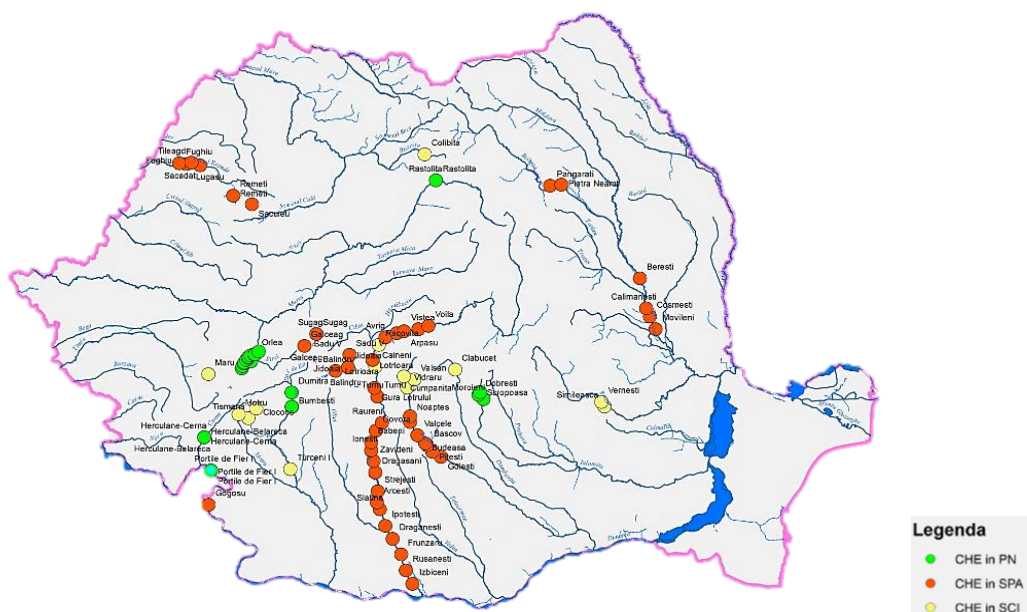
At the level of Romania, the area of protected natural areas of national interest is 7% (1,663,360 ha), and the total area of Natura 2000 sites is 17.84% (5.992. 000 ha).

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

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

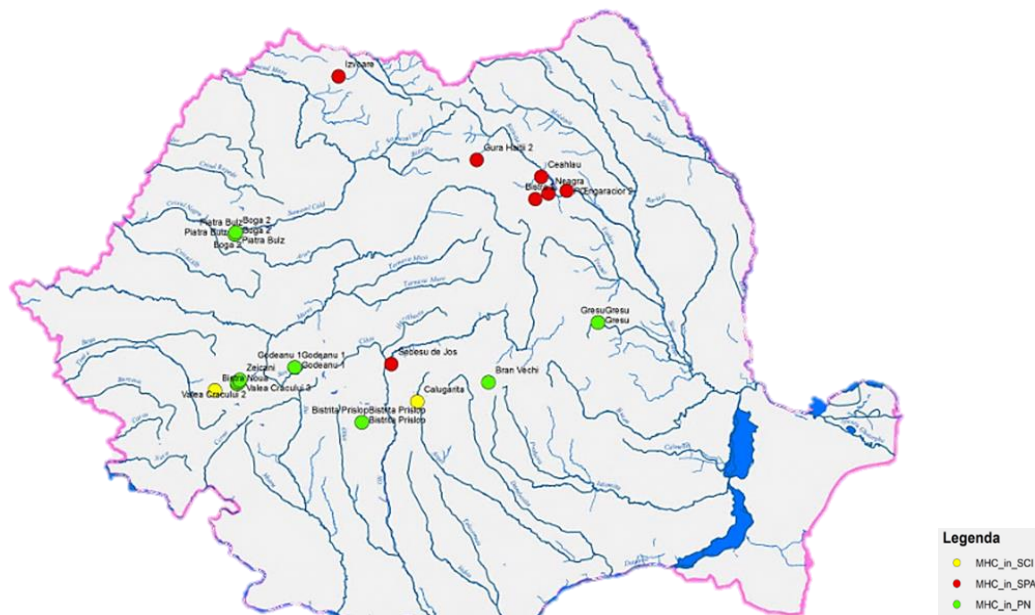
Planting and maintenance activities are carried out in consultation with the custodians and in accordance with the biodiversity conservation requirements detailed in the regulations specific to each protected area.

### **Hydroelectric power plants located in protected areas**



Similarly, for SHPP, 12 are located in SCIs, 7 in SPAs and 10 in NPs.

### Small hydropower plants (installed power <10MW), located in protected areas



### Key Performance Indicators for Environmental Issues

- No. of Accidental Pollution Prevention and Control Plans (APPCP) required to be developed or revised / no. APPCP s scheduled for development or review = 1
- No. of objectives holding environmental permit required to be notified / no. of visas obtained / year = 1

- No. of requirements implemented, monitored and reported / No. of requirements of the regulatory act that need to be implemented, monitored and reported = 1

### 12.3. Aspects of Safety and Health at Work (SHW) and Emergency Situations (ES)

#### Policies adopted

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

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

Occupational safety and health at Hidroelectrica is organized in accordance with the requirements of the Health and Safety at Work Act 319/2006 and the OHSAS 18001: 2008 Occupational Health and Safety Management Systems - Requirements.

Compliance Occupational Health and Safety Management System Hidroelectrica with OHSAS 18001: 2008 requirements is certified by SRAC through Certificate No. 250, valid until March 11, 2021.

Work safety and health at work, a preventive character, is based on Prevention and Protection Plan, drawn up in each branch and the executive. By implementing the measures foreseen in the prevention and protection plan for the year 2018, it was meant to observe the legal provisions regarding the safety and health at work. In order to ensure the information, participation and consultation of employees in the elaboration and implementation of decisions on safety and health at work, the Occupational Safety and Health at Work is organized and functions both at the company level and at the level of each branch of Hidroelectrica.

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

#### Political results

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

- 99 controls of the National Environmental Guard, following which 157 measures were drawn and a fine was imposed on SH Sebes, secondary capture Cugirul Mic, amounting to RON 50,000. The sanction was applied to the control carried out by NEG - Alba County Commissariate on 07.05.2018 as a result of the failure to implement the measure established in 2016 regarding the conduct of a technical and economic study on the longitudinal connectivity of the Cugir Mic.
- 12 inspections of the Territorial Labor Inspectorates, following which 10 measures were initiated and 8 verbal warnings.
- 67 inspections of the Emergency Situations Inspectorates with 84 warnings.

During 2018 an event was recorded resulting in the death of an employee from SH Porțile de Fier- UHE Tg-Jiu.

Expenditure program for the implementation of prevention and protection plans in Hidroelectrica S.A. for the year 2018 it has a total amount of RON 4,594,389.76, with the following values per chapters:

• Technical measures for prevention and protection	RON 1,296,201.69;
• Organizational measures for prevention and protection	RON 2,871,169.87;
• Hygienic - sanitary measures	RON 427,018.20;
• Measures of a different nature	RON 0.

Within the Program of expenditures for the implementation of prevention and protection plans in the Hidroelectrica S.A. sub-units there are also measures whose value is highlighted in the maintenance / investment / endowment works.

Achievement of the expenditure program:

- Preventive and protective technical measures (including the value of acquisitions initiated in 2018: 31.34%
- Organizational measures for prevention and protection: 6,07 %
- Hygiene and sanitary measures: 62,56 %

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

The overall risk of injury and professional illness in Hidroelectrica in 2018 was 2.99. The overall level of risk, both at consolidated level and at the level of each branch and executive, falls below the acceptable risk level of 3.5. Regarding the Emergency Situations Activity in 2018, the relations with the Emergency Situations Inspectorates aimed at the joint co-operation and organization of exercises and practical applications in order to increase the efficiency of preventive actions and increase personnel's capacity of response in case of emergency situations. The exercises focused on: "The activity of the County Emergency Committee and the County Emergency Inspectorate for the management and coordination of the intervention forces for limiting and removing the consequences of a hydrotechnical accident and alarming the population".

Monthly, on the first Wednesday, the exercise for testing and checking the alert and alarm system, in civil protection situations, organized at the national level by the General Emergency Inspectorate, the sirens are acted upon within the warning and alarm systems existing at HE branch level.

In order to maintain in good condition the alarming systems of the population, a contract for maintenance services was concluded.

In accordance with the legal requirements in the fields of sustainable water management and emergency situations, for the elaboration and updating of the Action Plans in the case of an accident at the dams under Hidroelectrica administration, contacts were concluded for drawing up these plans services.

## Risks and management mode

HIDROELECTRICA evaluates the risks of Safety and Health at Work for all workplaces. For this evaluation, the Method for Risk Assessment and Occupational Safety and Health in Workplaces, developed by INCDPM - revised edition 2003, is endorsed by MMSF.

#### **Key indicators of non - financial performance**

In Hidroelectrica, the 3.5-fold global risk level is the limit for jobs in the category of workplace with acceptable risk level.

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

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

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

#### **The Code of Ethics**

The Code of Ethics approved by the Supervisory Board on October 13, 2016 is a guide for the management and employees of the company regarding professional conduct and ways to solve business ethics issues.

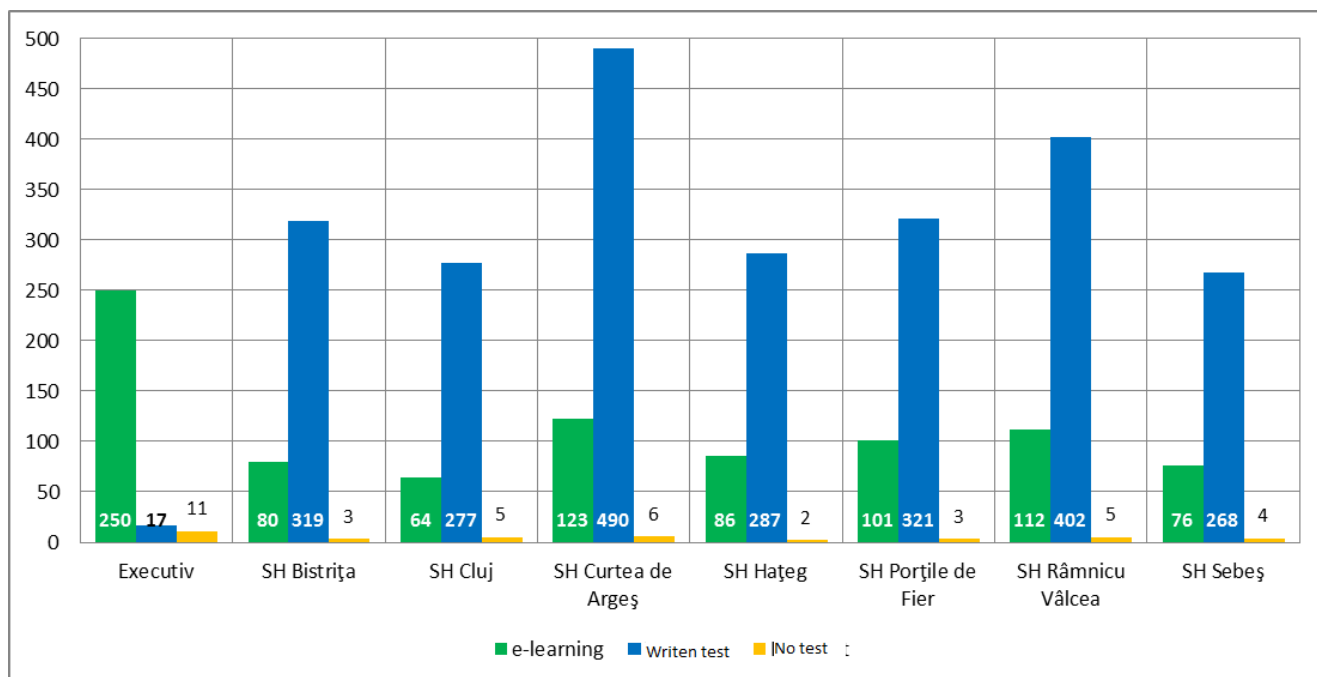
Every year, the Human Resources Department reports to the Department of Public Internal Audit that informs the Supervisory Board about how to implement the Code of Ethics on the following issues:

- Training on Code of Ethics

All Hidroelectrica employees participate annually in an updated course on the Code of Ethics, followed by testing on the company's e-learning platform or by a written test.

The test in 2018 was carried out during January through February. For new employees, verification was done by written test at the time of hiring, within the general introductory training - Organizational Culture.

In order to verify the knowledge, the questions and the test for the testing of the staff on the e-learning platform on the Code of Ethics in force was developed. Personnel's verification of the Code of Ethics using the Hidroelectrica e-learning platform took place (892 employees were tested on the Ethical Code on the e-learning platform) and by written test.



- Monitoring the declarations on the lack of conflict of interest for the employees of the Procurement Department and the Supply Trading Department, Art.2.6 of the Code

By letter no. 11902 / 05.02.2018 the employees of the Procurement Department and the Department of Supply Trading were requested to declare on own responsibility that there is lack of conflict of interests.

27 Statements from the Procurement Department (9 Executive and 18 Branches) and 31 from Supply Trading Department (14 Executive and 17 Subsidiaries) were submitted to the Human Resources Department of the Personnel Development Directorate. The statements are annual, and are requested at the beginning of each year.

- Statements related to gifts received and donated according to the provisions of the Ethical Code, art. 2.7 of the Code

The Code of Ethics also sets out rules for gifts that may or may not be received by an employee of Hidroelectrica. Thus, in all cases where a Hidroelectrica employee receives a gift from a business partner / other partner of Hidroelectrica, regardless of its form, whether or not there is a motivation to grant it, he will report this event directly to the hierarchical superior and the manager of the department HR. If the gift received cannot be refused, it will be handed over based on a declaration to human resources department and donated on behalf of Hidroelectrica for a charitable cause.

Imprinted promotional materials bearing the emblem / company name / event offered to participants in events organized by a Hidroelectrica partner are not considered as gifts.

In 2018, at the level of Hidroelectrica Executive and Hidroelectrica Branchs no statements connected to gifts were received.

- Actions carried out by the Human Resources Department provided in the Code of Ethics for Recruiting, Hiring

and Promoting Personnel, and Monitoring Family Grade Levels in 2018:

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

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

- if they are married or are in a relationship of family or affinity up to third degree with a member of the Supervisory Board, respectively of the Board of Directors;
- if they are married or have a relationship of affinity up to third degree with the employee with whom they have direct relationships of subordination;
- if the criminal prosecution / trial was ordered against it.
- number of rejections to the contest on the grounds of criminal conviction: 1, Ene Cristian, for the competition of the chief of security department of Hidroelectrica SA.

The monitoring of the family relationship for the incompatibilities regarding the conflict of interests was carried out during the period 05.02.2018- 27.02.2018

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

**Integrity Plan**

Hidroelectrica's integrity plan for 2018 is approved by the company's management and is posted on the website.

**Risks and management mode**

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

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

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

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

**12.5. Social and personnel aspects**

**Policies adopted and results**

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

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

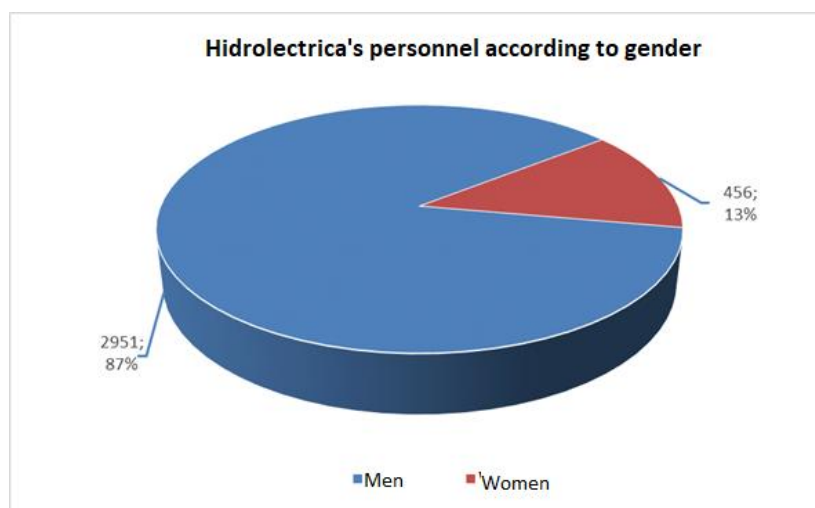
**Gender Equality**

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

Hidroelectrica also took actions in 2018 to ensure gender equality, a principle by which men and women receive equal pay, have equal rights in the organization.

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

Hidroelectrica does not restrict anyone's right to take up a job by taking part in the recruitment, selection and promotion process, even if 13% of all employees are women, according to the following chart:



87% of the company's employees are men because many of the workplaces in the operation of the plants are located in hard-to-reach, isolated areas with a continuous underground working program. However, of the total number of women in the company, 27.7% work on hydroelectric power plants, and the rest work in offices. Of the total number of women, 11.62% occupy managerial positions in Hidroelectrica (head of office, head of section, head of department, head of hydroelectric power plant, top management: department manager, branch office manager).

Access to top management functions:

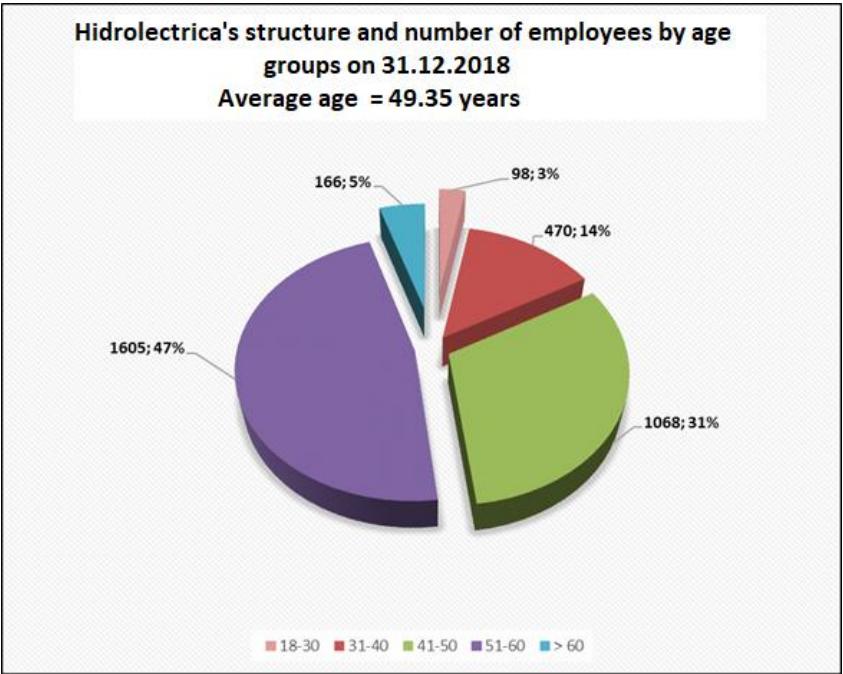
- 6 women employees hold the position of department manager (29% of the total of 21 department manager positions)
- 7 women employees occupy the position of Branch Economic Director (100% of total Branch Office Director positions)



The average age of the staff is 49.35 years at 31.12.2018. Rejuvenation measures are taken by granting private scholarships for students and by no means restricting the participation in competitions of any person, regardless of whether they are between the ages of 40-50 years.

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

Hidroelectrica combats discrimination of all kinds through all its actions. The Labour contract stipulate free days which are also paid for employees of a religion other than the Orthodox majority, according to the legislation in force. The collective agreement respects the trade union activity of its employees. Those who have leadership positions in the trade union, benefit from paid free days, for performing union activities. It also respects the right of the union to have regular meetings of its governing bodies. Only in 2018, there were 7 regular meetings of the leadership of the Hidrosind union in Bucharest or in other cities in the country, totaling 20 days for trade union activities. In each branch, employees with eligible trade union positions, benefit from a day / week dedicated to providing trade union activities within or outside the unit. Some trade union leaders have participated in competitions, and now occupy leading positions in company without any discrimination.



**Social Dialogue**

Employees of the company are syndicated over 95%. Their interests are defended by the trade union representative at the Hidroelectrica Hidrosind level. The Collective Labor Agreement is concluded with the social dialogue partner, Hidrosind. The union and employees are consulted about the main actions that take place in the organization: restructuring /

reorganization, budgeting of income and expenses, distribution of profits to employees, processes based on regulations / protocols concluded between the employer and union.

Recruitment, selection and employee performance assessment procedures are approved by the administration along with the Hidrosind syndicate. For transparency, a trade union representative is a member in each committee for all competitions that take place in the organization, whether internally or externally. The award, promotion, salary increase is based on the regulation / protocol concluded by the employer and the Hidrosind syndicate.

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

The collective labor agreement provides for substantial rights granted to employees in the case of collective or individual redundancy (maximum 24 salaries of the employee, depending on seniority in the organization). We specify that over 75% of employees can benefit from maximum compensation, given that they are working for more than 20 years in the organization.

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

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

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

The fact that the company provides attractive salaries, benefits and working conditions is reflected in the extremely low fluctuation registered in 2018 (under 3%).

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

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

At its 20th edition in 2018, the " Trofeul Energeticianului " aims to stimulate the interest and concern of the employees in order to increase the professional craftsmanship and to continue to improve their own training, as well as promoting the organizational culture and improving the image of the company.

The tradition of this event has entered into the organizational culture and is being carried out for six occupations / professions from Hidroelectrica SA and Hidroserv - Service and Repair Departments. The contest has three phases: the mass phase, with more than 500 employees participating in the branch, remaining the best participants in the mass phase, 200 (respectively 150 from Hidroelectrica and 50 from the Hidroserv branch). 42 employees (21 from Hidroelectrica and 21 from Hidroserv branch) compete at the country level.

The competition commissions are co-opted by specialists of the organization, representative union leaders and professors from different universities.

Winners are motivated with consistent and popular prizes on the company's website. The Hidroelectrica winners' prize budget is RON 350,000 annually. Expenditures with third parties are about RON 400,000 (the Hidroserv awards and the payment of teachers co-opted).

#### **Equal Chances: Training for union training**

The training plan also includes trade union training courses. In 2018, the training plan, which is the annex to the CLA in force, included courses for a national trade union delegate, as well as the labor legislation and employment relationships that were requested by Hidrosind for a number of 150 employees, members the union.

The aim of the courses is to complete and update the necessary knowledge regarding legislation in the field of labor, cooperation and development of the trade union activity at national and European level. The total budget is RON 148,200.

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

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

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

151 employees from departments of development, refurbishment, project management, design, plus the entire management of the company, will be trained in management program.

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

The duration of the contract will be 2 years and the value of the acquisition was estimated at approx. RON 1,300,000.

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

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

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

Hidroelectrica made a selection in 2018 for 50 private scholarships, 20 for pupils and 30 for students. The value of a private scholarship is RON 600 / pupils and RON 1000 / month for students, 10 months per school year. The budget for 2018 was RON 420,000.

#### **Social responsibility programs: "Hidroelectrica of the future"**

"Hidroelectrica of the Future" is a social responsibility program started in 2016 in partnership with the Ministry of National Education for 4 years, aiming at educating young people and presenting career opportunities by popularizing the hydropower field, presenting the reference hydrological objectives, company's history, technological flow, hydro-technical equipment and construction from Hidroelectrica.

The program aims the development of inter-institutional communication between educational units and Hidroelectrica, based on actions aimed at the transition from school to a possible workplace of students in vocational and technical education who are trained for crafts specific to the hydropower field.

Every year Hidroelectrica opens its doors to 600 children visiting the most important hydro-energetic objectives in Romania.

The first edition was officially launched at HPP Vidraru in 2016. The second edition was hosted by HPP Dorin Pavel / Lotru in the presence of the president of the Board, Mr. Bogdan Badea, in 2017;

The next edition will be launched in 2019 at HPP RETEZAT within the Hateg Branch.

The value of the project budgeted in 2018 for the year 2019 is about RON 83,000 and respectively Euro 18,000,.

#### **Social Responsibility Programs: Participation in 2018 of Hidroelectrica employees at volunteer action LET'S DO IT! - World Cleanup Day September 15, 2018**

The event was attended by 327 participants and 658 waste bags were collected in all seven branches of the company.

Everyone was involved, including top management.

Thus, along with the employees of the company, the President of the Directorate, Mr. Bogdan Badea, collected waste at the Ramnicu Valcea Branch, the managers of the Human Resources and HSW, Environment, Emergency Situations departments collected waste at the Curtea de Arges Branch. The directors of the hydropower plants were alongside their employees in each branch.

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

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

#### **The health**

- Supporting the medical and healthcare field, public or private hospitals or other medical institutions through sponsorships / donations for equipment, purchasing services, projects in the field, etc.
- Sponsoring various national programs, organizations, other entities that support the provision of medical treatments / interventions for people with such needs. These sponsorships can also be granted directly to individuals who need such treatments / medical interventions (through the mecenate contract).

### **Education and research**

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

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

### **Sport**

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

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

Social solidarity is part of the core of the business model of company. Hidroelectrica supports social activities on:

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

### **Local Communities**

Hidroelectrica can grant sponsorships that help support and develop local community projects and strengthen company-community relationships.

### **Culture**

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

### **President of Directorate**

**Bogdan Nicolae BADEA**

<b>Member of Directorate</b>	<b>Member of Directorate</b>	<b>Member of Directorate</b>	<b>Member of Directorate</b>
<b>Marian BRATU</b>	<b>Florentina ȘUȘNEA</b>	<b>Bogdan ȘOȘOACĂ</b>	<b>Răzvan Ionuț PAȚALIU</b>