



HIDROELECTRICA

Annual Report of Societatea de Producere a Energiei Electrice în Hidrocentrale „Hidroelectrica” S.A. for 2023

Prepared in accordance with the provisions of Law no. 24/2017 regarding issuers of financial instruments and market operations, republished, Annex no. 15 of FSA Regulation no. 5/2018 regarding issuers of financial instruments and market operations, and the Bucharest Stock Exchange Code,

based on the consolidated financial statements prepared in accordance with International Financial Reporting Standards ("IFRS") adopted by the European Union ("IFRS-EU"), separate and consolidated financial statements prepared in accordance with the Order of the Minister of Public Finance no. 2844/2016 with subsequent amendments ("OMFP no. 2844/2016").



27 March 2024

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Notes:

This report does not constitute a recommendation/offer/invitation to purchase shares issued by Hidroelectrica. This report contains consolidated level information regarding the main operational indicators of Group, thus, these pieces of information reflect the results and financial position pertaining to the reporting period available as of the date of this report and do not represent guarantees of the future performance of the Group. The information in this document is selective and may require updates, revisions, and modifications under certain circumstances. Hidroelectrica assumes no obligation or commitment to publish any update, revision, or modification of any information contained in this report unless required by applicable law.

Certain figures included in this Report have been subject to rounding adjustments; consequently, figures presented for the same category illustrated in different tables may vary slightly. Also, totals presented in certain tables may not be an arithmetic aggregation of the preceding figures. Additionally, percentages in tables have been rounded and therefore may not sum up to 100%. Calculations, variances, and other percentages may slightly differ from their actual calculations due to rounding of underlying financial, statistical, and operational information.

If this report refers to any information from any external source, this information should not be considered as adopted/approved by Hidroelectrica as accurate/correct.

This report may contain forward-looking statements. These statements reflect the current knowledge of the company as well as expectations and forecasts about future events. By their nature, forward-looking statements are subject to various risks, many of which are beyond the company's control, which could cause the actual results of the company to differ significantly from the results and performance expressed or anticipated. None of the future forecasts in this report should be considered as specific promises, nor should they be considered as implying an assurance or guarantee that the assumptions on which the future forecasts were based or the information and statements contained in this report are correct, accurate, or complete.

This report does not contain all the information that may be necessary regarding the company and its shares. Each person who has access to this report must conduct their own analysis.

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Identification data of Hidroelectrica

Report date: 27 March 2024

Issuer's name: Societatea de Producere a Energiei Electrice în Hidrocentrale Hidroelectrica S.A.

Registered office: Ion Mihalache Boulevard, No. 15-17, Floors 10-15, Sector 1, Bucharest, Romania

Phone: +40 21 303 25 00

Unique registration code with the Trade Registry: 13267213

Fiscal Registration Code: RO13267213

Registration number in the Trade Registry: J40/7426/2000

Legal Entity Identifier (LEI) Code: 787200IISRQX09PRB732 International Securities Identification

Number (ISIN): RO4Q0Z5RO1B6

Subscribed and paid-up share capital: 4,498,025,670 RON

Main characteristics of the issued securities: 449,802,567 ordinary, nominative, freely transferable shares, each with a nominal value of 10 RON/share, issued in dematerialized form.

Regulated market on which the issued securities are traded: the company's shares are listed on the Bucharest Stock Exchange (stock symbol: H2O).

Results Summary 2023

Hidroelectrica Group recorded increasing operational and financial results for the 12-month period ended 31 December 2023, compared to the same period of 2022, with improvements in the Group's operating margin and net margin by 7% and 11%, respectively, mainly due to high hydraulics, above average and execution of the supply portfolio growth strategy.

- **Electricity production up 30% compared to 2022**
- **Revenue up 29% compared to 2022**
- **Operating margin of 59%, up 7% compared to 2022 margin**
- **52% net margin, up 11% from 2022 margin**
- **Net profit up 43%, from RON 4,464 million to RON 6,365 million**
- **Earnings per share up 42%, from RON 9.95/share to RON 14.17/share.**

Operational indicators		2023	2022	Variation (%)
Gross electricity production, out of which:	<i>GWh</i>	18,119	13,925	30%
Electricity production from hydro (gross)	<i>GWh</i>	17,784	13,626	31%
Net electricity production, out of which:	<i>GWh</i>	17,639	13,544	30%
Production of electricity from hydro (net)	<i>GWh</i>	17,305	13,245	31%
Production of electricity from wind	<i>GWh</i>	334	299	12%
External Acquisition GWh	<i>GWh</i>	1,699	1,000	70%
Total Electricity sales GWh	<i>GWh</i>	19,338	14,544	33%

Source: Hidroelectrica

Financial indicators calculated based on the consolidated financial statements prepared in accordance with IFRS-EU:

Financial indicators		2023	2022	Variation (%)	2021
Revenue	<i>million RON</i>	12,160	9,452	29%	6,489
EBITDA	<i>million RON</i>	8,016	5,985	34%	4,506
EBITDA margin	%	66%	63%	4%	69%
Adjusted EBITDA	<i>million RON</i>	8,253	6,009	37%	4,834
Adjusted EBITDA margin	%	68%	64%	7%	74%
Operating Margin (Operating Profit/Revenues*100)	%	59%	55%	7%	58%
Net Margin (Profit for the period/Revenues*100)	%	52%	47%	11%	48%
Operating profit	<i>million RON</i>	7,200	5,208	38%	3,756
Net profit	<i>million RON</i>	6,365	4,464	43%	3,116
Earnings per share	<i>RON/share</i>	14.17	9.95	42%	6.95

Source: Hidroelectrica

Financial indicators calculated based on the consolidated financial statements prepared in accordance with OMFP nr. 2844/2016

Financial indicators		2023	2022	Variation (%)	2021
Revenue	million RON	12,160	9,452	29%	6,489
EBITDA	million RON	8,016	5,787	39%	4,154
EBITDA margin	%	66%	61%	8%	64%
Adjusted EBITDA	million RON	8,253	5,933	39%	4,530
Adjusted EBITDA margin	%	68%	63%	8%	70%
Operating Margin (Operating Profit/Revenues*100)	%	59%	53%	12%	55%
Net Margin (Profit for the period/Revenues*100)	%	52%	47%	11%	48%
Operating profit	million RON	7,200	5,011	44%	3,572
Net profit	million RON	6,365	4,461	43%	3,086
Earnings per share	RON/share	14.17	9.95	42%	6.88

Source: Hidroelectrica

Financial indicators calculated based on the individual financial statements prepared in accordance with OMFP no. 2844/2016

Financial indicators		2023	2022	Variation (%)	2021
Revenue	million RON	12,159	9,212	32%	6,323
EBITDA	million RON	7,996	5,664	41%	4,230
EBITDA margin	%	66%	61%	7%	67%
Adjusted EBITDA	million RON	8,225	5,795	42%	4,604
Adjusted EBITDA margin	%	68%	63%	8%	73%
Operating Margin (Operating Profit/Revenues*100)	%	59%	53%	11%	55%
Net Margin (Profit for the period/Revenues*100)	%	52%	48%	10%	48%
Operating profit	million RON	7,178	4,902	46%	3,478
Net profit	million RON	6,352	4,394	45%	3,020
Earnings per share	RON/share	14.14	9.80	44%	6.73

Source: Hidroelectrica

In 2023, Hidroelectrica's results were positively influenced by higher hydrology compared to the same period last year, marked by severe drought, a situation that led to a significant increase in the amount of electricity delivered, and consequently, to an increase in revenue from energy sales.

The number of consumption sites in the portfolio as of 31 December 2023 is 575,565, compared to 510,443 consumption sites (CS) recorded in 2022, reflecting an increase due to the demand in the supply portfolio, especially from residential customers.

In terms of structure, the supply portfolio of Hidroelectrica S.A. had the following evolution:

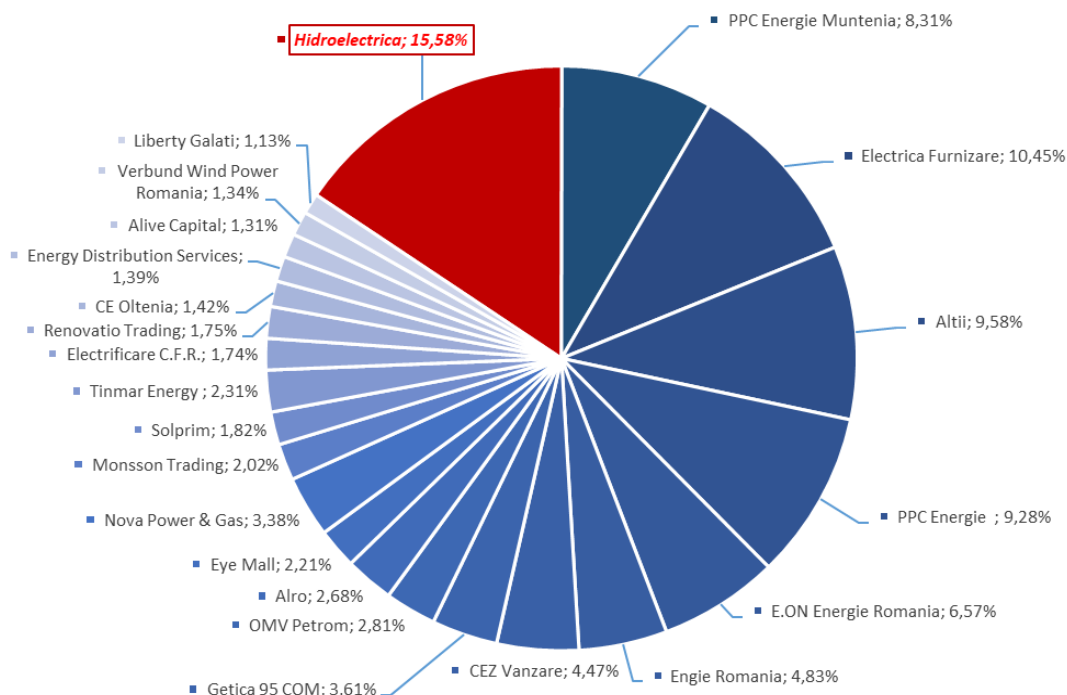
Client Type	CS No.* 01.01.2023	CS No.* 31.12.2023
Household	483,546	541,041
Non-household	26,897	34,524
Total	510,443	575,565

* the number of consumption points in the portfolio (excluding those directly supplied from the hydroelectric power plant bars and those supplied from the transmission network/other non-concessionaire distribution operators)

Source:Hidroelectrica

In 2023, according to ANRE's latest report*, Hidroelectrica maintained its position as the most important electricity supplier to final customers on the competitive market, registering a market share of 15.68% at the end of december 2023.

Market shares of electricity suppliers on the competitive market (January - December 2023)



* Source: ANRE Report on the Results of Electricity Market Monitoring in December 2023



During 2023, the activities of identifying, analyzing and documenting the development opportunities offered by the market continued, in parallel with the implementation of the projects already started regarding the diversification of the portfolio of electricity production capacities from renewable sources (acquisitions of participations and development of new capacities), as well as of the existing business portfolio, permanently aiming to keep the company label 100% green.

Against the background of recent developments in the renewable energy production sector (wind and photovoltaic) at European and global level, Hidroelectrica maintains its prudent development strategy in the field of renewable energy, keeping its objective of entering new investment projects only where the return on investment is higher than the cost of capital.

Management Structures Report for 2023

Message from the Chairman of the Supervisory Board of Hidroelectrica

As leader of the national energy market, Hidroelectrica assumes with responsibility and determination the mission to contribute to the sustainable progress of Romania and the national energy industry. In line with the contextual developments of the field, we are committed to approaching the processes of adaptation and organizational development with particular attention.

As part of our commitment to excellence, we promote and ensure the implementation of the best corporate governance practices in both internal and external processes of the company. We appreciate that the efforts of the Supervisory Board to support the quality and accuracy of Hidroelectrica's administrative framework set a commendable example for the entire national energy industry.



Petre NICOLESCU
Chairman of the Hidroelectrica Supervisory Board

We are aware that the global structure of the business environment has become more and more complex, and the decision-making pace has increased, and this requires a permanent effort to adapt. In addition, in the context of the company's listing on the Bucharest Stock Exchange, we want to ensure that we maintain an optimal level of transparent and open communication with our shareholders and investors, promoting consultation, continuous dialogue and bilateral communication.

We work closely with executive management to define an updated, coherent and efficient strategy, adapted to the current needs of the energy sector. Through sustained efforts, we aim to maintain Hidroelectrica among the most stable and predictable actors of the business environment in the national spectrum and in the energy spectrum in particular.

Petre NICOLESCU

Chairman of the Hidroelectrica Supervisory Board

Message from the Chairman of the Management Board of Hidroelectrica

The year 2023 was a remarkable chapter for Hidroelectrica, a year characterized by major successes and exceptional achievements. Undoubtedly, one of the most important moments was the listing of the company on the Bucharest Stock Exchange. After crossing a challenging path, we managed not only to capitalize on the listing process, but to significantly contribute to the development of the Romanian capital market and to draw the attention of the most important international investors to the growth potential of the Bucharest Stock Exchange, while enjoying a fantastic trust of thousands of Romanian investors, natural and legal persons.



Karoly BORBELY, CEO Hidroelectrica

Hidroelectrica, leader of the national energy market, registered a historic performance in 2023, exceeding expectations and forecasts. Exceptionally, the company's listing was recognized as the largest in Europe and the third largest in the world in 2023. This deserved success reflects our deep commitment and the constant determination that underpins every effort.

I would like to express my gratitude to the Hidroelectrica team for their exemplary effort and dedication in this project. This exceptional mobilization will continue to guide us in every action we take in the strategic development of the company.

I would like to emphasize that the success of the listing has transferred us to a new stage, with new rigors and requirements. We are committed to modernizing the organizational culture, communicating effectively and focusing on our objectives, assumed in front of investors. This is a continuous journey of transformation, which I urge you to support and which I wish you to join.

Another notable event of 2023 for the company's activity was the acquisition of UCM Resita through business transfer, which reflects Hidroelectrica's commitment to efficiency in all aspects of its organizational activity. UCM Reșița-Hidroserv's operational efficiency opens new opportunities for creating a top company, competitive on national and international markets. We believe there is potential, we believe in sustainable growth and we act in this regard as a team.



These achievements contribute significantly to Romania's sustainable progress and to the evolution of the energy industry. I assure our shareholders, partners and collaborators that the new management team appointed in November 2023 is full of positive energy and innovative ideas that will be implemented in the company.

With a new Management Board and a full Supervisory Board, we enter 2024 with enthusiasm, determined to perform. We want to contribute to the profound change of organizational culture, primarily through education.

From the point of view of the development strategy, we are bent towards the digitalization area in all aspects of organizational life, we are interested in everything that means innovation and the assumed adoption of the latest technologies, so as to increase our performance, efficiency and – implicitly, success.

We are also focusing on investments that are currently in various phases of execution, while firmly committing to ESG standards, thereby reaffirming our commitment to the environment, community and corporate governance. We also analyze the procurement of capacities from renewable sources, photovoltaic and wind, contributing significantly to strengthening the position of 100% green energy producer.

In conclusion, I would like to thank all colleagues, partners, and shareholders for their trust and ongoing support.

Sincerely,

Karoly BORBELY

CEO Hidroelectrica

I. Supervisory Board's Report

According to the current Articles of Association, the Supervisory Board consists of 7 members. Members of the Supervisory Board may be shareholders of the Company, but they cannot be members of the Management Board, nor can they hold the position of employee of the Company while serving on the Supervisory Board.

Members of the Supervisory Board proposed by the majority shareholder are selected in accordance with legal provisions regarding the corporate governance of public enterprises and are appointed by the Ordinary General Meeting of Shareholders. The Romanian State, represented by the competent authority under the law, may not propose more than 6 candidates for the position of member of the Supervisory Board.

The term of office of Supervisory Board members is 4 years and may be renewed by a decision of the General Meeting of Shareholders, following an evaluation of the member's performance and provided that they have properly fulfilled the duties and obligations assumed under the mandate contract.

Composition of the Supervisory Board as at 1 January 2023:

Name	Positon	Start date of the mandate	Date of termination of mandate
Ioana-Andreea LAMBRU	President	5 February 2019	4 February 2023
Daniel NAFTALI	Member	5 February 2019	4 February 2023
Mihai-Liviu MIHALACHE	Member	5 February 2019	4 February 2023
Karoly BORBELY	Member	5 February 2019	4 February 2023
Cătălin POPESCU	Member	5 February 2019	4 February 2023
Carmen RADU	Member	5 February 2019	4 February 2023
Cristian-Nicolae STOINA	Member	5 February 2019	4 February 2023

Source: Hidroelectrica

On 28 March 2023, the General Meeting of Shareholders approved the appointment of a Supervisory Board with a mandate of 4 years, starting from 29 March 2023 until 28 March 2027, consisting of the following members:

Name	Positon	Start date of the mandate	Date of termination of mandate
George-Sergiu NICULESCU	President	29 March 2023	28 March 2027
Daniel NAFTALI	Member	29 March 2023	28 March 2027
Mihai-Liviu MIHALACHE	Member	29 March 2023	28 March 2027
Karoly BORBELY	Member	29 March 2023	28 March 2027

Name	Position	Start date of the mandate	Date of termination of mandate
George-Marius TONIUC	Member	29 March 2023	28 March 2027
Carmen RADU	Member	29 March 2023	28 March 2027
Silviu-Razvan AVRAM	Member	29 March 2023	28 March 2027

Source: Hidroelectrica

Details on the selection and appointment of the members of the Supervisory Board, as well as other changes to the composition of the Supervisory Board during 2023 are presented in Chapter 3 "Key Events in 2023" of this Report.

Composition of the Supervisory Board as at 31 December 2023:

Name	Function	Independence status according to Law 31/1990	Independent status according to BSE Governance Code	Start date of mandate (*including provisional mandate period)	Date of termination of mandate
Petre-Iulian NICOLESCU	President	independent	-	1 August 2023*	28 March 2027
Ana-Barbara BOBIRĂ	Member	independent	independent	27 December 2023*	28 March 2027
Cristian-Nicolae STOINA	Member	independent	independent	18 October 2023*	28 March 2027
Mihai-Liviu MIHALACHE	Member	-	-	29 March 2023	28 March 2027
Carmen RADU	Member	independent	independent	29 March 2023	28 March 2027
Silviu-Tazvan AVRAM	Member	independent	-	29 March 2023	28 March 2027
George-Marius TONIUC	Member	independent	independent	29 March 2023	28 March 2027

Source: Hidroelectrica

The activity of the Supervisory Board during 2023

The main Decisions of the Supervisory Board in 2023 were the following: approval of the Income and Expenses Budget for 2023, approval of the annual financial statements for the financial year ended 31 December 2022, approval of the update of the wholesale sales strategy for the delivery period January 2023 – March 2025, endorsements regarding the increase of the share capital, approval of the establishment of the Hidroelectrica working point, respectively Crucea Nord Wind Farm, approving the

joint venture agreement between Hidroelectrica and ABU DHABI FUTURE ENERGY COMPANY PJSC - MASDAR, for the purpose of developing, investing, building and operating renewable energy projects in Romania.

In 2023, following the appointment of Supervisory Board members with a 4-year mandate, the Supervisory Board approved the Management Composition of the Hidroelectrica Management Plan for a period of 4 years.

Additionally, the Supervisory Board approved the Evaluation Report of the Management Board's activity for the year 2022, approved Hidroelectrica's Information Security Policies and Network and Information Systems, the Procedure for Updating Hidroelectrica's IT Security Policy/Regulation/Accreditation, the Regulation of the Information Security Management System and Network and Information Systems within Hidroelectrica, and endorsed the Dividend Policy for submission for approval by the General Meeting of Shareholders.

In 2023, the initiation of the selection procedure for members of the Hidroelectrica Management Board was approved, in accordance with the provisions of Emergency Ordinance no. 109/2011, approved with amendments and supplements through Law no. 111/2016, with subsequent amendments and supplements, as well as the selection criteria for the independent expert specialized in human resources recruitment who assisted the Supervisory Board/Nomination and Remuneration Committee in the selection of candidates for positions as members of the Hidroelectrica Management Board.

During the IPO process, the Supervisory Board approved the Offering Prospectus and Admission to Trading of shares issued by Hidroelectrica on the Bucharest Stock Exchange, for signing and submission to the Financial Supervisory Authority (FSA) for approval. It also endorsed the Underwriting Agreement for submission to the General Meeting of Shareholders for approval, approved the Articles of Association of Hidroelectrica, subject to the suspensive condition of the successful completion of the public offering of Hidroelectrica shares and admission to trading on the Bucharest Stock Exchange of the shares issued by the Company. Additionally, it approved the conclusion of contracts with cornerstone investors mentioned in the Offering Prospectus and approved the price range resulting from the completion of the Pre-Deal Investors Education (PDIE) process.

The Supervisory Board approved the Internal Audit Report regarding the Evaluation of the corruption prevention system for the year 2023, as defined by the National Anti-Corruption Strategy 2021-2025, and the compliance with the requirements of ISO 37001 Anti-Bribery Management Systems in Hidroelectrica, considering the recommendations of the Audit Committee.

Throughout 2023, the Supervisory Board endorsed the acquisition transaction of the business from UCM Resita S.A. and the signing of transaction documents together with the related annexes, subject to the approval of the General Meeting of Shareholders (AGM). It also approved the establishment of the project company ("SPV" - Special-purpose vehicle) in the form of an LLC, which will acquire the business through a business transfer from UCM Resita S.A., subject to the approval of the AGM. Furthermore, it

approved the sale of 17 HPPs owned by Hidroelectrica, included in the Strategy for their sale approved by the AGM.

Additionally, the Supervisory Board approved the conclusion of a 10-year additional agreement to the Lease Contract with Tower Center International S.R.L., aimed at extending the lease term and increasing the leased spaces according to the current needs of the Company.

Advisory Committees

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

Nomination and Remuneration Committee (“NRC”)

The Nomination and Remuneration Committee is a permanent advisory committee, independent from the Company's executive structures, reporting directly to the Supervisory Board. The Nomination and Remuneration Committee consists of members of the Supervisory Board.

The composition of the Nomination and Remuneration Committee as at 31 December 2023 is as follows:

1. George-Marius TONIUC – President
2. Silviu-Răzvan AVRAM – Member
3. Carmen RADU – Member
4. Petre-Iulian NICOLESCU – Member

According to the Organization and Functioning Regulation of the Supervisory Board, NRC has the following attributions:

- Formulates proposals for the position of member of the Supervisory Board, elaborates and proposes to the Supervisory Board the procedure for selecting candidates for the positions of member of the Management Board and for other positions, recommends to the Supervisory Board candidates for the positions listed above and formulates proposals for the development of a remuneration policy for members of the Management Board and other management positions, in accordance with the development strategy, objectives, values and interests of the company. The Board is required to supervise the implementation of the remuneration policy for the Management Board.
- Proposes the selection criteria for the members of the Management Board, corresponding to the identified profiles, as well as the selection criteria for other management positions.
- At least one member of the Nomination and Remuneration Committee must be an independent member of the Supervisory Board.
- In carrying out its work, the Nomination and Remuneration Committee prepares an annual report on the remuneration and other benefits granted to members of the Supervisory Board and directors during the financial year.

- The Nomination and Remuneration Committee meets quarterly to carry out an evaluation of the activity of the Management Board and other persons with management positions, in order to establish the proportionality between the established performances and the percentage of their achievement, on the one hand, and the monetary or non-monetary benefits stipulated in their contract (whether or not they were received or granted, where appropriate), on the other hand. At the end of each meeting, the Nomination and Remuneration Committee will submit to the Supervisory Board a report on its activity.

Audit Committee (“AC”)

The Audit Committee is a permanent committee with an advisory role, independent of the executive structures of the Company, reporting directly to the Supervisory Board. According to the organization and functioning regulations of the Supervisory Board, the Audit Committee is composed of members of the Supervisory Board.

The composition of the Audit Committee as at 31 December 2023 is as follows:

1. Carmen RADU – President
2. George-Marius TONIUC – Member
3. Silviu-Razvan AVRAM – Member
4. Cristian-Nicolae STOINA – Member
5. Mihai-Liviu MIHALACHE – Member

The Audit Committee fulfills the duties provided for in Article 65 of Law no. 162/2017 regarding the statutory audit of annual financial statements and consolidated annual financial statements, with subsequent amendments and supplements. At least one member of the audit committee must possess qualifications in the field of accounting and statutory audit, proven by qualification documents for these respective fields, and at least one member of the audit committee must have the qualifications required by law in the field in which the audited entity operates.

The Audit Committee is informed and requests information, through the Supervisory Board, and issues recommendations to the Supervisory Board regarding the selection of the statutory auditor, the evaluation and monitoring of the statutory auditor's independence, and the monitoring and results of the statutory audit of annual financial statements and consolidated annual financial statements.

The Audit Committee is informed and requests information, through the Supervisory Board, and issues recommendations to the Supervisory Board regarding financial reporting processes, managerial internal control processes, and risk management processes within Hidroelectrica.

The Audit Committee monitors the internal audit activity, approves the internal audit charter, internal audit plans, and reports, requests the execution of ad-hoc internal audit missions, and issues

recommendations to the Supervisory Board regarding the approved internal audit charter, plans, and reports, without compromising the independence of the internal auditors.

Risk Management Committee (“RMC”)

The Risk Management Committee ensures the consistency of control activities with the risks generated by the activities and processes under control, identifies, analyzes, evaluates, monitors and reports the identified risks, the plan of measures to mitigate or anticipate them, other measures taken by the executive management. He shall also be responsible for measuring the solvency of the public undertaking, by reference to its usual duties and obligations, and shall inform or, where appropriate, make proposals to the Supervisory Board.

Composition of the Risk Management Committee as at 31 December 2023:

1. Silviu-Răzvan AVRAM – President
2. Cristian-Nicolae STOINA – Member
3. Petre-Iulian NICOLESCU – Member
4. Mihai-Liviu MIHALACHE – Member
5. George-Marius TONIUC – Member

Investor Relations Committee (“IRC”)

1. Petre-Iulian NICOLESCU – Member
2. George-Marius TONIUC – Member
3. Carmen RADU – Member
4. Mihai-Liviu MIHALACHE – Member

In January 2024, the SB decided to establish the Governance and Sustainability Committee, whose President is Ms. Ana-Barbara BOBIRCĂ and replacing the Investor Relations Committee outlined above. More details can be found in the Subsequent *Events* chapter of this Report.

Information on the meetings of the Supervisory Board and advisory committees in 2023

In 2023, 50 meetings of the Supervisory Board were organized, in compliance with the legal and statutory provisions, of which:

- 30 meetings were held in physical/hybrid format and
- 20 meetings were held by electronic vote.

Below is presented the situation of participation of SB members (in physical/hybrid/electronic format) in the meetings of the Board and its committees in 2023.

No.	Name	SB (50 meetings)	NRC (28 meetings)	AC (10 meetings)	RMC (0 meetings)	IRC (0 meetings)
1	Ioana Andreea Lambru	8	3	-	-	-
2	Karoly Borbely	33	5	2	-	-
3	Mihai Liviu Mihalache	50	13	7	-	-
4	Daniel Naftali	45	25	7	-	-
5	Carmen Radu	50	24	9	-	-
6	Cristian- Nicolae Stoina	26	-	4	-	-
7	Catalin Popescu	8	3	2	-	-
8	George Toniuc	43	13	8	-	-
9	Silviu-Razvan Avram	43	23	8	-	-
10	Petre-Iulian Nicolescu	24	19	-	-	-
11	Sergiu George Niculescu	2	1	-	-	-

Source: Hidroelectrica

Throughout 2023, the Nomination and Remuneration Committee held a total of 28 meetings, both physically at the Company's headquarters and through video conferencing or electronically. Among the agenda items were:

- The annual report of the **Nomination and Remuneration Committee** regarding the remuneration of the members of the Management Board and the Supervisory Board of Hidroelectrica for the period from January 1, 2022, to December 31, 2022.
- The activity report of the Supervisory Board of Hidroelectrica S.A. for the financial year ended December 31, 2022.
- The evaluation report of the Management Board's activity for the year 2022.
- The evaluation report of the Supervisory Board's activity for the year 2022.

Through the reports prepared by the Nomination and Remuneration Committee, recommendations were made to the Supervisory Board regarding the evaluation of the activities of the Management Board members, Supervisory Board members, and the degree of fulfillment of key performance indicators by them in 2022. It was found that the obligations assumed under the mandate contracts were respected by the members of the Management Board and the Supervisory Board of Hidroelectrica, and key performance indicators were achieved.

Also, within the Nomination and Remuneration Committee, throughout 2023, the selection criteria for the members of the Hidroelectrica Management Board were established, the profile of the Hidroelectrica Management Board was analyzed and approved, and the form and content of the announcement regarding the selection of candidates for the election of the five members of the Hidroelectrica Management Board, with a 4-year mandate, were reviewed and approved. These recommendations were then submitted to the Supervisory Board for approval. The Nomination and Remuneration Committee, together with the Supervisory Board, conducted the selection procedure, making recommendations to the Supervisory Board for the positions of members of the Hidroelectrica Management Board.

The **Audit Committee** held a total of 10 meetings in 2023, conducted in a hybrid format and electronically via email. During these meetings, the individual and consolidated annual financial statements as of 31 December 2022, of Hidroelectrica, as well as the report of the external auditor KPMG Audit S.R.L., were analyzed. Recommendations were made to the Supervisory Board for approval of the company's financial statements and their submission to the General Meeting of Shareholders for approval.

Additionally, within the audit committee meetings, the following were reviewed and approved by the Supervisory Board: the activity report of the Internal Public Audit Department for the year 2022, the multi-year internal audit plan 2023-2026 / annual 2023 of the Internal Public Audit Department of Hidroelectrica, and the report on the audit of the electricity supply activity within Hidroelectrica. Recommendations were made to the Supervisory Board in this regard.

The President of the **Strategy and IPO Committee** convened 3 meetings in 2023 at the Hidroelectrica headquarters, mainly focusing on discussing the Prospectus, the subscription contract (Underwriting agreement), in the context of shareholders' approval, through the AGM Decision no. 3/31.03.2022, to initiate the admission to trading ("listing") of shares issued by Hidroelectrica on the Bucharest Stock Exchange.

According to available information, there are no agreements, understandings, or family relationships between the members of the Supervisory Board and any other person contributing to their appointment as members of the Supervisory Board. The Supervisory Board conducts an annual self-assessment process using a self-assessment questionnaire approved by the Supervisory Board. Based on the self-assessment questionnaires, an Annual Self-assessment Report is drafted and approved by the Supervisory Board.

Following the self-assessment process of the Supervisory Board for the year 2023, the average rating of the 6 members of the Supervisory Board who completed the questionnaire is 4.85 out of 5, according to the Self-assessment Report.

II. Management Board's Report

1. Group presentation

Societatea de Producere a Energiei Electrice în Hidrocentrale Hidroelectrica S.A. ("Hidroelectrica" or "the Company") is a joint stock company managed in a two-tier system that carries out its activity in accordance with the Romanian legislation, established under the Romanian Government Decision nr. 627 of 13 July 2000, registered in Romania at the Trade Register Office attached to the Bucharest Tribunal under no. J40/7426/2000, with headquarters located in Romania, Bucharest, 15-17 Ion Mihalache Boulevard, floors 10-15, District 1, having sole registration code 13267213 and LEI code 787200IISRQX09PRB732. The telephone/Fax number if the Company is +40 21.303.25.00.

Starting from 12 July 2023, the regulated market on which the company's shares are traded is the Bucharest Stock Exchange.

1.1. Organizational structure

Hidroelectrica is the leading electricity producer in Romania, a significant player in the hydropower sector in Europe, and the main provider of system services in Romania, playing a crucial role in the security of the National Energy System (NES). The company owns and operates 187 hydropower plants and micro-hydropower plants (including five pumping stations) with a total installed capacity for hydropower production of approximately 6.3 GW, as well as a wind farm with a total installed capacity of 108 MW.

The company has seven hydroelectric branches and one branch that manages the Crucea wind farm, as presented in the image below. Porțile de Fier and Vâlcea are the most important branches for the Group in terms of their production capacities and their shares in the Group's total energy production.

Since its establishment, the company has been committed to producing 100% renewable energy and has played an essential role in designing and implementing technological and operational concepts that have become industry standards. Additionally, Hidroelectrica is a wholesale seller and a direct electricity supplier to end-customers, both residential (households) and non-residential (including businesses from various industrial sectors such as automotive, telecommunications, and construction, etc.).

As a producer of energy from hydropower and, more recently, from wind power, the company leverages synergies between its production and supply portfolios, as well as those generated by diversifying its production portfolio (towards other renewable sources such as wind and solar energy by blending them with hydropower).

As of 31 December 2023, the company had only one subsidiary, S.S.H. Hidroserv S.A. ("Hidroserv"), fully owned by the company, which provides maintenance and repair services for the Group's hydropower assets. Since October 2016, Hidroserv has been undergoing insolvency proceedings, during which a

reorganization plan was confirmed in June 2020, now extended until mid-2024. On 23 October 2023, Hidroserv managed to fully settle the claims registered in the creditors' table by distributing the anticipated amounts related to the last quarters from the “Final list of claims”.



Hidroelectrica Branches

**PDF stands for Iron Gates (“Portile de Fier”)*

Source: Hidroelectrica

The Company carries out its activity in accordance with the Articles of Association amended and approved by the Extraordinary General Meeting of Shareholders on 22 June 2023 and entered into force on 12 July 2023, available on the Company's website, www.hidroelectrica.ro, section Investor Relations – Corporate Governance – Corporate Governance Documents.

Share capital and main characteristics of shares issued by the Company

The share capital of the Company of RON 4,498,025,670 is fully subscribed and paid-up, being divided into 449,802,567 ordinary, nominative, freely transferable shares, each with a nominal value of RON 10/share, issued in dematerialized form, with ISIN code RO4Q0Z5RO1B6 and traded on the regulated market managed by BSE under the symbol "H2O".

1.2. Main activities of the Group

Generation of Electricity and System Services

The Group produces electricity by operating 187 hydropower plants (including five pumping stations) and 36 wind turbines of 3MW each, objectives strategically located in eight branches on Romanian territory.

The portfolio of hydroelectric power plants in operation consists of approx. 54% hydroelectric power plants with storage, 46% water plants and less than 1% pumping capacities. The main production capacity is represented by Iron Gates I and Iron Gates II, cumulating approximately 27% of the installed capacity and 40% of the total energy production of the Company.

Hidroelectrica entered the field of wind energy production, by acquiring Crucea Wind Farm, representing 4% of the total wind capacity in Romania, at the level of 2022. Subsequently, the General Meeting of Shareholders approved its merger by absorption into Hidroelectrica starting with 31 December 2022.

The electricity produced by the Company is capitalized on the wholesale energy trading markets, but also on the retail market (through the supply activity to final consumers).

On 1 January 2023, the Romanian Government implemented, as an extraordinary measure, applicable between 1 January 2023 and 31 March 2025, a centralized electricity purchasing mechanism ("MACEE") through which electricity producers sell to the market operator, OPCOM, at the fixed price of RON 450/MWh, (i) 80% of the estimated annual quantity of available energy, as validated by Transelectrica and approved by ANRE and (ii) the estimated amount of energy to be delivered monthly, in addition to the annual quantity referred to in letter i).

Hidroelectrica is also the main system service provider in Romania, thus ensuring the stability of the functioning of the National Energy System ("SEN"). The Company provides ancillary services (also known as "ancillary technology services") to the national energy system operator, Transelectrica S.A. Thus, Transelectrica S.A. purchases system technology services from the Company, based on a procedure regulated by ANRE, on a contractual basis, in order to maintain the level of operational safety of the energy system and the quality of energy transported at the parameters required by the regulations in force.

Supply of electricity to end customers

The electricity market for final consumers in Romania is liberalized, so that all consumers are free to choose their electricity supplier at negotiated prices.

The Group supplies electricity at negotiated tariffs to both industrial (non-household) and household consumers. Revenues from the Group's supply segment include active energy as well as transferred costs, which are green certificate costs, electricity transmission and distribution costs, costs of introducing electricity into the system and other fixed costs, etc.

1.3. Mission, vision, values

Hidroelectrica's mission: To create value by producing and marketing electricity, in a responsible manner towards the community and the environment, with quality and performance.

Hidroelectrica's vision: Strengthening the leading position in producing electricity and providing ancillary services, while respecting the principles of sustainable development.

Hidroelectrica's values: Performance, integrity, social responsibility, creativity, team spirit.

1.4. Strategy elements

As a leader in electricity production at the national level, with sustainable activities in terms of social responsibility towards the communities it interacts with and environmental protection, Hidroelectrica's general objective is to continuously increase shareholder value by conducting predictable and profitable businesses.

Hidroelectrica aims to be among the leading renewable energy producers in Europe, operating under conditions of high technical quality and safety.

The strategy for the development and evolution of Hidroelectrica is aligned with European policies and the ambitious targets set by Romania for decarbonizing the economy by 2030, including achieving 49% renewable energy in the total energy consumption. Hidroelectrica contributes directly to ensuring new capacities for renewable energy production, including wind and solar power, to gradually replace existing capacities based on fossil fuels, which are scheduled for closure. The main strategic directions pursued by the Hidroelectrica Management Board are:

- Optimization of existing hydropower assets by stimulating operational efficiency through maintenance (equipment and construction), correlated with the refurbishment works of the asset base, aiming at predictable and constant performance;
- Implementation of new technologies for hydropower projects in different stages of execution;
- Promoting growth and diversification by developing new production capacities and potential synergies from other renewable sources, while exploring M&A opportunities;
- Increasing the share held in the electricity supply market;
- Focus on shareholder value through operational efficiency and investment to maximize returns while aiming for a dividend policy with a distribution rate of at least 90% of profit;
- Maximizing liquidity generation and total earnings for shareholders;
- Reporting according to the requirements of the European legislation in the field and the ESG Reporting Guidelines;
- Obtaining a sustainability rating;
- Implementation of corporate governance best practices;
- Implementation of a transparent and efficient reporting and communication system with investors and analysts.



Source: Hidroelectrica

Given that the energy sector will undergo an unprecedented transformation in the next period, starting from Hidroelectrica's SWOT analysis and corroborating with shareholders' expectations regarding the company's positioning in the context of accelerating the energy transition, having the opportunity to become the leader of the energy transition in Romania, the achievement of Hidroelectrica's strategic objectives will be materialized in the following essential directions of action:

1. **Organization** – Internal efficiency of the Group – essential to optimally position the group in order to deliver results. Simplifying internal procedures in order to shorten implementation periods, streamline the cost structure and optimize the personnel structure;
2. **Operation** – Condition-based maintenance, adoption of digitization solutions in correlation with the refurbishment and modernization program in order to increase the operational efficiency of the Company and timely completion of ongoing investments;
3. **Development and diversification** – Prioritization of investment projects and monitoring implementation. Diversification of the production portfolio and growth of the supply portfolio;
4. **Governance** – Alignment of the Group with corporate governance standards specific to listed companies. Allocating resources in order to achieve an integrated reporting system both at individual and consolidated level, allowing the personalization of information - dashboard type, for monitoring various flows in real time in order to improve reaction times, decision-making process as a whole. Compliant and transparent reporting, efficient communication with investors. Meeting sustainability reporting requirements; defining and achieving ESG targets.

One of the Group's long-term strategic objectives is to participate in the professional development of employees through continuous improvement of professional knowledge and skills.

The Group will stay on the path of sustainable development it has entered by respecting the values of organizational culture and business principles, protecting, sustaining and continuously improving at the same time human, natural and financial capital for the future. The Group can thus be involved in the formation and development of this spirit also among the younger generation, who must understand, adopt and apply the principles of sustainable development.

The vision of the Management Board for the strategic and sustainable development of the Company, focusing on increasing the value of Hidroelectrica, in correlation with the context, trends and current opportunities of the local and regional energy market, as well as with the forecasts and perspectives that can be anticipated is to ensure the maintenance of a modern, financially viable, economically sustainable company that provides quality services to customers, to be responsible towards society, towards all other partners involved in carrying out the service and towards the environment, in conditions of sustainable development.

1.5. Perspectives

Through the full and sustained implementation of the company's strategy, the optimal utilization of the developed hydropower potential will be ensured, by obtaining a high degree of performance, reliability and availability for the hydro units in operation and a new operating cycle of 25-30 years at the parameters nominal and under conditions of increased efficiency and safety for modernized and re-engineered capacities.

In order to achieve this desired, it is necessary to bring Hidroserv back into the economic circuit and, at the same time, as the sole shareholder, to ensure the necessary resources, as well as the working capital for the modernization of the material base, SDV-istics, AMCs, etc. and for the consolidation of the company's position through the integration of UCM Reșita S.A., with the perspective of transforming the future company into a genuine general contractor of large-scale energy projects at the national level, into a modern, integrated maintenance and modernization company for hydropower equipment, which includes same place production capacity and equipment installation. The proposed actions lead to securing the existing portfolio of production assets, thus guaranteeing the company's long-term performance.

One of the permanent concerns of the Hidroelectrica management is the optimal management of the company's investment budget and the portfolio of investment objectives, new and ongoing projects, for the realization of new production capacities from renewable sources, the modernization, rehabilitation and retechnology of existing capacities , of the company's business diversification projects, as well as of

the mergers and acquisitions activity. The method of allocating own and attracted financial resources is established following internal analyzes carried out by the company's specialists based on technical and economic criteria.

Business development will be carried out as a priority by increasing the generation capacity, aiming to increase the production of electricity, both by using the existing hydropower potential, implementing some electricity storage projects by pumping, diversifying the electricity production portfolio, including by purchasing and/or the development of energy production capacities from other renewable energy sources and/or the acquisition of shares in other companies, as well as by targeting other sections of the energy value chain at the national level and, in the future, at the regional level, as well as by diversifying the activity in other activities in economic fields related to the main object of activity. The development opportunities will be prioritized and approached according to the profitability of each individual project, which will be analyzed in relation to the new legislative provisions applicable in the field.

The company's medium- and long-term strategy is based on directions, measures and actions provided for the achievement of the company's strategic objectives, among which we mention:

Optimizing the operation of production capacities

Optimizing the operation of the existing production capacities in the portfolio, taking into account the current market context, must take into account the synergies that can be obtained by mixing several sources of renewable energy: hydro - wind, hydro - solar, hydro - solar - hydrogen, hydro - battery storage, wind - battery storage, solar - battery storage. By making these resource mixes, it is ensured that the climate risk to which the company is constantly exposed is reduced and at the same time an increased predictability of the production forecast is obtained, the reduction of costs with imbalances, the optimization of operating costs, generating multiple benefits in scheduling energy sales and obtaining additional income, in accordance with the new concept of managing energy assets through Virtual Power Plants.

Although Hidroelectrica currently owns a significant amount of energy stored in the great lakes (approx. 3 TWh), it is necessary to optimize the production process, in correlation with the electricity sales activities. In this sense, the analysis and implementation of a series of pilot projects that will bring a significant contribution to the optimization process of existing production capacities is being considered:

- pilot project combining wind energy with storage batteries within the Crucea wind farm;
- pilot project combining hydropower produced along the river with storage batteries, a solution that can be replicated in any plant of this type in Hidroelectrica's portfolio;
- installation of photovoltaic panels on their dams and power plants in order to partially cover their own technological consumption;
- installation of floating photovoltaic panels operating in tandem with hydro groups within the same dispatchable unit;

- construction of pumped storage power plants, which can be combined with photovoltaic panels and/or other solutions.

Diversification of production portfolio from other renewable sources

We estimate that by 2027 at least 500 MW of new production capacities from renewable sources (projects from hydro, wind, solar and hydrogen sources) will be put into operation, of which at least 200 MW new photovoltaic projects. Additionally, Hidroelectrica analyzes the opportunity to develop projects in the area of renewable resources, hydro, wind, solar, with a capacity of over 3 GW.

To achieve this objective, three main directions of action will be pursued:

1. *Organic Growth* - development of own renewable power plant projects. We mention that the achievement of the above objectives is conditioned by the modification of the legislative framework necessary for land use for the development of new wind and solar projects;
2. *Growth through acquisitions* - acquisition of mature projects at RTB stage (Ready to Build) and EPC contracts in force. Through its M&A activity, Hidroelectrica analyzes the opportunity to submit binding offers for the analysis, evaluation and acquisition of production capacities to RTB or COD (Commercial Operations Date).
3. *Creating Strategic Partnerships* with prestigious entities with proven capacity to operate, build and operate production capacities from renewable sources, supply, in the field of research and innovation, as well as in other areas of interest. These partnerships have the advantage of rapid transfer of know-how and proven experience in the areas targeted by Hidroelectrica.

The company's strategy envisages the implementation of measures to accelerate the transition to a green energy society through research, innovation, analysis, development and exploration of new business models, all with the ultimate objective of sustainable growth of Hidroelectrica.

2. Highlights of 2023

The basic characteristic of the year 2023 was represented by numerous uncertainties and significant risks regarding the perspective of economic activity, implicitly on the medium-term trajectory of inflation. These were caused by the continuation of the conflict in Ukraine as well as the conflict in the Middle East, doubled by economic developments below expectations in Europe, especially in Germany.

According to data from the National Bank of Romania, the annual inflation rate accelerated its downward trajectory in 2023, reaching 9.7 percentage points compared to December 2022, the favorable influences being associated especially with fuel and food prices. Energy commodity prices continued to fall in annual terms, particularly as a result of favorable base effects recorded in the case of electricity. In contrast, the annual pace of fuel prices accelerated slightly.

Externally, the risks of an escalation of geopolitical tensions in the Middle East have increased considerably in the recent period. From an economic point of view, the energy markets (oil, natural gas) are sensitive to the fastest feeling the effects of possible blockages of important transit routes of raw materials, such as the Strait of Hormuz or the Strait of Bab el-Mandeb, critical nodes including for the fluidity of global transport networks of other products.

These geopolitical developments have generated considerable concern about the increased level of uncertainty felt by consumers and investors which could have caused considerable increases in market jitters. However, the global economy has proved quite resilient in the face of these shocks, anticipating that a further rise in energy prices would further complicate the disinflationary effort of central banks around the world.

In parallel, the possibility of the materialization of disinflationary pressures associated with factors of the nature of demand is increasing. With tensions intensifying and new cores of geopolitical risks emerging, uncertainty about the global outlook is expected to increase, with a possible short-term slowdown in economic activity as a consequence.

In the medium term, risks are also associated with measures to mitigate climate change, respectively, measures to combat them by promoting more restrictive industrial policies aimed at an accelerated green transition and which are likely to print, of also a more pronounced inflationary trend.

Against the backdrop of recent developments in the renewable energy production sector (wind and photovoltaic) at European and global level, Hidroelectrica maintains its prudent development strategy in the field of renewable energy, maintaining its objective of entering new investment projects only where the return on investment is higher than the cost of capital.

Domestically, the lack of predictability regarding the timing of electricity market deregulation, following the post-pandemic period and the crisis caused by the conflict in Ukraine, may affect how producers plan to sell their energy in the short term. The current legislative framework (EOG no. 27/2022) regulates the energy sales policy of producers until 31 March 2025, which is based on the Centralized Procurement Mechanism whose sole purchaser is OPCOM.

In the public space, a proposal to amend GEO no. 27/2022, both at the retailer level (by adjusting some price ceilings), and especially in the wholesale segment (modification of the current MACEE Mechanism, modification of the price related to transactions concluded through MACEE, modification of the reference price subject to taxation, etc.). However, Hidroelectrica's strategy remains unchanged, with the priority being ensuring the predictability of revenues related to the sale on the forward markets.

The recent changes in the legislation in the field of corporate governance of public enterprises, as well as those applicable to companies where the state is the majority shareholder, put additional pressure on Hidroelectrica in maintaining, motivating and attracting qualified personnel, in a difficult context of the labor market, having considering the specificities of the highly competitive market on which it operates.

3. Key events in 2023

3.1. General Shareholders Meetings

In 2023, 17 General Meetings of Shareholders ("GMS") took place, of which 7 meetings were ordinary ("OGMS"), and 10 meetings were extraordinary ("EGMS").

During the GMS held during 2023, in the period preceding the listing of the company on the BSE, the following were mainly approved (events presented chronologically):

- Income and Expenses Budget for the financial year 2023.
- Conclusion of the Joint Venture Agreement between Hidroelectrica and Abu Dhabi Future Energy Company PJSC-Masdar, for the purpose of developing, investing, building and operating renewable energy projects in Romania.
- Increase of the share capital by the amount of RON 13,430,850, of which RON 10,752,210 contribution in kind (land) and RON 2,678,640 contribution in cash.
- Election of 7 members of the Supervisory Board for a period of 4 years, following the completion of the selection procedure in accordance with the provisions of GEO no. 109/2011 on corporate governance of public undertakings.
- The revocation of George-Silviu NICULESCU from the membership of the Supervisory Board, following the termination of the mandate contract with the agreement of the parties, according to the provisions of the mandate contract, art. 36.6, considering his appointment as President of the National Energy Regulatory Authority, starting with April 23, 2023, a position incompatible with that of member of the Hidroelectrica Supervisory Board.
- Separate annual financial statements prepared in accordance with OMFP no. 2844/2016 and consolidated annual financial statements prepared in accordance with OMFP no. 2844/2016 for the year ended 31 December 2022 and consolidated financial statements prepared in accordance with IFRS-EU for the years ended 31 December 2021, 31 December 2022 and 31 December 2023.
- Employee profit-sharing, according to the provisions of GEO nr. 64/2001 updated.
- The distribution of profit for 2022, according to the provisions of GEO no. 64/2001 updated.
- Distribution of RON 435 million to the Company's shareholders on the date of the GMS (28 April 2023) of the reported result, representing surplus realized from revaluation reserves, with payment deadline on 29 September 2023.
- The Underwriting Agreement between Hidroelectrica, Fondul Proprietatea S.A. and the banks of the IPO brokerage syndicate.
- Amendment of the Articles of Association, under the condition precedent of the successful completion of the IPO carried out by Fondul Proprietatea S.A. and the admission to trading on BSE of the shares issued by the company
- The Dividend Policy and the Remuneration Policy.

On 15 December 2023, the OGMS and EGMS were convened for 22 January 2024, with the following main topics on the agenda:

OGMS

- Election of 3 members of Hidroelectrica's SB (2 positions allocated to the majority shareholder the Romanian State and one position allocated to minority shareholders, by reference to the provisions of the Articles of Association), starting with the date of the meeting, in accordance with the provisions of art. 29 of GEO nr. 109/2011 on corporate governance of public enterprises, respectively with the provisions of art. 13.9 and 13.10 of the Articles of Association in force, approval of the term of office of elected members, gross fixed allowance and their mandate contract.

EGMS

- Approval of the transaction and of the Transaction Documents regarding the takeover of the business from U.C.M. Reșița S.A.
- Approval of the establishment of a limited liability company ("S.R.L."), to which the business transfer from U.C.M. Reșița S.A. will be made, which will have the name of "Uzina de Constructii Masini Hidroenergetic S.R.L.", a share capital of RON 119,650,000 and the main object of activity CAEN code 2811 - Manufacture of engines and turbines (except those for airplanes, motor vehicles and motorcycles).

On the occasion of the OGMS and EGMS meetings on 22 January 2024, Hidroelectrica's shareholders approved, with the majority of votes cast/held, as the case may be, all items on the agenda.

See also chapter '*Subsequent events*' below.

3.2. Mergers & Acquisitions (M&A) Projects

Acquisition of some activity lines of U.C.M. Reșița S.A.

On 8 December 2023, Hidroelectrica announced the signing of the framework contract regarding the Business Transfer from U.C.M. Reșița S.A. ("UCMR"), specialized in the manufacture and marketing of hydroaggregates and auxiliary equipment, as well as in the provision of maintenance services and specialized technical assistance in the energy field.

The transaction aims to secure UCMR's asset base, unique in Southeastern Europe, with an essential role in streamlining maintenance and refurbishment activities, improving the availability of hydropower units, but also ensuring a more efficient management of Hidroelectrica's electricity generation assets, thus achieving the consolidation of the maintenance function at group level.

Business Transfer includes taking over:

- ABC industrial production platform and partially Câlnicel production platform;
- specialists in the field of design, technology and execution;
- know-how related to projects and documentation from its own archive;

- assets / endowments with machine tools and machinery necessary to execute both new, complex equipment and repairs and refurbishments of equipment in operation.

On 22 January 2024, the EGMS approved the transaction and the Transaction Documents regarding the takeover of the business from UCMR, as well as the establishment of a limited liability company ("S.R.L."), to which the business transfer from UCMR will be made, which will be called "Uzina de Constructii Masini Hidroenergetic S.R.L."

The transaction was completed following the fulfillment of condition precedent on 11 March 2024. The total price for the transfer of ownership of the Business and all assets falling within the scope of the Transaction is RON 67,879,000. See chapter '*Subsequent events*'.

Association with Masdar

On 15 March 2023, the General Meeting of Shareholders of the Company approved the joint venture agreement between the Company and Abu Dhabi Future Energy Company PJSC Masdar. The purpose of this joint venture is to develop, invest, build and operate renewable energy projects in Romania, focusing on projects and investments exclusively from the following technology categories: photovoltaic projects based on floating panels and offshore wind projects – fixed and floating.

The association will materialize in a limited liability or joint stock company to be established in Bucharest, in accordance with the rules and regulations of Romania, in which each party will have a 50% holding.

3.3. Company Management

Composition of the Supervisory Board

On 28 March 2023, the General Meeting of Shareholders approved the appointment of a Supervisory Board with a mandate of 4 years, starting 29 March 2023 and ending 28 March 2027, consisting of the following members:

- George-Sergiu NICULESCU
- George-Marius TONIUC
- Răzvan-Silviu AVRAM
- Mihai-Liviu MIHALACHE
- Carmen RADU
- Karoly BORBELY
- Daniel NAFTALI

On 19 April 2023, George-Sergiu NICULESCU renounces his mandate, according to art. 36.6 of the mandate contract, starting 19 April 2023.

On 31 July 2023, the Supervisory Board decided to appoint Petre-Iulian NICOLESCU as provisional member of the Supervisory Board, starting 1 August 2023, for a period of 4 months.

On 7 August 2023, Karoly BORBELY, member of the Supervisory Board, notified the Company of the termination of the mandate contract, the termination taking effect within 30 days from the date of its transmission.

On 2 October 2023, the Supervisory Board decided to appoint Petre-Iulian NICOLESCU as the Chairman of the Supervisory Board of Hidroelectrica.

On 3 October 2023, the Supervisory Board decided on the composition of its advisory committees, and on 9 November 2023, it established a new structure for them. The composition of the advisory committees is presented on the company's website, www.hidroelectrica.ro, in the *About Us -> Management* section.

On 17 October 2023, the Supervisory Board decided to appoint Cristian-Nicolae STOINA as a provisional member of the Supervisory Board of Hidroelectrica, starting from 18 October 2023, until the convening of the first General Meeting of Shareholders, but no more than 4 months (18 February 2024), in accordance with the provisions of Government Emergency Ordinance no. 109/2011 regarding the corporate governance of state-owned enterprises, with subsequent amendments and completions, following the recommendations of the Nomination and Remuneration Committee dated 17 October 2023.

On 24 October 2023, Daniel-Adrian NAFTALI notified the Company of his resignation from the position, pursuant to art. 36.7 of the Mandate Contract, the termination taking effect 30 days from the date of transmission of the notification.

On 22 November 2023, the Supervisory Board decided to appoint Petre-Iulian NICOLESCU as a provisional member of the Supervisory Board of Hidroelectrica, starting from 1 December 2023, until the convening of the first General Meeting of Shareholders, but no more than 4 months (1 April 2024), according to the recommendations of the Nomination and Remuneration Committee dated 20 November 2023.

On 22 December 2023, the Supervisory Board decided to appoint Ana-Barbara BOBIRCĂ as a provisional member of the Supervisory Board of Hidroelectrica, starting from 27 December 2023, until the convening of the first General Meeting of Shareholders, but no more than 4 months (27 April 2024), according to the recommendations of the Nomination and Remuneration Committee. Please also refer to the "*Subsequent Events*" chapter below.

Composition of the Management Board

During 2023, the selection procedure for the members of the Hidroelectrica Management Board was carried out, carried out in accordance with the provisions of GEO 109/2011 on corporate governance of public enterprises. Thus, on 9 August 2023, the public was informed about the announcement of recruitment and selection of candidates for the position of member of the Company's Management Board, available on the company's website, www.hidroelectrica.ro, Investor Relations – Corporate Governance – Corporate Governance Documents section. The announcement regarding the selection process of the members of the Management Board included the mandatory conditions to be met by the candidates and their evaluation/selection criteria, in accordance with art. 33, Annex 1 of GD 722/2016 on the implementing rules of GEO no. 109/2011 on corporate governance of public enterprises, with subsequent amendments and completions.

Following the completion of the Selection Procedure for the members of the Hidroelectrica Management Board, on 6 November 2023, the Supervisory Board decided to appoint for a period of 4 years, starting 7 November 2023, the following persons:

- Karoly BORBELY - Chairman of the Management Board or Chief Executive Officer - CEO
- Bogdan BADEA - Member of the Management Board or Chief Investment Officer - CIO

- Radu CONSTANTIN - Member of the Management Board or Chief Administrative Officer - CAO
- Marian FETIȚA - Member of the Management Board or Chief Financial Officer - CFO
- Ianăș RĂDOI - Member of the Management Board or Chief Operating Officer - COO

Prior to the completion of the selection procedure, on 6 April 2023, the Supervisory Board approved the termination with the agreement of the parties of the mandate contracts of the members of the Management Board and approved the appointment of the same persons, namely Bogdan-Nicolae BADEA, Marian BRATU, Răzvan-Ionuț PAȚALIU, Andrei-Dominic GEREĂ and Cristian VLĂDOIANU, as interim members of the Management Board with a mandate of 4 months or until the appointment of new members of the Management Board selected according to the GEO 109/2011.

On 28 July 2023, the Supervisory Board decided to extend the mandates of the provisional members of the Hidroelectrica Management Board, starting with 7 August 2023, for a period of 2 months or until the appointment of new members of the Hidroelectrica Management Board selected under the conditions provided by GEO no. Regulation (EC) No 109/2011 on corporate governance of public undertakings, if the selection is completed before that deadline.

On 3 October 2023, the same provisional members of the Management Board were appointed for a period of 5 months, a mandate that ended on 6 November 2023, with the completion of the selection procedure for the members of the Management Board according to GEO 109/2011.

3.4. Share Capital and Dividend Distribution

Share capital increase

In May 2023, a share capital increase of RON 13 million, representing 1,343,085 shares, was registered with the Trade Register, of which RON 11 million contribution in-kind consisting of land of Ministry of Energy and RON 3 million cash contribution of Fondul Proprietatea S.A.

Dividend distribution

On 28 April 2023, the General Meeting of Shareholders approved the distribution of dividends to shareholders registered on 28 April 2023, as follows:

- Dividends distributed from the net profit of 2022, amounting to RON 3,914 million, representing 90% of the net profit of 2022, eligible for distribution according to the Company's statutory separate financial statements;
- Dividends distributed from retained earnings representing amortized revaluation reserves, amounting to RON 435 million.

3.5. Related party transactions according to art. 108 of Law nr. 24/2017

On 1 August 2023, Hidroelectrica reported transactions conducted with OPCOM during the period from 1 August 2022 to 28 July 2023. On 24 August 2023, it reported transactions with Transelectrica S.A. from 1 August 2022 to 23 August 2023. Lastly, on 29 December 2023, it reported transactions with OPCOM from

29 July 2023 to 27 December 2023. These reports were prepared in accordance with the provisions of Article 108 of Law 24/2017 regarding issuers of financial instruments and market operations, republished.

4. Hidroelectrica on the capital market

4.1. Hidroelectrica's Initial Public Offering

Between 23 June and 4 July 2023, the initial public offering (IPO) was carried out on shares issued by Hidroelectrica representing up to 19.94% of the total shares issued by the Company, made by Fondul Proprietatea S.A. for which a total number of over 50,000 purchase orders were registered. Following the exercise of the over-allotment option granted by Fondul Proprietatea to the designated banks, the entire holding of the Fondul, consisting of a total holding of 89,708,177 shares, was sold through the transaction carried out on the Bucharest Stock Exchange.

The first trading day took place on 12 July 2023.

The total value of the public offer amounted RON 9.3 billion with a market value (capitalization) of Hidroelectrica of RON 46.8 billion, at the final price of RON 104/share.

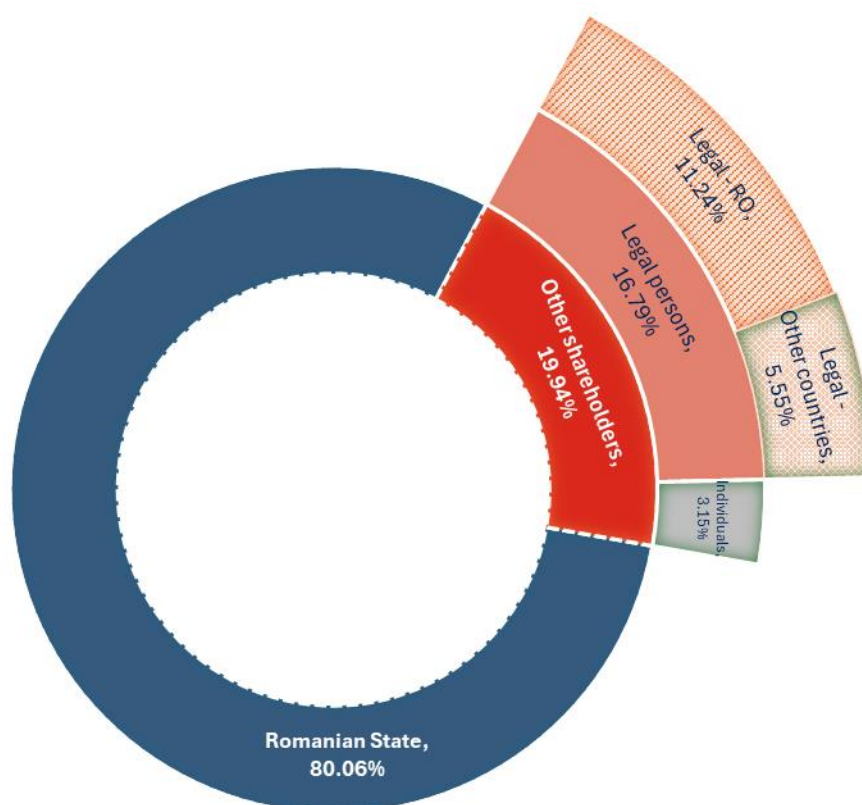
Individual investors were allocated a number of 17,941,635 shares (20% of the total number of shares offered) and institutional investors a number of 71,766,542 shares (80% of the total number of shares). The "cornerstone" type investors - pension funds from Romania - subscribed and benefited from the guaranteed allocation, according to the Offer Prospectus, of shares worth over RON 2.2 billion, which led to a greater share of Romanian shareholders in total shareholding following the offer.

Distribution of the offer by categories of investors:

- 20% individual investors;
- 50% Romanian institutional investors;
- 30% foreign institutional investors.

4.2. Shareholding structure and share price evolution

Shareholding structure as at 31 December 2023



Source: Hidroelectrica, Depozitarul Central

The shareholder structure as at 31 December 2023 is presented in the table below:

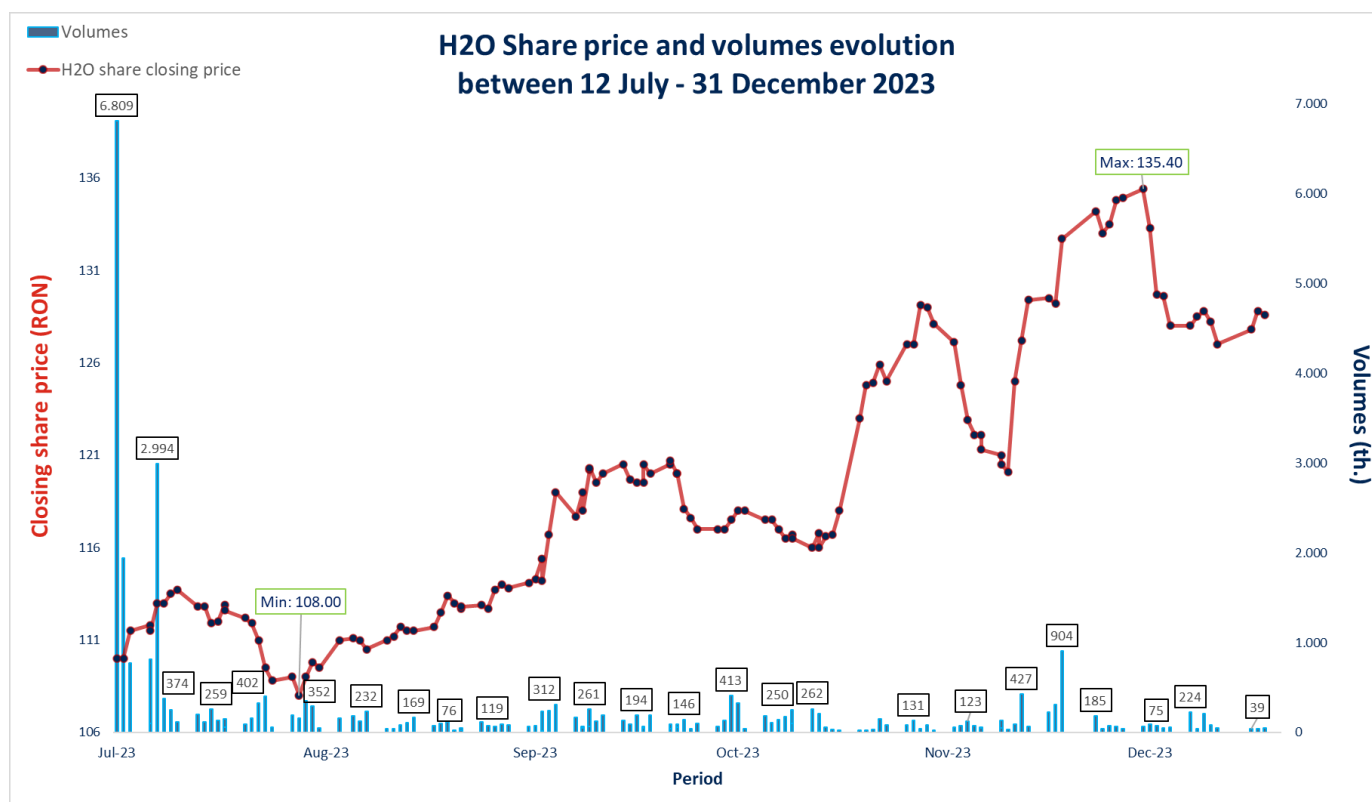
Shareholder	Holdings	Share capital holdings percentage
Romanian State through Ministry of Energy	360,094,390	80.0561%
Legal persons	75,535,576	16.7931%
Individuals	14,172,601	3.1508%
Total	449,802,567	100.0000%

Source: Hidroelectrica, Depozitarul Central

Starting from 12 July 2023, Hidroelectrica's shares are included in a series of BSE indices, including the BET index (the benchmark index of the local capital market, reflecting the performance of the most traded companies on the regulated market of the BSE), as well as in the BET-NG index (the sectorial index reflecting the performance of companies listed on the regulated market of the BSE operating in the energy sector).

In the period immediately following the listing/public offering, Hidroelectrica was included in the MSCI and FTSE Russell international indices, based on specific IPO inclusion mechanisms, due to the company's significant size.

Between 12 July and 29 December 2023, according to information published by the BSE, Hidroelectrica's shares recorded a minimum closing price of RON 108.00 per share (8 August 2023) and a maximum closing price of RON 135.40 per share (11 December 2023), with an average price of RON 119.01 per share. During the same period, the lowest trading price recorded was RON 107.00 per share (7 August 2023), and the highest recorded price was RON 137.30 per share (11 December 2023).



Source: Hidroelectrica, BSE

On 29 December 2023, Hidroelectrica ranked first in trading volume on the BSE, with a value of 4.2 billion RON, and in terms of market capitalization, the company was positioned second, recording a value of 55.7 billion RON at the same date.

During the financial year ended on 31 December 2023, there were no transactions regarding the purchase of its own shares by Hidroelectrica.

4.3. Investor Relations

As a listed company starting July 2023, Hidroelectrica has in its organizational structure a service dedicated to communication with shareholders and investors (Investor Relations Service, "IR"), both through specific capital market channels and by organizing and participating in conferences to present the company's performance.

According to the financial calendar, Hidroelectrica organized teleconferences to present the financial results for the first semester of 2023 (in August) and the third quarter of 2023 (in November).

During 2023, in the period immediately following the listing, the Company's representatives, together with the joint global coordinators of the IPO offering, conducted a series of presentations during a roadshow organized in London.

Also, in 2023, Hidroelectrica participated in the following conferences:

- "Romania and Frontier Investor Days", organized by Wood&Co between 7-8 September 2023, in Bucharest
- "The Finest CEElection Investor Conference 2023", organised by ERSTE from 8 to 10 October 2023 in Vienna, Austria

At the same time, at the punctual request of analysts, shareholders or investors, the IR service organizes conferences with the relevant representatives of the company, in order to clarify aspects related to Hidroelectrica's activity.

Increasing transparency and quality of communication with investors through continuous information are among the main objectives of the company. In this regard, on the company's website, www.hidroelectrica.ro, Investor Relations section, you can find all the information necessary for interested parties in the process of substantiating the investment decision. The content of the sections is constantly updated, in compliance with legal requirements, but also with best practices in the field.

5. Corporate Governance

Corporate governance in Hidroelectrica is carried out in accordance with the provisions of the Companies Law nr. 31/1990, republished, with subsequent amendments and completions, of Law nr. 24/2017 on issuers of financial instruments and market operations, republished and of the secondary legislation

adopted by FSA for the application of Law no. 24/2017, BSE Code and BSE Corporate Governance Code, as well as in accordance with the provisions of the Articles of Association in force and the applicable internal regulations.

At the same time, Hidroelectrica, as a national company, is subject to the provisions of GEO no. 109 of November 30, 2011 on corporate governance of public enterprises, with subsequent amendments and completions, approved by Law no. 111/2016, as well as of GD no. 722 of 28 September 2016 on the Methodological Norms for establishing financial and non-financial performance indicators and the variable component of the remuneration of board members or, where appropriate, supervision of the public enterprise, as well as of the directors and members of the Management Board. The Ordinance establishes a series of principles, providing in this regard precautionary provisions for their application.

Hidroelectrica shares are traded, starting 12 July 2023, on the regulated market managed by BSE, Premium category, under the symbol "H2O".

Hidroelectrica aligns with capital market requirements and best practices in corporate governance by constantly developing and adapting the corporate governance model.

All holders of financial instruments benefit from equal treatment, the Company ensuring an efficient, active and transparent communication with its shareholders through regulated communication channels (BSE platform, FSA platform), but also by publishing all relevant documents on its website, www.hidroelectrica.ro.

The Company has also implemented policies and procedures governing the governance of the Company, which it constantly updates, in accordance with the provisions of BSE's Corporate Governance Code. These can be consulted on the company's website, section Investor Relations – Corporate Governance – Corporate Governance Documents, respectively:

- Articles of Association, in force, approved at the EGM meeting on 22 June 2023;
- Procedure regarding the Participation and Running GMS, which exhaustively presents the shareholders' rights in relation to the GMS and facilitates the participation of shareholders in the work of the GMS and the exercise of their rights in relation to the GMS, including participation by proxy or by correspondence or by electronic vote. It also indicates the set of documents that will be made available to shareholders for each GMS, including but not limited to informative materials on each item on the agenda of the GMS;
- Code of Ethics;
- Related Party Transactions Policy;
- Social Responsibility Policy;
- Sponsorship policy;
- Remuneration Policy for members of the Supervisory Board and of the Management Board;
- Dividend Policy.

5.1. General Meetings of Shareholders

The General Meeting of Shareholders represents the main corporate governance body within Hidroelectrica, taking decisions according to the competences defined in the Articles of Association.

The GMS meetings are convened by the Hidroelectrica Management Board whenever necessary, or by the shareholders who individually or jointly hold at least 5% of the share capital, in this case the general meeting of shareholders being convened by the Management Board within 30 days at most and will meet within 60 days from the date of receipt of the request.

The OGMS shall meet at least once a year, no later than four months after the end of the financial year.

OGMS has the following attributions:

- to discuss, approve or amend the annual financial statements, based on the reports submitted by the Management Board and the Supervisory Board and the statutory auditor, according to the law;
- distribute profits and fix the dividend;
- appoint and revoke the members of the Supervisory Board;
- appoint and remove the statutory auditor and fix the minimum duration of the audit contract;
- to fix general limits on the remuneration of members of the Management Board;
- to establish the level of remuneration of the members of the Supervisory Board, as well as the terms and conditions of the mandate contract concluded with each of the members of the Supervisory Board;
- to decide on the management of the members of the Management Board and the members of the Supervisory Board, to evaluate their performance and discharge them, according to the law;
- to decide on the promotion of liability action against the members of the Management Board and the Supervisory Board, as well as financial auditors, for damages caused to the Company by them by violating their duties towards the Company;
- approve the revenue and expenditure budget;
- approve the financial and non-financial performance indicators resulting from the Management Plan;
- approve the reports of the Supervisory Board on the activity carried out;
- to approve the pledge, lease or closure of one or more units (working points) of the Company;
- perform any other duties established by law.

The EGMS decides as follows:

- changing the legal form of the Company;
- change of the main object of activity;
- increasing and reducing the share capital of the Company or its reunification by issuing new shares, raising the shareholders' right of preference for subscription of new shares issued by the Company and any share buy-back;

- merger with other companies, division or spin-off;
- early dissolution of the Company;
- conversion of actions from one category to another;
- bond issue and conversion of bonds from one class to another or into shares;
- conclusion of acts of acquisition, disposal, exchange or guarantee of assets belonging to the category of fixed assets of the Company, the value of which exceeds, individually or cumulatively, during a financial year, 20% of the total fixed assets, less receivables;
- leases of tangible assets, for a period of more than one year, the individual or cumulative value of which vis-à-vis the same contracting partner or persons involved or acting in concert exceeds 20% of the value of total fixed assets, less claims at the date of conclusion of the legal act;
- approval of the formation or participation in the formation of companies or any other type of legal persons with profit purpose, subject to prior approval by the Management Board and the Supervisory Board;
- approving the admission to trading on a regulated market of any financial instruments issued by the Company;
- the conclusion by the Company of any contract, the assumption of any obligation or commitment which may involve expenses or the assumption of any other important obligation by the Company, within the limits of competence set out in Annex no. 1 to the Articles of Association;
- approval of the final transaction documents related to the processes of merger / acquisition of participations / business transfer / transfer of assets, after the prior completion of the entire procedure, respectively the submission of non-binding and binding offers as well as the negotiation of all contractual clauses underlying the completion of the transaction;
- any amendments to the Articles of Association or any other decision for which the approval of the extraordinary general meeting is requested.

The convening, operation, voting method, as well as other provisions regarding the GMS are detailed in the Articles of Association of the Company and in the Procedure regarding the Participation and Running GMS, available on Hidroelectrica's website, www.hidroelectrica.ro, Investor Relations - Corporate Governance - Corporate Governance Documents section.

Information regarding the Resolutions of the General Meetings of Shareholders of Hidroelectrica in 2023 can be consulted in the chapters *Key Events in 2023* and *Subsequent Events*.

5.2. Shareholders' rights

Hidroelectrica respects and protects the legitimate rights and interests of all shareholders, ensuring equal and non-discriminatory treatment by permanently informing about the General Meetings of Shareholders, corporate changes as well as significant events occurring within the Company. The rights of minority shareholders are protected in accordance with the legal provisions in force and the Articles of

Association. The relevant documents necessary for exercising the legitimate rights of shareholders are available on Hidroelectrica's website, www.hidroelectrica.ro, Investor Relations section.

5.3. Dividend policy

Hidroelectrica's dividend policy, approved during the OGMS on 22 June 2023, aims to establish the principles governing the distribution of net profit in the form of dividends, in compliance with the legal provisions incident in the field of net profit distribution, dividend declaration, dividend payment, as well as the Articles of Association.

Being a company with majority state capital, the distribution of Hidroelectrica's net profit must comply with the provisions of Government Ordinance no. 64/2001 on profit distribution in national entities, national companies, and companies with full or majority state capital, as well as in autonomous companies, with subsequent amendments and completions. Thus, according to the provisions of GO no. 64/2001, the minimum dividend distribution rate is 50% of the net profit remaining after the distributions provided for in art. 1 para. (1) letters a)-e) of GO nr. 64/2001.

The proposal for dividend distribution formulated by the Management Board is subject to the vote of the OGMS, in a favorable market environment and with the approval of the OGMS, special dividends could also be distributed, provided that the Company's investment plans are financed.

When proposing the dividend pay-out ratio in accordance with the dividend policy, the Management Board will take into account the following:

- Minimum 90% of the distributable annual net profit, reported based on audited separate financial statements;
- Distribution, at its sole discretion, of extraordinary dividends from the retained earnings of the Company, if it is usable and if the Company's investment plans have secured financing;
- Hidroelectrica's investment needs and opportunities;
- Contributions of non-monetary items to reported net profit;
- The financial resources available for dividend payments, as well as Hidroelectrica's indebtedness;
- Dividend yield comparable to that of other listed companies in industry or related sectors;
- The provisions of GO no. 64/2001 and any law or norm applicable to Hidroelectrica

The dividend policy is available on the company's website, www.hidroelectrica.ro, Investor Relations – Corporate Governance – Corporate Governance Documents section.

5.3.1. Dividend distribution

The table below presents the dividends distributed by the Company in the years 2023, 2022, 2021 and the pay-out ratio for the mentioned periods:

	2023	2022	2021
Total dividends distributed to the Company's shareholders	4,349.4	3,830.9	2,286.4
Special dividends distributed from retained earnings representing the amortised revaluation reserve to the Company's shareholders	435.0	1,000.0	1,000.0
Normal dividends distributed to the Company's shareholders from the previous year's net profit	3,914.4	2,830.9	1,286.4
Net profit according to the Company's separate financial statements prepared in accordance with OMFP no. 2844/2016 for the previous year	4,394.4	3,019.5	1,451.6
Pay-out ratio (Total Dividends/Net Profit)	99.0%	126.9%	157.5%

Source: Hidroelectrica

5.4. Supervisory Board

Hidroelectrica is a joint stock company, which is organized and operates in accordance with the laws of Romania, being managed in a two-tier system by a Management Board (consisting of 5 members) under the supervision of a Supervisory Board.

According to the Articles of Association in force, the Supervisory Board consists of 7 members. The members of the Supervisory Board may be shareholders of the Company, but they cannot be members of the Management Board nor can they cumulate the membership in the Supervisory Board with that of employee of the Company.

The members of the Supervisory Board are non-executive and are selected in accordance with the legal provisions on corporate governance of public enterprises, being appointed by the Ordinary General Meeting of Shareholders. The Romanian State, represented by the competent authority according to the law, will not be able to propose more than 6 candidates for the position of member of the Supervisory Board.

The mandate of the members of the Supervisory Board has a duration of 4 years and may be renewed by decision of the General Meeting of Shareholders, following the evaluation of the activity of the member of the Supervisory Board and under the conditions of proper fulfillment of the duties/obligations assumed under the mandate contract.

Composition of the Supervisory Board as at 1 January 2023:

Name	Positon	Start date of the mandate	Date of termination of mandate
Ioana-Andreea LAMBRU	President	5 February 2019	4 February 2023
Daniel NAFTALI	Member	5 February 2019	4 February 2023
Mihai-Liviu MIHALACHE	Member	5 February 2019	4 February 2023
Karoly BORBELY	Member	5 February 2019	4 February 2023
Cătălin POPESCU	Member	5 February 2019	4 February 2023
Carmen RADU	Member	5 February 2019	4 February 2023
Cristian-Nicolae STOINA	Member	5 February 2019	4 February 2023

Source: Hidroelectrica

On 28 March 2023, the General Meeting of Shareholders approved the appointment of a Supervisory Board with a mandate of 4 years, starting from 29 March 2023 until 28 March 2027, consisting of the following members:

Name	Positon	Start date of the mandate	Date of termination of mandate
George-Sergiu NICULESCU	President	29 March 2023	28 March 2027
Daniel NAFTALI	Member	29 March 2023	28 March 2027
Mihai-Liviu MIHALACHE	Member	29 March 2023	28 March 2027
Karoly BORBELY	Member	29 March 2023	28 March 2027
George-Marius TONIUC	Member	29 March 2023	28 March 2027
Carmen RADU	Member	29 March 2023	28 March 2027
Silviu-Razvan AVRAM	Member	29 March 2023	28 March 2027

Source: Hidroelectrica

Details on the selection and appointment of the members of the Supervisory Board, as well as other changes to the composition of the Supervisory Board during 2023 are presented in Chapter 3 "Key Events in 2023" of this Report.

Composition of the Supervisory Board as at 31 December 2023:

Name	Function	Independence status according to Law 31/1990	Independent status according to BSE Governance Code	Start date of mandate (*including provisional mandate period)	Date of termination of mandate
Petre-Iulian NICOLESCU	President	independent	-	1 August 2023*	28 March 2027

Name	Function	Independence status according to Law 31/1990	Independent status according to BSE Governance Code	Start date of mandate (*including provisional mandate period)	Date of termination of mandate
Ana-Barbara BOBIRĂ	Member	independent	independent	27 December 2023*	28 March 2027
Cristian-Nicolae STOINA	Member	independent	independent	18 October 2023*	28 March 2027
Mihai-Liviu MIHALACHE	Member	-	-	29 March 2023	28 March 2027
Carmen RADU	Member	independent	independent	29 March 2023	28 March 2027
Silviu-Tazvan AVRAM	Member	independent	-	29 March 2023	28 March 2027
George-Marius TONIUC	Member	independent	independent	29 March 2023	28 March 2027

Source: Hidroelectrica

The professional experience of SB members is briefly presented as follows:

Petre-Iulian NICOLESCU has been serving as the President of the Supervisory Board of Hidroelectrica since 2 October 2023. Since November 2019, he has also been the Head of the Office at SNGN ROMGAZ SA - FIGN DEPOGAZ PLOIEȘTI. Since 2020, he holds positions as the Coordinator of the "Hydrogen SAPE" Working Group and Data Protection Officer at the Societatea de Administrare a Participațiilor în Energie (SAPE) SA. He is also a Member of the European Clean Hydrogen Alliance (ECHA) and the Hydrogen Alliance of Romania.

He has extensive experience in managing national companies and corporations, having previously held positions such as President and Member of the Board of Directors at the Electricity and Natural Gas Market Operator OPCOM S.A., Member of the Board of Directors at CONVERSMIN S.A., Member of the Board of Directors at CUPRUMIN S.A., Member of the Board of Directors at IOR S.A., President and Member of the Board of Directors at IPROCHIM S.A., and President and Member of the Board of Directors at the National Salt Company S.A.

From 2017 to 2019, he held positions such as Director of the Minister's Cabinet at the Ministry of Economy, Energy, and Business Environment (November 2018 - November 2019), Director of Privatization and Post-Privatization at the Department for Privatization and State Ownership Management, Secretary of State at the Ministry of Economy (March 2017 - March 2018), and Secretary of State at the Ministry of Tourism.

Other positions held from 2000 to 2017 include Head of the European Projects Service at the Sector 4 City Hall in Bucharest, Directorate of Internal and International Project Management (July 2016 - February 2017), President of the Department for Privatization and State Ownership Management (January 2015 - July 2016), Service Chief at the Office of State Ownership and Industry Privatization, Administration and Privatization Service (January 2014 - January 2015), special status public servant (December 2003 - January 2014), and legal advisor at the Labor, Social Solidarity, and Family Directorate in Argeş (November 2000 - December 2003).

He holds a Bachelor's degree in Law from the University of Bucharest (1996 - 2000), and he is certified as a Human Resources Inspector, Data Protection Officer, Mediator, and European Funds Access Project Manager. Additionally, he holds a master's degree in "European Public Space" from the National University of Political Studies and Public Administration (SNSPA) (2004 - 2006).

Ana-Barbara BOBIRCĂ is an experienced professional in the field of investments, serving as a partner in a local private investment firm and collaborating with international investment funds over the past 20 years. She has held and holds positions as a board member in companies across various sectors including financial services, real estate development and promotion, construction materials, agri-business, food products, distribution, logistics, transportation, and international shipping.

Furthermore, she is the Vice President of the Romanian Businessmen Association, a member of the Coordinating Committee of the Coalition for Romania's Development, and a member of the Advisory Board of the Competition Board.

Ana-Barbara BOBIRCĂ is a lecturer at the Faculty of International Business and Economics, Bucharest University of Economic Studies, with relevant academic experience in fields such as international business and international service transactions. Additionally, she is an associate professor in the Romanian-French MBA program INDE, where she teaches advanced finance courses.

She is the author of four books and over 40 specialized articles. Ana-Barbara BOBIRCĂ graduated from the Faculty of International Business and Economics, Bucharest University of Economic Studies and holds a Ph.D. in economics and international business.

Cristian-Nicolae STOINA held the position of a member of the Supervisory Board of Hidroelectrica from 2018 until March 2023. He has qualifications in both legal and economic fields, holding a Ph.D. in Economics.

He has been an associate lecturer since October 2021 in the postgraduate program "Financial Audit" at the Faculty of Accounting and Management Informatics, Bucharest University of Economic Studies. Additionally, he has been an associate lecturer since October 2020 in the postgraduate program "Fiscal Law of Business" at the Faculty of Law, Bucharest University of Economic Studies. Since 2010, he has also been an associate lecturer in the field of "Public Finance" at the Institute of Management in Health Services, National School of Public Health, Management, and Professional Development in Health.

He previously held the position of an associate lecturer in the second semester of 2006 at the Faculty of Accounting and Management Informatics - Master's Program in "Management Accounting and Fiscal Management" – teaching the course "Accounting for Commercial Companies", Bucharest University of Economic Studies. He also lectured from February 2002 to June 2003 at the Faculty of International Economic Relations, Bucharest University of Economic Studies.

Furthermore, he served as a university lecturer from October 2000 to September 2003 at Spiru Haret University Bucharest, and in 1997 at the Higher School of Secretariat Sibiu, teaching the course "Fundamentals of Accounting". He also lectured at the Popular University of Sibiu, teaching courses on "Computer-Assisted Accounting" and "Fundamentals of Accounting".

Since 2016, he has been an independent expert in economic and financial matters, listed in the ANMCS registry.

Mihai-Liviu MIHALACHE holds since 2019 the position of member of the Supervisory Board of Hidroelectrica and has extensive experience in the legal field. He studied Law at the Ecological University of Bucharest between 1997-2001 and held the position of legal adviser between November 2002 - January 2004 and lawyer between January 2004 - April 2007 and 2010-2013.

He held several positions at the Ministry of Economy: Personal Adviser/Assistant to the Minister's Office between July 2012 and December 2012, Director of the Secretary of State's Office between July 2013 and October 2013, Deputy Head of Office - Office for State Ownership and Privatization in Industry between October 2013 and February 2014), Head of Office - Office for State Ownership and Privatization in Industry between February 2014 and January 2015.

He has also held several positions at the Ministry of Energy, including the current position of Director of the Management Board for Administration of State Participations in Energy, starting September 2021.

Other positions at the Ministry of Energy that he held are: Director of the Cabinet of the Secretary of State between January 2015 - May 2015), Deputy Director General - General Management Board for Companies between May 2015 - February 2016), Expert - General Management Board for Privatization and Administration of State Participations in Energy - Legal Department, Liquidations, Insolvency between February 2016 and January 2017, General Director – General Management Board for Privatization and Administration of State Participations in Energy between January 2017 and December 2019, Senior Adviser – General Management Board for Privatization and Administration of State Participations in Energy – Insolvency Department between December 2019 and September 2021.

Carmen RADU has been a member of the Supervisory Board of Hidroelectrica since February 2019.

She is also currently General Manager at the Investment and Compañia de Investiții și Dezvoltare Sector 1 S.A., Vice-President and Member of the Management Committee for coordinating the entity's specific activities at the Compañia Națională de Cruce Roșie din România (non-governmental organization).

After graduating from the Academy of Economic Studies (1980-1985), she worked during 1979-1997 as economist, accountant, economic director, inspector and advanced to the position of deputy general director (1997-1999), deputy director (1999-2004) and president of EXIMBANK SA (March 2005 - March 2009).

She has held several positions in the Supervisory or Administrative Boards of various institutions: Member of the Supervisory Board of the Romanian Counter-Guarantee Fund (August 2012 - March 2015), Member of the Board of Directors of the Romanian Administration of Air Traffic Services - ROMATSA (April 2013 - November 2016) and subsequently Chairman of the Board of Directors of the same company (2016-2018), member of the Board of Directors of SNN (April 2013 - April 2017), member of the Board of Directors of the European Association of Credit Institutions (2016-2018).

Other important positions he held: President and Economic Director Advisor of FSA (October 2013 - March 2015), President of the Management Board of the Romanian Counterguarantee Fund (March 2015 - November 2017) and Member of the Management Board within the same company (November 2017 - February 2020).

Silviu-Razvan AVRAM is a member of the Supervisory Board starting 29 March 2023. He has acquired valuable management and executive skills over his 20-year career. He has held advisory and management positions all these years. She also has experience in public administration, as Secretary of State Adviser at the Ministry of Economy (2017-2018).

George-Marius TONIUC is a member of the Supervisory Board and has extensive experience in the legal field, with 25 years of activity. He has been a member of the Bucharest Bar since 1998. Since then she has worked as a lawyer, providing legal assistance in various issues such as corporate governance, real estate, labor law, etc.

During 2003-2008 he provided a wide range of legal assistance to Romanian and foreign entities within the Rompetrol Group on various topics such as corporate governance (including capital market law matters), real estate, consumer protection, mergers and acquisitions, joint ventures, public procurement, labor law, air transport.

In 2008, he joined Budusan & Associates, a Romanian team of lawyers specialized in integrated management of economic, financial and administrative crimes, and became a partner in 2017.

Provided legal assistance and representation in court and before investigative or administrative bodies or administrative control authorities in cases of tax evasion and money laundering (banking, food industry, infrastructure, IT, real estate, media; financial services; oil and gas), financial crimes (including capital markets), fraud in European funds, fraud in public procurement, intellectual property crimes, corruption offences and offshore transactions.

Full CVs of SB members are presented on the company's website, www.hidroelectrica.ro, About Us – Management section.

The main duties of the Supervisory Board, defined in the Articles of Association are set out below:

- Exercises permanent control over the management of the Company by the Directorate;
- Ensures compliance with the law, the Articles of Association, and the resolutions of the General Meeting of Shareholders regarding the management operations of the Company;
- Appoints and dismisses members of the Directorate and establishes their remuneration;
- Reports to the General Meeting of Shareholders on the supervisory activities conducted;
- Develops the proposal for the management component of the Management Plan;
- Approves the management plan in its entirety, including the management component developed by the Directorate;
- Represents the Company in relations with the Directorate;
- Reviews and approves the Company's financial statements;
- Proposes to the General Meeting of Shareholders the appointment and dismissal of the statutory auditor, as well as the minimum duration of the audit contract;
- Approves the Company's strategies and policies in accordance with the proposals of the Directorate;
- In exceptional cases, the Supervisory Board may convene the General Meeting of Shareholders;
- Performs any other duties provided by applicable law.

The activity of the Supervisory Board during 2023

The main Decisions of the Supervisory Board in 2023 were the following: approval of the Income and Expenses Budget for 2023, approval of the annual financial statements for the financial year ended 31 December 2022, approval of the update of the wholesale sales strategy for the delivery period January 2023 – March 2025, endorsements regarding the increase of the share capital, approval of the establishment of the Hidroelectrica working point, respectively Crucea Nord Wind Farm, approving the joint venture agreement between Hidroelectrica and ABU DHABI FUTURE ENERGY COMPANY PJSC - MASDAR, for the purpose of developing, investing, building and operating renewable energy projects in Romania.

In 2023, following the appointment of Supervisory Board members with a 4-year mandate, the Supervisory Board approved the Management Composition of the Hidroelectrica Management Plan for a period of 4 years.

Additionally, the Supervisory Board approved the Evaluation Report of the Management Board's activity for the year 2022, approved Hidroelectrica's Information Security Policies and Network and Information Systems, the Procedure for Updating Hidroelectrica's IT Security Policy/Regulation/Accreditation, the Regulation of the Information Security Management System and Network and Information Systems within Hidroelectrica, and endorsed the Dividend Policy for submission for approval by the General Meeting of Shareholders.

In 2023, the initiation of the selection procedure for members of the Hidroelectrica Management Board was approved, in accordance with the provisions of Emergency Ordinance no. 109/2011, approved with amendments and supplements through Law no. 111/2016, with subsequent amendments and supplements, as well as the selection criteria for the independent expert specialized in human resources recruitment who assisted the Supervisory Board/Nomination and Remuneration Committee in the selection of candidates for positions as members of the Hidroelectrica Management Board.

During the IPO process, the Supervisory Board approved the Offering Prospectus and Admission to Trading of shares issued by Hidroelectrica on the Bucharest Stock Exchange, for signing and submission to the Financial Supervisory Authority (FSA) for approval. It also endorsed the Underwriting Agreement for submission to the General Meeting of Shareholders for approval, approved the Articles of Association of Hidroelectrica, subject to the suspensive condition of the successful completion of the public offering of Hidroelectrica shares and admission to trading on the Bucharest Stock Exchange of the shares issued by the Company. Additionally, it approved the conclusion of contracts with cornerstone investors mentioned in the Offering Prospectus and approved the price range resulting from the completion of the Pre-Deal Investors Education (PDIE) process.

The Supervisory Board approved the Internal Audit Report regarding the Evaluation of the corruption prevention system for the year 2023, as defined by the National Anti-Corruption Strategy 2021-2025, and the compliance with the requirements of ISO 37001 Anti-Bribery Management Systems in Hidroelectrica, considering the recommendations of the Audit Committee.

Throughout 2023, the Supervisory Board endorsed the acquisition transaction of the business from UCM Resita S.A. and the signing of transaction documents together with the related annexes, subject to the approval of the General Meeting of Shareholders (GMS). It also approved the establishment of the project company ("SPV" - Special-purpose vehicle) in the form of an LLC, which will acquire the business through a business transfer from UCM Resita S.A., subject to the approval of the GMS. Furthermore, it approved the sale of 17 HPPs owned by Hidroelectrica, included in the Strategy for their sale approved by the GMS.

Additionally, the Supervisory Board approved the conclusion of a 10-year additional agreement to the Lease Contract with Tower Center International S.R.L., aimed at extending the lease term and increasing the leased spaces according to the current needs of the Company.

Advisory Committees

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

Nomination and Remuneration Committee ("NRC")

The Nomination and Remuneration Committee is a permanent advisory committee, independent from the Company's executive structures, reporting directly to the Supervisory Board. The Nomination and Remuneration Committee consists of members of the Supervisory Board.

The composition of the Nomination and Remuneration Committee as at 31 December 2023 is as follows:

5. George-Marius TONIUC – President
6. Silviu-Răzvan AVRAM – Member
7. Carmen RADU – Member
8. Petre-Iulian NICOLESCU – Member

According to the Organization and Functioning Regulation of the Supervisory Board, NRC has the following attributions:

- Formulates proposals for the position of member of the Supervisory Board, elaborates and proposes to the Supervisory Board the procedure for selecting candidates for the positions of member of the Management Board and for other positions, recommends to the Supervisory Board candidates for the positions listed above and formulates proposals for the development of a remuneration policy for members of the Management Board and other management positions, in accordance with the development strategy, objectives, values and interests of the company. The Board is required to supervise the implementation of the remuneration policy for the Management Board.
- Proposes the selection criteria for the members of the Management Board, corresponding to the identified profiles, as well as the selection criteria for other management positions.
- At least one member of the Nomination and Remuneration Committee must be an independent member of the Supervisory Board.
- In carrying out its work, the Nomination and Remuneration Committee prepares an annual report on the remuneration and other benefits granted to members of the Supervisory Board and directors during the financial year.
- The Nomination and Remuneration Committee meets quarterly to carry out an evaluation of the activity of the Management Board and other persons with management positions, in order to establish the proportionality between the established performances and the percentage of their achievement, on the one hand, and the monetary or non-monetary benefits stipulated in their contract (whether or not they were received or granted, where appropriate), on the other hand. At the end of each meeting, the Nomination and Remuneration Committee will submit to the Supervisory Board a report on its activity.

Audit Committee (“AC”)

The Audit Committee is a permanent committee with an advisory role, independent of the executive structures of the Company, reporting directly to the Supervisory Board. According to the organization and

functioning regulations of the Supervisory Board, the Audit Committee is composed of members of the Supervisory Board.

The composition of the Audit Committee as at 31 December 2023 is as follows:

6. Carmen RADU – President
7. George-Marius TONIUC – Member
8. Silviu-Razvan AVRAM – Member
9. Cristian-Nicolae STOINA – Member
10. Mihai-Liviu MIHALACHE – Member

The Audit Committee fulfills the duties provided for in Article 65 of Law no. 162/2017 regarding the statutory audit of annual financial statements and consolidated annual financial statements, with subsequent amendments and supplements. At least one member of the audit committee must possess qualifications in the field of accounting and statutory audit, proven by qualification documents for these respective fields, and at least one member of the audit committee must have the qualifications required by law in the field in which the audited entity operates.

The Audit Committee is informed and requests information, through the Supervisory Board, and issues recommendations to the Supervisory Board regarding the selection of the statutory auditor, the evaluation and monitoring of the statutory auditor's independence, and the monitoring and results of the statutory audit of annual financial statements and consolidated annual financial statements.

The Audit Committee is informed and requests information, through the Supervisory Board, and issues recommendations to the Supervisory Board regarding financial reporting processes, managerial internal control processes, and risk management processes within Hidroelectrica.

The Audit Committee monitors the internal audit activity, approves the internal audit charter, internal audit plans, and reports, requests the execution of ad-hoc internal audit missions, and issues recommendations to the Supervisory Board regarding the approved internal audit charter, plans, and reports, without compromising the independence of the internal auditors.

Risk Management Committee (“RMC”)

The Risk Management Committee ensures the consistency of control activities with the risks generated by the activities and processes under control, identifies, analyzes, evaluates, monitors and reports the identified risks, the plan of measures to mitigate or anticipate them, other measures taken by the executive management. He shall also be responsible for measuring the solvency of the public undertaking, by reference to its usual duties and obligations, and shall inform or, where appropriate, make proposals to the Supervisory Board.

Composition of the Risk Management Committee as at 31 December 2023:

6. Silviu-Răzvan AVRAM – President
7. Cristian-Nicolae STOINA – Member
8. Petre-Iulian NICOLESCU – Member
9. Mihai-Liviu MIHALACHE – Member
10. George-Marius TONIUC – Member

Investor Relations Committee (“IRC”)

5. Petre-Iulian NICOLESCU – Member
6. George-Marius TONIUC – Member
7. Carmen RADU – Member
8. Mihai-Liviu MIHALACHE – Member

In January 2024, the SB decided to establish the Governance and Sustainability Committee, whose President is Ms. Ana-Barbara BOBIRĂ and replacing the Investor Relations Committee outlined above. More details can be found in the Subsequent *Events* chapter of this Report.

Information on the meetings of the Supervisory Board and advisory committees in 2023

In 2023, 50 meetings of the Supervisory Board were organized, in compliance with the legal and statutory provisions, of which:

- 30 meetings were held in physical/hybrid format and
- 20 meetings were held by electronic vote.

Below is presented the situation of participation of SB members (in physical/hybrid/electronic format) in the meetings of the Board and its committees in 2023.

No.	Name	SB (50 meetings)	NRC (28 meetings)	AC (10 meetings)	RMC (0 meetings)	IRC (0 meetings)
1	Ioana Andreea Lambu	8	3	-	-	-
2	Karoly Borbely	33	5	2	-	-
3	Mihai Liviu Mihalache	50	13	7	-	-
4	Daniel Naftali	45	25	7	-	-
5	Carmen Radu	50	24	9	-	-
6	Cristian-Nicolae Stoina	26	-	4	-	-

No.	Name	SB (50 meetings)	NRC (28 meetings)	AC (10 meetings)	RMC (0 meetings)	IRC (0 meetings)
7	Catalin Popescu	8	3	2	-	-
8	George Toniuc	43	13	8	-	-
9	Silviu-Razvan Avram	43	23	8	-	-
10	Petre-Iulian Nicolescu	24	19	-	-	-
11	Sergiu George Niculescu	2	1	-	-	-

Source: Hidroelectrica

Throughout 2023, the Nomination and Remuneration Committee held a total of 28 meetings, both physically at the Company's headquarters and through video conferencing or electronically. Among the agenda items were:

- The annual report of the **Nomination and Remuneration Committee** regarding the remuneration of the members of the Management Board and the Supervisory Board of Hidroelectrica for the period from January 1, 2022, to December 3, 2022.
- The activity report of the Supervisory Board of Hidroelectrica S.A. for the financial year ended December 31, 2022.
- The evaluation report of the Management Board's activity for the year 2022.
- The evaluation report of the Supervisory Board's activity for the year 2022.

Through the reports prepared by the Nomination and Remuneration Committee, recommendations were made to the Supervisory Board regarding the evaluation of the activities of the Management Board members, Supervisory Board members, and the degree of fulfillment of key performance indicators by them in 2022. It was found that the obligations assumed under the mandate contracts were respected by the members of the Management Board and the Supervisory Board of Hidroelectrica, and key performance indicators were achieved.

Also, within the Nomination and Remuneration Committee, throughout 2023, the selection criteria for the members of the Hidroelectrica Management Board were established, the profile of the Hidroelectrica Management Board was analyzed and approved, and the form and content of the announcement regarding the selection of candidates for the election of the five members of the Hidroelectrica Management Board, with a 4-year mandate, were reviewed and approved. These recommendations were then submitted to the Supervisory Board for approval. The Nomination and Remuneration Committee, together with the Supervisory Board, conducted the selection procedure, making recommendations to the Supervisory Board for the positions of members of the Hidroelectrica Management Board.

The **Audit Committee** held a total of 10 meetings in 2023, conducted in a hybrid format and electronically via email. During these meetings, the individual and consolidated annual financial statements as of 31 December 2022, of Hidroelectrica, as well as the report of the external auditor KPMG Audit S.R.L., were analyzed. Recommendations were made to the Supervisory Board for approval of the company's financial statements and their submission to the General Meeting of Shareholders for approval.

Additionally, within the audit committee meetings, the following were reviewed and approved by the Supervisory Board: the activity report of the Internal Public Audit Department for the year 2022, the multi-year internal audit plan 2023-2026 / annual 2023 of the Internal Public Audit Department of Hidroelectrica, and the report on the audit of the electricity supply activity within Hidroelectrica. Recommendations were made to the Supervisory Board in this regard.

The President of the **Strategy and IPO Committee** convened 3 meetings in 2023 at the Hidroelectrica headquarters, mainly focusing on discussing the Prospectus, the subscription contract (Underwriting agreement), in the context of shareholders' approval, through the AGM Decision no. 3/31.03.2022, to initiate the admission to trading ("listing") of shares issued by Hidroelectrica on the Bucharest Stock Exchange.

According to available information, there are no agreements, understandings, or family relationships between the members of the Supervisory Board and any other person contributing to their appointment as members of the Supervisory Board. The Supervisory Board conducts an annual self-assessment process using a self-assessment questionnaire approved by the Supervisory Board. Based on the self-assessment questionnaires, an Annual Self-assessment Report is drafted and approved by the Supervisory Board. Following the self-assessment process of the Supervisory Board for the year 2023, the average rating of the 6 members of the Supervisory Board who completed the questionnaire is 4.85 out of 5, according to the Self-assessment Report.

The Supervisory Board recognises that diversity and inclusion are key to fostering a positive and inclusive culture in the workplace. We are committed to promoting diversity and inclusion within Hidroelectrica's workforce and are implementing several initiatives to support this with the help of executive management.

Hidroelectrica has always taken actions to ensure gender equality, a principle based on which men and women receive equal pay and have equal rights in society.

Society aims to create a working environment where individual differences are accepted and appreciated. Positive or negative discrimination of any nature based on the real or perceived attributes of the individual is prohibited.

Through the 2022 Sustainability Report, we have set a target of at least 33% of the percentage of women in all executive and non-executive management positions, with a deadline of 2027, with the selection of new members of the Supervisory Board and the Management Board.

At the date of this Report, the percentage of women on the Supervisory Board is 29%.

5.5. Management Board

The management of the Company rests exclusively with the Management Board. The Management Board is composed of 5 members, elected by the Supervisory Board for a period of 4 years, with the possibility of being re-elected for successive periods. The members of the Management Board are selected according to the relevant legal provisions.

Composition of the Management Board as at 1 January 2023:

Name	Position	Start date of the mandate	Termination date of the mandate
Bogdan-Nicolae BADEA	CEO	10 June 2019	9 June 2023
Cristian VLĂDOIANU	CAO	10 June 2019	9 June 2023
Marian BRATU	COO	10 June 2019	9 June 2023
Răzvan-Ionuț PAȚALIU	CHRO	10 June 2019	9 June 2023
Andrei-Dominic GEREA	CFO	7 December 2022	6 April 2023

Source: Hidroelectrica

During 2023, the SB decided to successively appoint the above-mentioned persons as provisional members of the Hidroelectrica Management Board, until the completion of the Selection Procedure for the members of the Management Board, carried out in accordance with the provisions of GEO no. 109/2011 on corporate governance of public enterprises. On this occasion, the SB decided to appoint the members of the Hidroelectrica Management Board for a period of 4 years, starting with 7 November 2023. Further information on the appointment of provisional members of the Management Board can be found in Chapter 3, "Key Events in 2023" of this Report.

Composition of the Management Board as at 31 December 2023:

Name	Position	Start date of the mandate	Termination date of the mandate
Karoly BORBELY	CEO	7 November 2023	6 November 2027
Bogdan Nicolae BADEA	IOC	7 November 2023	6 November 2027
Radu Ioan CONSTANTIN	CAO	7 November 2023	6 November 2027
Marian FETIȚA	CFO	7 November 2023	6 November 2027
Ianăș RĂDOI	COO	7 November 2023	6 November 2027

Source: Hidroelectrica

The professional experience of the members of the Management Board is briefly presented as follows:

Karoly BORBELY has been the President of the Directorate of Hidroelectrica since 7 November 2023. Previously, he held the position of member of the Supervisory Board of Hidroelectrica from August 2017 to September 2023.



With extensive experience in governmental, corporate, and public affairs, IPO project management, business development, and CSR, Karoly BORBELY has served as Director of Public Affairs at Orange Romania Communications and Director of Public Affairs at Telekom Romania Communications. He also held the position of Director of Strategy & Corporate Affairs at Hidroelectrica (January 2015 - August 2017).

Additionally, he has held the position of Secretary of State at the Department of Energy, Government of Romania (January 2014 - December 2014), Ministry of Economy, Government of Romania (March 2010 - May 2012), and the position of President with the rank of Secretary of State at the National Authority for Youth (February 2005 - December 2007).

From 2007 to 2008, he served as Minister of Communications and Information.

Other positions he has held include: Director of Business Development at Energobit (June 2012 - May 2014) and Director of Development at ITDH, the Hungarian Investment and Trade Development Agency (March 2003 - February 2005).

Karoly BORBELY holds a bachelor's degree in management from Babeş-Bolyai University and has pursued studies in corporate governance (Polytechnic University of Catalonia, 2020), corporate governance and investor relations (London Stock Exchange, 2015), and business in emerging markets (Harvard Business School, 2013).

Bogdan-Nicolae BADEA has been a member of the Directorate of Hidroelectrica since 7 November 2023, after previously holding the position of President of the Directorate of the company. From July 2017 to November 2023, as President of the Directorate of Hidroelectrica, he achieved exceptional results for the company, including: record profits for Hidroelectrica in the years 2022 (4 billion lei) and 2023 (6.3 billion lei); clarification of historical investment situations; business development towards wind energy production through the acquisition of the Crucea wind park, marking the first M&A of a state-owned company; entry of the company into the supply market, massive growth, and consolidation of the customer portfolio; implementation of the Mercer-based salary system starting from 2018; implementation of the concept of Hidroelectrica as a project-oriented company; reception and commissioning of investment projects (development and modernization) with a total value of over 1.37 billion lei from August 2017 to 2023, and more.

Additionally, Bogdan BADEA successfully coordinated Hidroelectrica's IPO in 2023, considered the third most important IPO in the world at that time, demonstrating exceptional leadership and business management skills. The company's listing marked the most significant event in the history of the Romanian capital market with a record transaction of approximately 2 billion EUR, at the end of which Fondul Proprietatea sold its entire stake of approximately 20% in Hidroelectrica. The listing of the company on the BSE was the result of a complex process in which Hidroelectrica benefited from a significant transfer of know-how in preparing the company for listing and meeting the reporting requirements specific to listed companies. He gained relevant and extensive experience in the energy sector for key players in the sector: member of the Supervisory Board of OMV Petrom (2015-2016),



member of the Board of Directors of Rompetrol Rafinare (2015), General Director of BNB Renewable Consulting (2009-2013, 2014), Development and Strategy Director of Electrica SA (2007-2009), President of the Board of Directors of Electrica Bio-Heat SA (2008-2009), member of the Board of Directors of Enel Energie Muntenia and Enel Energie SA (2007-2009). From 2016 to 2017, he led project management activities within the company.

Bogdan BADEA has held or holds positions in elite professional organizations, including: Member of the Board of Directors of CNR-CME - Romanian National Committee - World Energy Board; vice president and member of the board of directors of the Romanian National Institute for the Study of Energy Development and Use - IRE + Romanian Committee for EURELECTRIC; member of the board of directors of the Romanian Energy Center CRE; President of the board of directors (consisting of 4 members) of the Association of Electricity Producers HENRO.

He gained a valuable overview of the economy and the national energy system from positions as Secretary of State for Energy at the Ministry of Energy, Small and Medium-sized Enterprises (2014-2015) and Secretary of State at the Ministry of Economy (2013-2014).

He holds a bachelor's degree in engineering and obtained a Master's degree in 2009 in defense diplomacy, with a thesis entitled "Globalization, European integration, and Romania's energy security" from Lucian Blaga University in Sibiu.

Radu-Ioan CONSTANTIN was appointed as a member of the Directorate of Hidroelectrica starting from 7 November 2023, following the completion of the selection procedure.

With a dual qualification in engineering and economics, a graduate of the Polytechnic University of Bucharest (German-language program) and the Romanian Banking Institute, an MBA holder from the Bucharest Academy of Economic Studies and the University of Gelsenkirchen (2007-2009), he developed his professional career within Hidroelectrica starting from 2008.

In his 15 years of experience at Hidroelectrica, he climbed the ranks of the professional hierarchy, contributing as a department manager to the development and modernization of relevant commercial components in trading and supply, ensuring the leadership position in the energy market gained by Hidroelectrica.

He held positions as a member of the committees for the preparation and completion of the listing of H2O shares on the stock exchange and as an expert/witness in ICSID international arbitration processes in Paris and Luxembourg, representing the Ministry of Energy and Hidroelectrica.

Marian FETIȚA has been a member of the Hidroelectrica Directorate since 7 November 2023. He has been active within the company since 2002. From 14 July 2014 to 7 November 2023, he held the position of Accounting Department Manager within the company, playing a key role in its listing on the BSE in 2023.

His main responsibilities in the listing process included managing all financial and accounting activities, making presentations to the banking consortium, preparing the prospectus for the financial data, coordinating the restatement of financial statements to full IFRS EU standards from 2020 to 2022, presenting the company to investors, and overseeing the activities of consultants and auditors on financial and accounting matters.

From 9 February 2009 to June 2014, Marian FETIȚA coordinated the economic activity as an economic director in two Hidroelectrica branches, Vâlcea and Slatina.

Previously, from 2002 to 2009, he held the positions of department head, ERP system administrator, and economist within the company.

Marian FETIȚA holds a bachelor's degree in economics from the Bucharest University of Economic Studies (2001) and a Master's degree in Financial Analysis and Evaluation from the Bucharest University of Economic Studies (2008). He is a member of the Chamber of Fiscal Consultants and a member of the CFA Institute.

Ianăș RĂDOI has been a member of the Hidroelectrica Directorate since 7 November 2023.

From September 2015 to November 2023, he held the position of Chief Engineer at the Caransebeș Hydroelectric Plant. His main activities and responsibilities included managing the plant and branch, providing guidance and control for the plant personnel, coordinating technological processes for electricity production, equipment, and construction maintenance, and participating in development, modernization, and maintenance projects.

From November 2006 to August 2014, Ianăș RĂDOI was the Head of the Hydroelectric Power Plant at the Caransebeș branch. Previously, he held the positions of Engineer and hydroenergy dispatcher - Executive at Hidroelectrica S.A., Bucharest (January 2006 - November 2006) at S.P.E.E.H. Hidroelectrica S.A., București, and the position of Engineer at the Technical Office at the Caransebeș Hydroelectric Plant Branch (August 2005 - January 2006).

He holds a degree in engineering from the Faculty of Power Engineering, Polytechnic University of Bucharest (2005), and a Master's degree in Technical Hydraulics and Hydroenergy from the Faculty of Power Engineering, Polytechnic University of Bucharest.

Full CVs of Management Board members are presented on the company's website, www.hidroelectrica.ro, About Us – Management section.

The main duties of the Management Board, defined in the Articles of Association in force:

- Elaborates and applies the strategies and policies of the Company;
- Convenes the Ordinary or Extraordinary General Meeting of Shareholders and prepares the documentation necessary for the conduct of these meetings;
- Implements the Resolutions of the General Meetings of Shareholders;

- Ensures the management and coordination of the Company;
- Approves the participation/association of the Company for accessing non-reimbursable funds;
- Presents to the General Meeting of Shareholders and the Supervisory Board the economic and financial situation of the Company, as well as the annual activity report;
- Submits for approval to the General Meeting of Shareholders the report on the annual financial situation and the profit and loss account for the previous year, as well as the draft budget of income and expenses of the company for the current year;
- Approves the mandates of the representatives of the Company in the General Meetings of Shareholders/Associates of the companies in which Hidroelectrica holds participations, including the mandates granted in the meetings of creditors;
- Approves the conclusion by the Company of any type of legal acts regarding the establishment or participation in partnerships or non-profit associations with the information of the Supervisory Board;
- Exercises any competence delegated by the Extraordinary General Meeting of Shareholders under the law and performs any other duties except those provided by law in the competence of the Supervisory Board and the General Meeting of Shareholders.

According to available information, there is no agreement, understanding or family relationship between the members of the Management Board and any other person who contributed to their appointment as administrator.

As of 31 December 2023, the following members of the Management Board hold Hidroelectrica shares:

- Karoly BORBELY – 1,713 shares
- Bogdan-Nicolae BADEA – 5,000 shares
- Radu-Ioan CONSTANTIN – 32 actions
- Marian FETIȚA – 197 shares

According to the available information, members of the Directorate have not been involved in litigation or administrative procedures regarding their activity within the Company in the last five years, nor regarding their ability to fulfill their duties within the Company in the last five years.

5.6. Remuneration of members of the Supervisory Board and members of the Management Board

The company considers remuneration and motivation of its personnel as essential elements of its long-term strategy, given the specificity of its activities and the competitive market in which it operates. In this context, prior to the company's listing on the Bucharest Stock Exchange (BSE), a Remuneration Policy for members of the Supervisory Board and the Directorate was developed. This policy aligns with the company's strategy and values by providing a transparent overview of the compensation system and ensuring fair remuneration.

The Remuneration Policy was approved during the Ordinary General Meeting of Shareholders (OGMS) held on 22 June 2023 and can be accessed on the company's website, www.hidroelectrica.ro, under the Investor Relations section – Corporate Governance – Governance Documents.

The principles governing decisions on remuneration and bonuses are as follows:

- attracting and motivating competent and experienced people within the Board and the Management Board; ensuring the long-term sustainability of the profits of the public enterprise and its activity and generating long-term value;
- remuneration of members of the Supervisory Board and Management Board at competitive levels and with a substantial performance-based component;
- maintaining competitiveness in the remuneration market;
- consistency of remuneration in relation to the Company's business strategy;
- aligning remuneration with good governance recommendations;
- promoting transparency on remuneration and the criteria for determining it;
- alignment of the bonus scheme with international recommendations and practices on good governance;
- maintaining a fair balance between fixed allowance, variable remuneration and other forms of bonusing in line with good corporate governance practices.

Remuneration of members of the Supervisory Board

The company grants a remuneration consisting of a fixed gross monthly allowance, as well as a variable component established on the basis of financial and non-financial performance indicators negotiated and approved by decision of the General Meeting of Shareholders, in compliance with the provisions of art. 153 of the Companies Law nr. 31/1990, art. 37 of GEO nr. 109/2011 and in accordance with the Remuneration Policy. The variable component is detailed by concluding an addendum to the Contract.

The members of the Supervisory Board may also receive benefits borne by the Company, such as: reimbursement of expenses related to the fulfillment of the mandate, provision of equipment for logistic support (phone, tablet, laptop, car), Directors & Officers Liability insurance policy.

The members of the Supervisory Board may benefit, under the law, from specialized assistance for substantiating / motivating the decisions taken within the Supervisory Board, as well as from legal assistance in case of claims by a third party and directed against the Board member, participation in a professional training program and other forms of bonuses for specific objectives.

The remuneration of the members of the Supervisory Board is established by the General Meeting of Shareholders.

Remuneration of members of the Management Board

The Company provides remuneration to members of the Management Board composed of a fixed component, a variable component and other forms of bonuses, in accordance with the Remuneration Policy and good corporate governance practices.

The benefits borne by the company, attributed to the members of the Management Board are: the right to be reimbursed all reasonable expenses related to the fulfillment of the mandate, payment of refresher and training courses conducted by the member of the Management Board, the right to be insured for professional liability, reimbursement of the value of legal assistance services necessary for the actions initiated against him for damages caused to third parties, damages in the amount equal to all rights related to the Agreement, the right to use inventory objects / fixed assets necessary for carrying out the activity, the right to benefit from a package of compensations and benefits, including medical services and / or medical insurance and other forms of bonuses for specific objectives.

The remuneration of the members of the Management Board is established by the Supervisory Board.

In accordance with Art. 107 of Law nr. 24/2017 on issuers of financial instruments and market operations, republished, Hidroelectrica prepares a Remuneration Report for the members of the Supervisory Board and of the Management Board for the previous financial year, in order to present an overview of the remuneration and benefits granted and/or due during the last financial year, to individual directors, including newly recruited and former managers in accordance with Company Remuneration Policy.

The report is subject to the advisory vote of the shareholders, during the Ordinary General Meeting of Shareholders and is available on the company's website, www.hidroelectrica.ro, Investor Relations – General Meeting of Shareholders section, starting with the date indicated in the Convening Notice.

5.7. Process Management

Hidroelectrica has implemented the necessary internal regulations that establish the analysis mode and responsibilities regarding the maintenance and development of the Process Management System in accordance with Order no. 600/2018 issued by the General Secretariat of the Government on the approval of the Code of internal management control of public entities and with SR EN ISO 9001:2015 Quality management systems – Requirements. The compliance of Hidroelectrica Process Management System with the requirements of SR EN ISO 9001:2015 is certified by SRAC through certificate no. 325, valid until 20 June 2024.

The objectives set at Company/management level include components regarding the development and maintenance of the management system at the level of each department, based on Hidroelectrica Policy.

5.8. Internal audit

The public internal audit activity in Hidroelectrica is performed through the Internal Public Audit Department, subordinated to the Supervisory Board of the Company (Audit Committee), having as reference the requirements established by Law nr. 162/2017 on statutory audit, Law no. 672/2002 (updated) on public internal audit, OSGG no. 600/2018 updated for the approval of the Code of internal management control of public entities and of the ISO 19011:2018 standard – Guidelines on auditing management systems.

Also, the activity of the Public Internal Audit Department is carried out based on the Multi/Annual Internal Audit Plan, developed / updated according to the evolution of risks, to ensure the audit of significant activities within the company at least once every 4 years. The Multi/Annual Internal Audit Plan is endorsed by the Audit Committee and approved by the Supervisory Board. The Public Internal Audit Department was formed during 2023 of a manager and 3 internal auditors, with the objective of increasing the audit team during 2024 with two more internal auditors.

During 2023, the Internal Public Audit Department carried out assurance and advisory missions both at Hidroelectrica Executive level and at branch level, with the mission to determine the effectiveness of the management system, by providing objective, risk-based assurance and advising the Company's management members, in order to optimize the way processes are carried out.

Thus, the internal audit missions carried out during 2023 addressed electricity supply activities, activities on incident analysis and control of electricity production activities, refurbishment activities and activities on tracking and maintenance of hydrotechnical constructions. Each internal audit report is analyzed and endorsed in the meetings of the Audit Committee and subsequently approved by the Supervisory Board. The implementation of recommendations by the responsible departments is monitored by the Internal Public Audit Manager, who reports the status of their implementation through monitoring reports, approved by the Audit Committee and subsequently approved by the Supervisory Board.

5.9. Main features of internal control and risk management systems in relation to the financial reporting process

The financial reporting process within Hidroelectrica is carried out by implementing, within the internal regulations (Organization and Functioning Regulation, Internal Regulation, system procedures, respectively operational procedures), internal management control tools with the following permanent objectives (according to Order no. 600 of 7 May 2018 for the approval of the Code of internal management control of public entities):

- a) objectives on efficiency and efficiency of operation include objectives related to Hidroelectrica's goals and economic, effective and efficient use of resources, including objectives related to the

protection of Hidroelectrica's resources from misuse or losses, as well as the identification and management of liabilities;

- b) objectives regarding the reliability of external and internal information include objectives related to keeping adequate accounting, the quality of information used in Hidroelectrica or disseminated to third parties, as well as the protection of documents against two categories of fraud: concealment of fraud and distortion of results;
- c) Objectives for compliance with laws, regulations and internal policies include objectives related to ensuring that the entity's activities are conducted in accordance with obligations imposed by laws and regulations, and with internal policies.

The framework of the internal control system in the company is defined by the Regulation of the sustainability management system, approved by the Supervisory Board, which defines / details at the level of the Supervisory Board, the Management Board and the functional compartments how to establish the objectives / requirements / obligations applicable to the company and how to analyze and implement the procedures necessary to ensure the performance of activities.

According to the Regulation on the Process Map & Hidroelectrica Internal Management Control System, every year an evaluation of the functioning of the internal control system is carried out, finalized by a report on the internal management control system. Through the Report for 2023, approved by the company's management board (no. 22860 / 26.02.2024), it was confirmed that the internal management control system is partially implemented, being necessary to complete the implementation of all procedures defined in the Hidroelectrica Process Map.

The Internal Control and Process Monitoring Department is responsible for carrying out control, financial management control, internal managerial control and process monitoring activities. The control activities are carried out based on the decisions of the Management Board and are finalized with control reports on the verified activities, approved by the Management Board, and containing findings and measures necessary to establish those responsible, recover certain losses and remedy deficiencies. The main internal control missions carried out in 2023 focused on activities specific to hydroelectric power plants, inventory management, warehouse management and electricity supply activities.

5.10. ESG and Corporate Social Responsibility (CSR)

Environmental aspects

Hidroelectrica's number one priority in terms of health, safety and environment remains to avoid any accidents among staff and partners operating in the Group's sites, in order to act in a sustainable, ethical and environmentally responsible manner and to comply with all applicable legal requirements. Hidroelectrica permanently assesses occupational safety and health risks, identifies significant environmental aspects and ensures continuous training of employees in terms of occupational safety, environmental protection and emergency situations.

Environmental protection is a priority for Hidroelectrica. Its strategy aims to increase the Group's value by optimizing the operation of production capacities and operational control, making profitable investments and achieving regional expansion, while complying with applicable environmental legislation and using resources in a rational and responsible manner to prevent and reduce environmental impact. In order to adhere to international environmental protection requirements, the management system has implemented the following measures:

- increasing environmental responsibility through direct involvement, training and continuous improvement in the field of environmental protection of all staff;
- preventing and combating pollution of water and soil through measures relating to the operation and maintenance of equipment at an early stage and through technological change in the future;
- application of ecological solutions in new investment works, modernizations, refurbishments and restoration of the natural environment after completion of works;
- efficient management of waste resulting from own activity;
- initiating and developing partnerships with all actors interested in environmental protection;
- improving communication with the public concerned by increasing transparency and encouraging dialogue;
- continuous improvement of the environmental component of the Group's Integrated Management System.

Reducing environmental impact

Hidroelectrica operates in a world where environmental and related challenges are increasing. Risks related to the increased pace of climate change, overexploitation of natural resources, loss of local ecosystems, contamination of freshwater sources and intense air pollution are major concerns for the Group as a whole.

There is an urgent need to reduce and minimise negative environmental impacts by creating low-carbon, more decentralised, efficient and sustainable energy systems. The Group recognises that climate change is a reality and notes the scientific consensus, led by the Intergovernmental Panel on Climate Change, that greenhouse gases emitted by human activities are the main determinant.

Hidroelectrica is committed to acting responsibly and sustainably in order to act correctly, to identify and combat the impact it has on the environment and local ecosystems and to implement concrete action plans to minimize this negative impact and, finally, to bring a positive change in today's challenging global context.

The environmental agenda is embedded in Hidroelectrica's strategy and is based on three main pillars:

- Energy transition: Hidroelectrica aims to maintain its leading position at national and regional level in producing "green energy" and supporting the transition to a low-carbon and energy-efficient economy;

- Climate change: adapting to climate change and achieving the 'nearly zero greenhouse gas emissions' target;
- Environment and biodiversity: prevention/mitigation of environmental impacts, focusing on areas of high biodiversity value. Expanding access to clean energy will play a crucial role in achieving almost all Sustainable Development Goals. By its nature, hydropower has an important role to play in achieving this goal. There is broad consensus that, when properly planned and implemented, hydropower is an affordable, reliable, sustainable and modern solution.

ESG and CSR

As a producer of 100% green electricity, the Group is committed to maintaining a strong programme in terms of environment, social responsibility and governance. ESG is part of the Group's core strategy, which is committed to continuing to operate in a sustainable and responsible manner for the benefit of all stakeholders. This includes minimising the Group's environmental impact, promoting ethical business practices and ensuring the well-being of the Group's employees and the communities in which it operates.

Strong ESG performance is not only a moral imperative, but also an essential driver of long-term business success. As a result, the Group has implemented robust policies and procedures to ensure that the Group supports the highest ESG performance standards throughout the Group's organization. The figure below highlights the vision and pillars while considering catalysts for sustainability, such as awareness and commitment from senior management, employee training programmes, stakeholder involvement in decision-making processes and retrofitting and digitalisation.



Source: Hidroelectrica

In addition to being a significant player in Romania's energy transition, the Group also plays a key role in mitigating floodwaves for the transit of catastrophic flows in hydropower developments on inland rivers under the Group's management. In situations where increased flows could endanger material goods 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 Group contributes significantly to limiting and eliminating these situations.

Regarding the governance aspect of its ESG strategy, Hidroelectrica has adopted the highest governance standards by ensuring a high degree of transparency and accountable management, while facilitating the

creation of long-term sustainable value. The Group pays attention to the social and environmental impact of its activities and strives to integrate these aspects into its strategy and decision-making at all levels of the Group, while encouraging its employees to participate in its projects. The Group is based on an integrated management system implemented and maintained in accordance with the requirements of quality management, environmental management, occupational health and safety management and internal managerial control.

The Group's commitments in relation to the governance aspect of ESG strategy

Topic	Objective	Initiative/action	Key Performance Indicator
Diversity of governance bodies	Achieving the gender equality target	Increase the number of women in leadership positions, including members of the Supervisory and Management Boards	Percentage of women in the Supervisory and Management Boards
Business ethics	Increase employees' level of awareness on ethical issues	Conduct employee trainings on topics, such as the code of ethics, whistleblowing mechanisms, anticorruption, etc.	Percentage of grievances addressed Number of training hours per employee per year Percentage of employees trained
Anti corruption	Zero corruption incidents	Implement a mechanism to identify and assess corruption risks	Number of confirmed corruption incidents

The engagement of employees and volunteer initiatives

The management considers that employee's involvement is an important way to cultivate solidarity and sustainable values among Hidroelectrica employees and that it should be encouraged by all means. The company aims to establish a framework that allows its employees to contribute with their professional skills or their time to social responsibility and community development initiatives.

Events and Sponsorships in 2023

As a company operating in the energy sector, Hidroelectrica is aware of its responsibility towards the communities in which it operates. Through sponsorship / donation actions carried out according to the legal provisions in force, Hidroelectrica wants to contribute to a better life of local communities starting from the company's values: Integrity, Team Spirit, Social Responsibility, Creativity, Performance.

Regarding the **company's sponsorship activity** in 2023, Hidroelectrică granted sponsorships of over RON 6.1 million, of which the following are presented:

- The Association for the Sustainable Development of the Danube Delta (A4D) - organizing two clean-up activities in Sulina and Sfântu Gheorghe;
- The Smart Energy Association - supporting the "Warm Houses" project, which assists families in need by distributing firewood necessary for heating their homes. Within the project, an assessment study will also be conducted to evaluate the level of extreme energy poverty by identifying the number of households without electricity and centralizing them in a Registry of Households without Electricity.
- The Youstars Events Association - supporting the "LittleEdu Superhero!" project - Together for a Better World. Animated films with ecological themes have been created.
- The Doctors for Romania Association - rehabilitating the 6th floor of the Pediatric Hospital in Pitești;
- The Hope for the Children of Romania Foundation at the Marie Curie Children's Clinical Hospital - expanding the Newborn Intensive Care Unit (NICU) building.
- The Together for Health Association - rehabilitating, modernizing, and equipping the Specialty Outpatient Clinic in the old polyclinic of the Municipal Hospital in Sighișoara.
- The Romanian Chess Federation - supporting the "Chess Education" program, which aims to introduce chess as an activity in schools.

On 24 October, 2024, Hidroelectrică, through its Curtea de Argeș branch, supported the project "Sustainability for a Green Future" aimed at providing assistance to the local community in planting acacia saplings in an area prone to landslides.

As part of the partnership with the Romanian Chess Federation, Hidroelectrică organized the event "Hidroelectrică Supports Chess in Schools!" on 24 October, 2024, at "Pia Brătianu" Secondary School in Bucharest. The event featured chess competitions among students, contests organized and supported by the Federation in collaboration with Hidroelectrică..

5.11. [Respect for human rights, fight against corruption and bribery](#)

In order to prevent acts of corruption, the Company has implemented a Code of Ethics, internal regulations, codes of conduct, as well as specific procedures and regulations regarding donations, sponsorships and reporting integrity incidents.

The fight against corruption is the subject of a dedicated chapter of the Code of Ethics, which defines how to analyze and transpose specific legal regulations, the SR ISO 37001 standard – Anti-bribery management systems and the Good Practice Guide on internal controls, ethics and compliance issued by the OECD.

The Code of Ethics explicitly prohibits the management or employees of the Company or any other person acting on behalf of the Company from giving, promising or paying money, as well as offering, promising,

soliciting, receiving or accepting any item of value for the purpose of influencing or being influenced for decision-making or performing tasks according to legal or internal regulations.

Value benefits include financial or other advantages, such as – in addition to cash – gifts, credit, loan, guarantee, discount, entertainment, services, benefits, employment, sponsorships, etc.

The offering of gifts in the amount of up to RON 250 (approximately EUR 50) is allowed, provided that such gifts are not given with the purpose of influencing the existing or to be created business relationship with the Company.

The Company may grant sponsorships only in accordance with applicable law, while the management and employees of the Company may not directly or indirectly request or accept any amount of money in exchange for a sponsorship.

The management and employees of the Company must avoid any conflict of interest regarding their positions, activity and themselves. In this regard, the management and employees of the Company must report any actual or potential conflict of interest between the interest of the Company and the personal interests of them or their relatives. In order to prevent acts of corruption, the Company has implemented a specific procedure for identifying and assessing corruption risks and implementing measures to prevent them, having as references the SR ISO 37001 Anti-Bribery Management Systems standard and the Good Practice Guide on Internal Controls, Ethics and Compliance issued by OCE.

In addition, the Company has implemented regulations on the identification and assessment of corruption risks and the definition and analysis of measures to prevent them. Each member of the Company's management and each employee has the obligation to report any suspicion of corruption to the hierarchical superior.

Each employee of the Purchasing, Trading, Supply, Human Resources and Internal Control departments must sign annually a declaration regarding compliance with the provisions of the Company's Code of Ethics. In terms of reporting, the Company has a dedicated procedure for reporting, analyzing and resolving integrity incidents, which aims to establish the necessary framework for reporting integrity incidents and responsibilities within the Company for resolving such incidents.

5.12. "Comply or Explain" statement of compliance with the provisions of the BSE Corporate Governance Code

	Provisions of the BSE Corporate Governance Code	Compliance (YES/NO/ partially)	Explanation for compliance/non-compliance
Section A			
A.1.	All companies must have an internal regulation of the SB which includes the terms of reference / responsibilities of the SB and the key management functions of the company, and which applies, among others, the General Principles of Section A	YES	<p>The company is managed in a two-tier system by the Management Board and the Supervisory Board.</p> <p>The structure and general corporate governance principles of Section A of the BSE Code, as well as the terms of reference and the powers and responsibilities of the GMS, the Supervisory Board and the Management Board are described in the Articles of Association, the Regulation of Organization and Functioning ("ROF") of the SB and the ROF of the Management Board, as well as other internal procedures.</p>
A.2.	Provisions for managing conflicts of interest must be included in the SB rules. In any case, SB members must notify the SB of any conflicts of interest that have occurred or may arise and refrain from participating in discussions (including by not showing up, unless failure to appear would prevent quorum formation) and from voting to adopt a decision on the matter giving rise to that conflict of interest.	YES	<p>The provisions for managing conflicts of interest are included in the Company's Code of Ethics, a document approved and updated by the SB.</p> <p>According to the mandate agreement, SB members have the obligation to avoid Conflicts of Interest in relation to the Company, to inform the Supervisory Board as soon as such a situation occurs and to refrain from participating in deliberations and taking any decisions; the same obligation applies if the interested person is the spouse, relatives or relatives up to and including the fourth degree of the Trustee;</p> <p>According to the ROF of the SB, the SB President will resolve internal disputes and conflicts of interest in which Board members are involved.</p> <p>ROF SB is currently under review and will include a separate chapter – Conflicts of interest.</p>
A.3.	The SB must consist of at least five members.	YES	<p>The SB consists of seven members.</p> <p>Details – in the Annual Report – Corporate Governance chapter</p>

	Provisions of the BSE Corporate Governance Code	Compliance (YES/NO/partially)	Explanation for compliance/non-compliance
A.4.	No less than two non-executive members of the SB must be independent. Each independent member of the SB must submit a declaration at the time of his/her nomination for election or re-election, as well as when there is any change in his/her status, indicating the elements on the basis of which he/she is considered independent in terms of his/her character and judgment.	YES	All SB members are non-executive. 4 out of the 7 members submitted the declaration of independence based on the independence criteria provided by the Corporate Governance Code.
A.5.	Other relatively permanent professional commitments and obligations of a SB member, including executive and non-executive positions in the SB of non-profit companies and institutions, must be disclosed to shareholders and potential investors prior to nomination and during his/her term of office.	YES	Details regarding the Declarations of Interests are uploaded on the Company's website, at the following link: https://www.hidroelectrica.ro/interest-person Also, CVs of SB members are available on the Company's website at the following link: www.hidroelectrica.ro About Us/Management section
A.6.	Any member of the SB must submit to the SB information on any relationship with a shareholder who directly or indirectly owns shares representing more than 5% of all voting rights. This obligation refers to any kind of report that may affect the member's position on matters decided by the SB.	YES	When a member of the SB entered into a relationship with a shareholder who directly or indirectly owns shares representing more than 5% of all voting rights, the SB operatively informed. The ROF of the SB is currently being updated and will include specific provisions in this regard.
A.7.	The company must appoint a secretary of the SB responsible for supporting the work of the Board.	YES	The SB Secretariat was appointed by SB Decision and consists of 2 persons.
A.8.	The corporate governance statement will inform whether an evaluation of the Board has taken place under the direction of the Chair or the Nominating Committee and, if so, summarise key measures and resulting changes. The company must have a policy/guideline on SB evaluation including the purpose, criteria and frequency of the evaluation process.	PARTIALLY	The SB annually conducts an evaluation process of its work using a self-evaluation questionnaire, the form of which was approved by the SB. Self-evaluation is carried out under the direction of the NRC. Based on the self-evaluation questionnaires, the SB drafts and approves the Annual Self-Evaluation Report. The report of this self-evaluation for 2023 is presented in the SB Report.

	Provisions of the BSE Corporate Governance Code	Compliance (YES/NO/partially)	Explanation for compliance/non-compliance
			A policy on SB self-evaluation is currently being drafted and adopted.
A.9.	The corporate governance statement must contain information on the number of meetings of the SB and committees during the last year, the participation of directors (in person and in absence) and a report by the SB and committees on their activities.	YES	Details on how to apply this provision are presented in the Annual Report, in <i>chapter 5.4 Supervisory Board</i> .
A.10	The corporate governance statement must include information on the exact number of independent members in the SB.	YES	4 SB members have submitted the declaration of independence based on the independence criteria provided by the BSE Corporate Governance Code. Details about SB members are in the Annual Report, in <i>chapter 5.4 Supervisory Board</i> .
A.11	The SB of the company must establish a nomination committee consisting of non-executive members, which will lead the procedure of nominations of new members to the SB and make recommendations to the SB. The majority of the members of the nomination committee must be independent.	YES	The SB established a nomination and remuneration committee (NRC). As of 31 December 2023, the NRC consisted of 4 non-executive members, of which 2 submitted the declaration of independence based on the independence criteria provided by the Corporate Governance Code. Starting January 2024, NRC consists of 5 non-executive members, of which 3 have submitted the declaration of independence based on the independence criteria provided by the BSE Corporate Governance Code. Details of the NRC are mentioned in the Annual Report, in <i>Chapter 5.4 Supervisory Board</i> .
Section B			
B.1.	The SB must establish an audit committee where at least one member must be an independent non-executive director. A majority of members, including the Chair, shall have demonstrated appropriate qualifications relevant to the functions and responsibilities of the Board. At least one member of the audit committee shall	YES	The SB has set up an audit committee (AC). The audit committee consisted until January 2024 of 5 non-executive members, of which 3 submitted the declaration of independence based on the independence criteria provided by the Corporate Governance Code.

	Provisions of the BSE Corporate Governance Code	Compliance (YES/NO/partially)	Explanation for compliance/non-compliance
	<p>have proven and appropriate audit or accounting experience. In the case of Premium Category companies, the audit committee must consist of at least three members and the majority of the audit committee members must be independent.</p>		<p>The AC includes members with qualifications appropriate to the functions and responsibilities they hold in the AC.</p> <p>The President of the AC, Mrs. Carmen Radu, has experience in accounting and auditing, as evidenced by her CV published on the Company's website.</p> <p>As of January 2024, the SB consists of 6 non-executive members, of which 4 have submitted the declaration of independence based on the independence criteria provided by the BSE Corporate Governance Code.</p> <p>Details of the Audit Committee are presented in the Annual Report, in <i>Chapter 5.4 Supervisory Board</i>.</p>
B.2.	<p>The chair of the audit committee shall be an independent non-executive member.</p>	YES	<p>The Chair of the Audit Committee, Ms. Carmen Radu, is a non-executive member and submitted the declaration of independence based on the independence criteria provided by the BSE Corporate Governance Code.</p> <p>The CV is available on the Company's website, section About us – Management.</p>
B.3.	<p>Within the framework of its responsibilities, the audit committee must carry out an annual evaluation of the internal control system.</p>	YES	<p>According to the ROF of the SB, as well as other internal regulations, the Board is responsible for carrying out an evaluation of the internal control system.</p> <p>The Public Internal Audit Department, subordinated to the Audit Committee, annually evaluates the internal control system and issues an audit report, endorsed by AC and approved by the SB.</p>
B.4.	<p>The evaluation shall consider the effectiveness and scope of the internal audit function, the adequacy of risk management and internal control reports submitted to the Board's audit committee, the timeliness and</p>	YES	<p>The Public Internal Audit Department, subordinated to the Audit Committee, elaborates the Annual Report of the internal audit activity within the Company, which is analyzed, evaluated and approved in a meeting of the AC and subsequently approved by the SB.</p>

Provisions of the BSE Corporate Governance Code	Compliance (YES/NO/ partially)	Explanation for compliance/non-compliance
effectiveness with which executive management addresses deficiencies or weaknesses identified by internal control and the submission of relevant reports to the attention of the Board.		The annual report for 2023 was prepared on 14 December 2023, analyzed and endorsed by AC on 20 December 2023 and approved by the SB through Decision no. 231/22.12.2023.
B.5. The audit committee should assess conflicts of interest in relation to transactions of the company and its subsidiaries with related parties.	YES	<p>The Company has implemented a policy on Related Party Transactions approved by SB and which is available on the Company's website www.hidroelectrica.ro in the section Corporate Governance – Corporate Documents.</p> <p>Taking into account the requirements of the National Anticorruption Strategy and ISO 37001 Anti-bribery management systems Requirements with user guide, the Public Internal Audit Department, subordinated to the Audit Committee, annually evaluates the corruption monitoring and prevention system and issues an audit report, endorsed by the Audit Committee and approved by the Supervisory Board.</p> <p>The Public Internal Audit Department prepared on 31 August 2023 a report that includes conclusions on conflicts of interest, a report analyzed and endorsed at the meeting of the Audit Committee on 4 September 2023 and approved by the SB through decision no. 154/05.09.2023.</p>
B.6. The audit committee must assess the effectiveness of the internal control system and the risk management system.	YES	<p>The evaluation of the internal management control system (which also includes the risk management system) is carried out at Company level within a period of 3 years, during which the headquarter and 3 branches are evaluated in turn in the first year, and then in years 2 and 3 the rest of the branches. The year 2023 was the last year in the 2021-2023 cycle in which the Cluj and Sebes branches were evaluated. The planning and performance of these assessments is correlated with the requirements for ISO 9001, ISO 14001, ISO 45001 and ISO 37001 certification.</p>

	Provisions of the BSE Corporate Governance Code	Compliance (YES/NO/partially)	Explanation for compliance/non-compliance
B.7.	The audit committee should monitor the application of generally accepted legal standards and internal auditing standards. The audit committee must receive and evaluate the reports of the internal audit team.	YES	<p>In addition, the Risk Management Department has prepared an annual report on risk management activity that includes the evaluation of the risk management system.</p> <p>The Public Internal Audit Department, subordinated to the Audit Committee, elaborates the Annual Report of the internal audit activity within the Company, which presents the operating framework of the internal audit function. The report is analyzed, evaluated and endorsed in a meeting of the Audit Committee and subsequently approved by the SB.</p> <p>Each internal audit report, resulting from internal audit missions, is submitted to the Audit Committee, which, after its analysis, approves it and sends it to the SB for approval.</p>
B.8.	Whenever the Code mentions reports or analyses initiated by the Audit Committee, these should be followed by regular (at least annually) or ad hoc reports to be subsequently submitted to the Board.	YES	<p>For each meeting of the Audit Committee, a Report of the Audit Committee is prepared, containing, where appropriate, proposals for measures, deadlines and responsibilities for meeting certain requirements or eliminating certain deficiencies. After approval of the measures by the SB, the established officials inform the SB how they are carried out.</p> <p>The Public Internal Audit Department produces quarterly an Activity Report in which it also presents the status of implementation of the recommendations included in the internal audit reports, endorsed by the Audit Committee and approved by the SB.</p>
B.9.	No shareholder may be granted preferential treatment vis-à-vis other shareholders in connection with transactions and agreements entered into by the company with shareholders and their affiliates.	YES	<p>The company shall ensure equal treatment of all holders of securities of the same type and class and shall provide them with all the information necessary for them to exercise their rights.</p> <p>The Related Party Transactions Policy approved by the Supervisory Board is available on the Company's website www.hidroelectrica.ro Corporate Governance Section – Corporate Governance Documents</p>

	Provisions of the BSE Corporate Governance Code	Compliance (YES/NO/ partially)	Explanation for compliance/non-compliance
B.10	<p>The SB must adopt a policy ensuring that any transaction of the company with any of the companies with which it has close relations whose value is equal to or greater than 5% of the net assets of the company (according to the latest financial report) is approved by the SB following a binding opinion of the SB audit committee and correctly disclosed to shareholders and potential investors, to the extent that these transactions qualify as events subject to reporting requirements.</p>	YES	<p>The transactions with the related parties have been authorized by the Company's representatives and approved in accordance with the Articles of Association of the Company and the Regulation of Organization and Functioning of the Management Board endorsed by the Supervisory Board or with the internal procedures, as the case may be.</p> <p>The Related Party Transactions Policy approved by the Supervisory Board is available on the Company's website www.hidroelectrica.ro Corporate Governance – Corporate Documents section.</p> <p>The Company publishes Current Reports with related party transactions whose value is equal to or greater than 5% of the net assets of the Company, in accordance with Law no. 24/2027 and FSA regulation no. 5/2018.</p>
B.11	<p>Internal audits must be carried out by a structurally separate division (internal audit department) within the company or by employing an independent third-party entity.</p>	YES	<p>The public internal audit activity at the level of the Company is carried out through its own audit structure, thus complying with the requirement established by Law no. 672/2002, regarding public internal audit - art. 10 paragraph (1), republished with subsequent amendments and completions.</p> <p>Details about the Public Internal Audit department are presented in the Annual Report, in <i>chapter 5.8 Internal Audit</i>.</p>
B.12	<p>In order to ensure the performance of the main functions of the internal audit department, it must functionally report to the SB through the audit committee. For administrative purposes and as part of management's obligations to monitor and mitigate risks, he or she should report directly to the Director-General.</p>	YES	<p>The Internal Audit Department reports to the SB through the Audit Committee.</p>
Section C			
C.1.	<p>The company shall publish the remuneration policy on its website and include in the annual report a statement on the implementation of the</p>	YES	<p>The Remuneration Policy approved by the GMS through OGMS no. 17/22.06.2023 is available on the Company's website, section Investor Relations – Corporate Governance – Corporate Governance Documents</p>

	Provisions of the BSE Corporate Governance Code	Compliance (YES/NO/ partially)	Explanation for compliance/non-compliance
	remuneration policy during the annual period under review.		Information on the implementation of the Remuneration Policy is presented in <i>Chapter 5.6 Remuneration of members of the Supervisory Board and members of the Management Board</i> .
Section D			
D.1.	The company must organize an Investor Relations service – indicating to the general public the responsible person(s) or organizational unit. In addition to the information required by the legal provisions, the Company must include on its website a section dedicated to Investor Relations, in Romanian and English, with all relevant information of interest to investors, including:	YES	The company has in its organizational composition a Service dedicated to investor relations. On the Company's website, there is a section dedicated to this activity, which contains all relevant documents, in Romanian and English.
	D.1.1. Main corporate regulations: Articles of Association, procedures for general meetings of shareholders;	YES	Available on the Company's website, section Investor Relations – Corporate Governance – Corporate Governance Documents
	D.1.2. Professional CVs of members of the company's management bodies, other professional commitments of SB members, including executive and non-executive positions on boards of directors of companies or non-profit institutions;	YES	Available on the Company's website, section About us – Management
	D.1.3. Current reports and periodic reports (quarterly, half-yearly and annual) - at least those required by paragraph D.8 - including current reports with detailed information on non-compliance with this Code;	YES	Available on the Company's website, section Investor Relations – Results and Reports
	D.1.4. Information on general meetings of shareholders: agenda and information materials; the procedure for electing the members of the Board; the arguments supporting proposals for candidates for election to the	YES	Available on the Company's website, section Investor Relations – General Meeting of Shareholders

	Provisions of the BSE Corporate Governance Code	Compliance (YES/NO/partially)	Explanation for compliance/non-compliance
	Board, together with their professional CVs; shareholders' questions on items on the company's agenda and answers, including resolutions taken;		
D.1.5.	Information on corporate events, such as the payment of dividends and other distributions to shareholders, or other events leading to the acquisition or limitation of a shareholder's rights, including deadlines and principles applied to such operations. That information will be published within a period of time that allows investors to take investment decisions;	YES	Available on the Company's website, Investor Relations section
D.1.6.	Name and contact details of a person who will be able to provide, upon request, relevant information;	YES	Available on the Company's website, section Investor Relations – Contact
D.1.7.	Company presentations (e.g. investor presentations, quarterly outturn presentations, etc.), financial statements (quarterly, half-yearly, annual), audit reports and annual reports.	YES	Available on the Company's website, section Investor Relations – Results and Reports
D.2.	The company will have a policy on the annual distribution of dividends or other benefits to shareholders, proposed by the Management Board and adopted by the Supervisory Board, in the form of a set of guidelines that the company intends to follow regarding the distribution of net profit. The principles of the annual distribution policy to shareholders will be published on the company's website.	YES	Available on the Company's website, section Investor Relations – Corporate Governance – Corporate Governance Documents

	Provisions of the BSE Corporate Governance Code	Compliance (YES/NO/partially)	Explanation for compliance/non-compliance
D.3.	<p>The Company will adopt a policy regarding forecasts, whether they are made public or not. Projections refer to quantified conclusions of studies aimed at determining the overall impact of a number of factors over a future period (so-called assumptions): by its nature, this projection is highly uncertain and actual results may differ significantly from initial projections. The forecast policy will set out the frequency, period of consideration and content of forecasts. If published, forecasts may only be included in annual, half-yearly or quarterly reports. The forecast policy will be published on the Company's website.</p>	YES	<p>Available on the Company's website, section Investor Relations – Corporate Governance – Corporate Governance Documents</p>
D.4.	<p>The GMS rules should not limit shareholders' participation in the GMS and the exercise of their rights. The changes to the rules will take effect, at the earliest, starting with the next GMS;</p>	YES	<p>The Company respects all rights of holders of issued financial instruments and ensures them fair treatment, regardless of the number of shares held and permanently strives to achieve communication and transparency in order to exercise rights by shareholders in a fair manner. In this respect, the Company has implemented a procedure regarding the organization and conduct of the GMS, available on the Company's website, www.hidroelectrica.ro, section Investor Relations – Corporate Governance – Corporate Governance Documents.</p>
D.5.	<p>External auditors will be present at the general meeting of shareholders when their reports are presented at these meetings.</p>	YES	<p>The external financial auditor will be present at the general meeting of shareholders where the financial statements will be approved and the audit reports related to them will be presented.</p>
D.6.	<p>The SB will present to the annual general meeting of shareholders a brief assessment of the systems of internal control and management of significant risks, as well as opinions on issues subject to the decision of the general meeting</p>	YES	<p>The Company's annual report includes a brief overview of the internal control and risk management systems. Information on risk management and internal control systems are presented in the Annual Report, in <i>Chapter 10 Risk Management</i>.</p>

	Provisions of the BSE Corporate Governance Code	Compliance (YES/NO/partially)	Explanation for compliance/non-compliance
D.7.	Any specialist, consultant, expert or financial analyst may attend the shareholders' meeting based on a prior invitation from the Board. Accredited journalists may also attend the general meeting of shareholders, unless the Chairman of the Board decides otherwise.	YES	Accredited journalists may participate in the general meeting of shareholders provided that the SB approves their presence.
D.8.	The quarterly and half-yearly financial reports shall include information in both Romanian and English on key factors influencing changes in sales, operating profit, net profit and other relevant financial indicators, both quarter-on-quarter and year-on-year.	YES	Available on the Company's website, section Investor Relations – Results and Reports
D.9.	The company will hold at least two meetings/teleconferences with analysts and investors each year. The information presented on these occasions will be published in the investor relations section of the company's website on the date of the meetings/teleconferences.	YES	The company organizes teleconferences with analysts and investors for each financial report, a minimum of 4 teleconferences / year. The related information, as well as the login details are available on the Company's website, section Investor Relations – Results and Reports
D.10	If the company supports different forms of artistic and cultural expression, sporting activities, educational or scientific activities and considers their impact on the innovative character and competitiveness of the company to be part of its mission and development strategy, it will publish the policy on its activity in this area.	YES	Hidroelectrica has adopted a Social Responsibility Policy approved by the Supervisory Board and a Social Donations and Sponsorships Policy approved by the Supervisory Board, available on the Company's website, www.hidroelectrica.ro , section Investor Relations – Corporate Governance – Corporate Governance Documents.

6. Operational data

6.1. Operational segments

6.1.1. Electricity Production Activity

Management of energy reserves from large accumulations

The management of the energy reserve was conducted under predominantly surplus hydrological conditions in the first quarter and predominantly deficit conditions for the rest of the year, except for December, which exhibited surplus tendencies. The main objectives regarding reserve management were to adhere to the agreed monthly programs with ANAR and the possibility of complying with the winter program approved by Government Decision 877/20.09.2023.

The gross energy production of Hidroelectrica Group for 2023 was GWh 18,119, GWh 4,194 more than the previous year, in which the energy produced was GWh 13,925.

Situation of hydropower plants on headwater

	Filling level In usable volume (%)	Usable volume Total (million cubic meters)	Energy reserve (GWh)
2023	74.70%	1.910.92	2.290.43
2022	70.56%	1.805.00	2.207.22

Source :Hidroelectrica

Availability coefficient (%) of PI>MW 4 hydropower units for 2023

	2023	2022
1. SH BISTRIȚA	91.91%	89.47%
2. SH CLUJ	88.88%	95.35%
3. SH CLUJ/UH ORADEA	96.32%	93.60%
SH CLUJ	92.94%	94.40%
4. SH CURTEA DE ARGES	91.52%	94.32%
5. SH CURTEA DE ARGES/UH BUZĂU	97.01%	90.87%
SH CURTEA DE ARGES	93.01%	93.39%
6. SH HAȚEG	92.77%	95.81%
7. SH HAȚEG/UH CARANSEBEȘ	90.58%	88.26%
SH HAȚEG	92.44%	94.67%
8. SH P.de IRON	86.24%	90.62%
9. SH P.de IRON/UH Tg.JIU	87.91%	79.46%
SH P.de IRON	86.87%	86.44%
10. SH RÂMNICU VÂLCEA	91.27%	89.85%
11. SH RÂMNICU VÂLCEA/UH SLATINA	93.48%	90.22%

	2023	2022
SH RÂMNICU VÂLCEA	92.28%	90.02%
12. SH SEBEȘ	93.54%	86.59%
13. SH SEBEȘ/UH SIBIU	90.00%	95.13%
SH SEBEȘ	90.96%	92.80%
Total HIDROELECTRICA	91.85%	91.57%

Source:Hidroelectrica

Available and assured power

	Power Installed (PI)	Discounts Permanent	Available power	Power Ensured
2023	6.2	0.2	6	5.1
2022	6.2	0.2	6	5.2

*Reporting is for CHE with Pi > 4 MW under commercial exploitation license

Source:Hidroelectrica

In 2023, the trading of electricity was conducted in accordance with the provisions of Government Emergency Ordinance no. 27/2022 regarding the Centralized Electricity Acquisition Mechanism (MACEE), introduced by Government Emergency Ordinance no. 153/2022. This major change in the sale of electricity had a significant impact on the liquidity of other components of the market (both the centralized market and bilateral trading), requiring a rapid adaptation of short-term trading strategies by companies in the sector.

Of the total quantity of electricity delivered in 2023 through MACEE (equivalent to 5,672 GWh, or RON 2,552 million), from January to December 2023, Hidroelectrica sold, in monthly auctions, a total quantity of 3,594 GWh, corresponding to a value of RON 1,617.8 million, plus the quantity of 2,078 GWh, traded in December 2022, with delivery in 2023.

Additionally, in December 2023, within the annual MACEE auction, a quantity of 2,599 GWh was contracted for the delivery of energy in 2024, with a value of RON 1,170 million.

In accordance with the provisions of Article VII ^1 of Law no. 357/2022 approving Government Emergency Ordinance no. 119/2022, which introduced the obligation for energy producers to sell within the limits of available quantities, other than those sold under the acquisition mechanism provided for in Government Emergency Ordinance no. 153/2022, through bilateral contracts negotiated directly with traders/suppliers of electricity designated by the Government of the Republic of Moldova, exclusively to cover the consumption needs of final consumers in the Republic of Moldova, Hidroelectrica responded to requests received during the year 2023 with offers for base and peak profiled products for delivery in 2023 and 2024. The volumes traded through bilateral contracts in 2023 amounted to 70 GWh (of which 32 GWh were exclusively for delivery in 2023), corresponding to a total value of RON 31.51 million.

In the short term, the electricity available in addition to that offered on MACEE was traded through the Day-Ahead Market in order to optimize the operating schedule and to efficiently manage deviations from hydrological forecasts. For 2023, the total quantity sold on this segment was 3,421 GWh, the corresponding value being RON 1,948.48 million.

6.1.2. Electricity Supply Activity

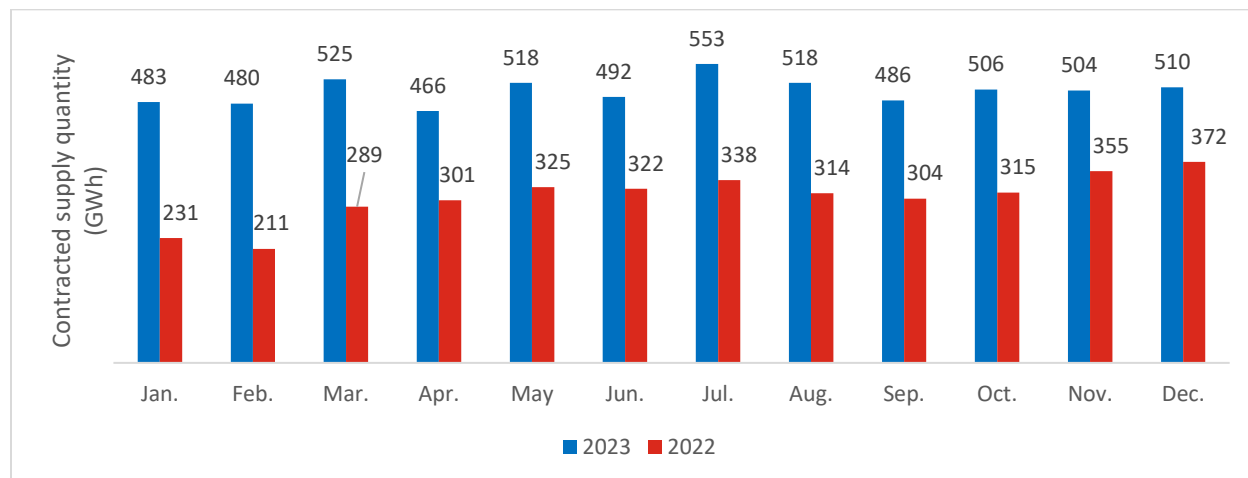
Hidroelectrica carries out the electricity supply activity based on the Supply License no. 2215/2020, updated by ANRE Decision no. 718/06.06.2020, valid for 10 years. In this context, the Supply Department carries out its activity reflecting compliance with the rights and obligations mentioned in the license.

The supply of electricity includes the processes of bidding, contracting, billing, collection, informing customers, taking over and solving complaints / notifications / requests regarding the nature of the services provided, debt recovery. All these processes align with the primary legal provisions and A.N.R.E.

Currently, the supply activity is undergoing a process of significant growth and transformation, of improving operational performance, at a time when the energy market has also undergone significant changes.

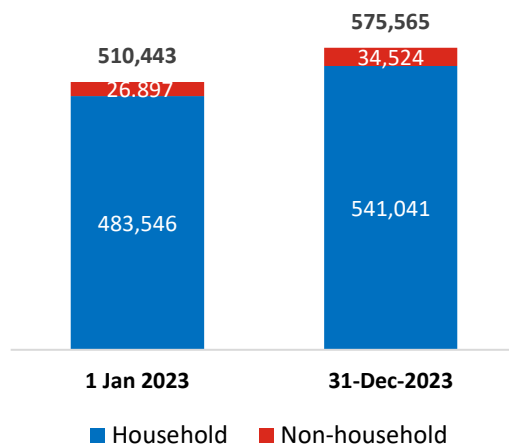
Increasing the amount of electricity

The monthly quantities contracted for 2023 had a significant increase, this being due to the takeover in the portfolio of customers with an important monthly consumption of electricity and a large number of household customers.

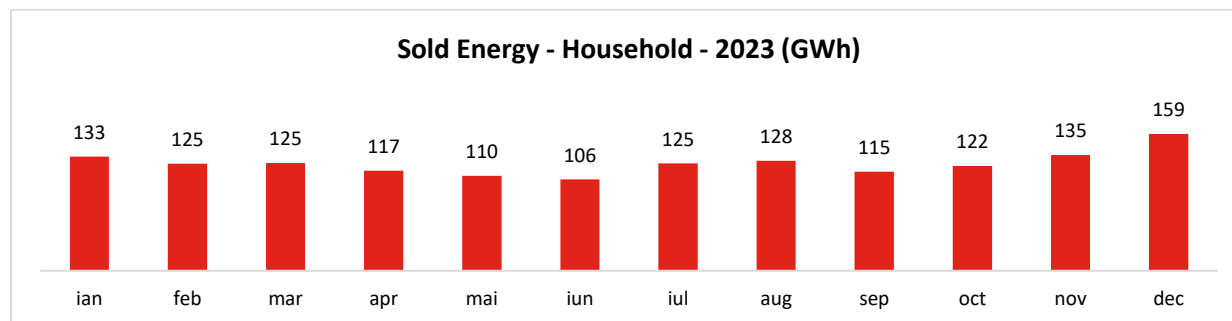


Source: Hidroelectrica

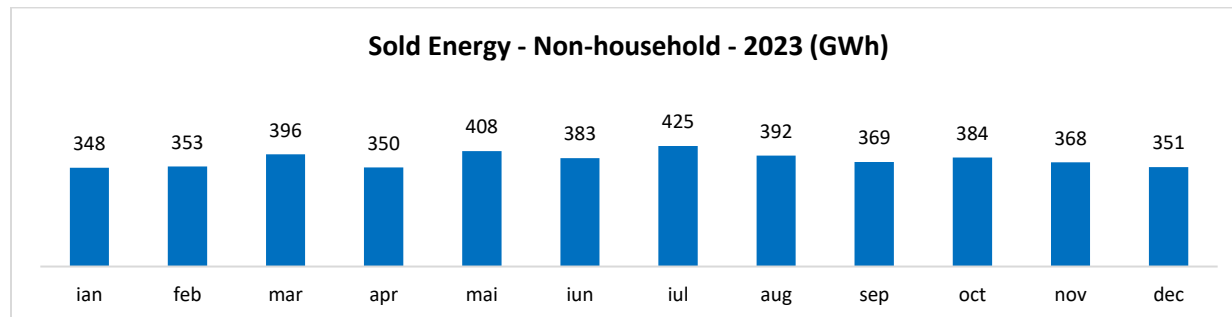
The evolution of the Number of Consumption Places registered on 31 December 2023 compared to 1 January 2023 is presented as follows:



Source: Hidroelectrica

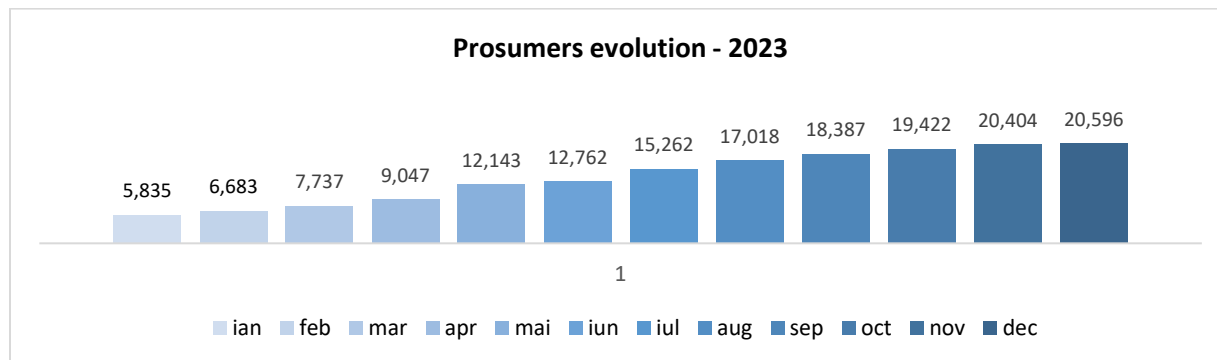


Source: Hidroelectrica



Source: Hidroelectrica

The number of prosumers has increased exponentially due to the implementation of the automated contracting system in the contracting portal.



Source: Hidroelectrica

6.2. Maintenance Activity

Maintenance activity - equipment

The maintenance activity of the installations and equipment within the hydropower facilities within Hidroelectrica is carried out in compliance with *the provisions of the "Regulation for organizing the maintenance activity"* approved by ANRE Order nr. 96/2017.

In 2023, services/maintenance works were scheduled to be performed on the equipment and installations in the hydropower facilities and those related to the Crucea wind farm, amounting to RON 314.09 million, of which RON 55.06 million represents maintenance works with capitalization. The scheduled value corresponded to a number of 5,061 planned maintenance type works to which was added the estimated value for corrective maintenance.

The contracted value was RON 304.51 million, corresponding to a number of 4,900 planned maintenance and corrective maintenance works, with equipment services/maintenance works worth RON 255.42 million being settled, corresponding to a number of 4,496 planned maintenance and corrective maintenance type works.

The main provider of equipment maintenance services of the Company is Societatea de Servicii Hidroenergetic "Hidroserv" S.A. as affiliated enterprise. The contracted value with SSH Hidroserv was RON 262.31 million, with RON 217.14 million settled, of which maintenance works with capitalization worth RON 36.10 million.

The corrective maintenance services/works settled in 2023, both with Hidroserv and other contractors, amounted to RON 43.2 million (of which RON 16.9 million services/additional works on planned type works) out of a total value of RON 255.4 million settled in 2023.

Until 31 December 2023, services/works worth RON 48 million were settled, representing 87.11% of the scheduled value.

It is worth mentioning that until 31 December 2023, all maintenance works necessary for the safe operation of installations and equipment in hydropower facilities have been carried out.

Maintenance equipment achievements in 2023 – physical stage, compared to 2022

Branch	2023				2022			
	Number of estimated works	Number of contracted works	Number of completed works	Percent achievement	Number of estimated works	Number of contracted works	Number of completed works	Percent achievement
IRON GATES	639	624	590	92.33%	571	569	520	91.07%
HATEG	517	511	499	96.71%	461	458	438	95.01%
BISTRITA	365	365	356	97.53%	434	433	426	98.16%
CURTEA DE ARGES	1,076	1,070	915	85.04%	1,080	1,073	972	90.00%
RAMNICU VALCEA	930	854	758	81.51%	782	711	673	86.06%
CLUJ	778	768	706	90.75%	756	744	703	92.99%
SEBES	552	552	517	93.66%	571	563	541	94.75%
WIND	202	154	152	75.25%				
EXECUTIVE	2	2	2	100.00%	2	2	2	100.00%
TOTAL	5.061	4.900	4.496	88.84%	4.657	4.553	4.275	91.80%

* for VTU services was considered a single programmed/contracted/realized position on the Branch

Source: Hidroelectrica

Maintenance equipment achievements (value) in 2023, compared to 2022

RON million

Branch	2023						2022					
	Estimated work value		Value of contracted works		Value of completed works		Estimated work value		Value of contracted works		Value of completed works	
	TOTAL	Of which HIDROSERV	TOTAL	Of which HIDROSERV	TOTAL	Of which HIDROSERV	TOTAL	Of which HIDROSERV	TOTAL	Of which HIDROSERV	TOTAL	Of which HIDROSERV
IRON GATES	74.17	66.69	72.65	66.26	51.86	46.58	45.95	37.27	46.02	37.26	43.16	35.63
HATEG	24.13	22.47	22.23	20.87	19.84	18.5	18.05	16.77	17.43	16.75	15.82	15.21
BISTRITA	35.49	30.08	35.08	30.08	31.87	27.2	26.84	23.47	26.53	23.47	25.90	22.34
CURTEA DE ARGES	35.59	33.59	34.55	33.44	26.69	25.76	33.65	32.24	33.24	32.23	29.00	28.18
RAMNICU VALCEA	67.76	56.92	65.03	55.46	59.9	50.64	47.88	40.40	47.14	40.36	42.64	37.70
CLUJ	31.77	30.48	30.99	30.46	26.01	25.54	24.98	24.01	24.34	23.99	21.27	21.18
SEBES	26.33	25.77	26.25	25.74	23.28	22.92	24.04	21.31	23.16	21.29	20.15	18.38
WIND	18.84	0	17.74	0	15.97	0	-	-	-	-	-	-
EXECUTIVE	0.0066	0	0.0065	0	0.0065	0	0.0064	0	0.0051	0	0.0051	0
TOTAL	314.09	265.99	304.51	262.31	255.42	217.14	221.39	195.47	217.85	195.35	197.95	178.61

Source: Hidroelectrica

In 2023, maintenance works have been scheduled on a number of 87 hydropower units, with all scheduled type works being contracted. On 31 December 2023, 78 maintenance works on hydropower units were completed, 6 being in progress, 3 type works on hydroaggregates were rescheduled in 2024.

Physical / value achievements of maintenance works on hydroaggregates in 2023 compared to 2022

RON million

BRANCH	Maintenance at Hydroaggregates – 2023						Hydroaggregate Maintenance – 2022					
	ESTIMATED		CONTRACTED		ACHIEVED		ESTIMATED		CONTRACTED		ACHIEVED	
	No.	Value	No.	Value	No.	Value*	No.	Value	No.	Value	No.	Value*
IRON GATES	15	32.82	15	32.50	11	12.68	11	10.75	11	10.75	11	11.88
HATEG	8	6.03	8	5.25	8	4.90	11	7.11	11	7.11	10	5.76
BISTRITA	16	13.08	16	13.08	15	7.04	21	10.88	21	10.87	19	10.67
CURTEA DE ARGES	9	11.32	9	11.32	7	8.53	17	14.98	17	14.98	17	14.93
RAMNICU VALCEA	22	21.57	22	21.56	20	10.22	25	12.32	25	12.32	24	10.19
CLUJ	7	5.54	7	5.54	7	8.95	4	4.20	4	4.20	4	4.02
SEBES	10	5.99	10	5.99	10	6.30	7	4.60	7	4.60	7	4.70
TOTAL	87	96.34	87	95.24	78	58.62	96	64.85	96	64.85	92	62.15

** the realized value includes additional works performed, settled from corrective maintenance funds*

Source: Hidroelectrica

6.3. Maintenance activity - construction and tracking the behavior of hydropower constructions ("UCCH")

For 2023, the construction maintenance program worth RON 58.52 million was drafted, executed with third parties, with a number of 417 maintenance works scheduled with third parties. As of 31 December 2023, works worth RON 48.87 million were contracted with third parties, with construction maintenance works with third parties worth RON 36.08 million.

In terms of capitalization works (CAPEX), until 31 December 2023, works worth RON 12.89 million were completed, representing 54.24% of the estimated capitalization works.

Construction maintenance works carried out in 2023, compared to 2022

Physical stage

Crt. No.	Branch	Cumulative 2023				Cumulative 2022			
		Number of estimated works according to the 2023 EAP	Number of contracted works	Number of completed works	Percent achievement 2023	Number of estimated works according to EAP 2022	Number of contracted works	Number of completed works	Achievement percentage 2022
1	IRON GATES	41	38	35	85.37%	42	30	29	69.05%
2	HATEG	55	54	48	87.27%	64	64	61	95.31%
3	BISTRITA	23	18	17	73.91%	43	25	18	41.86%
4	CURTEA DE ARGES	40	37	32	80.00%	39	38	32	82.05%
5	RAMNICU VALCEA	115	104	99	86.09%	94	59	55	58.51%
6	CLUJ	61	51	31	50.82%	30	26	24	80.00%
7	SEBES	61	55	51	83.61%	43	36	30	69.77%
8	WIND	21	21	0	0.00%	0	0	0	0.00%
9	EXECUTIVE	0	0	0	0.00%	0	0	0	0.00%
TOTAL		417	378	313	75.06%	355	278	249	70.14%

Source: Hidroelectrica

Value achievements

RON million

No. Crt.	Branch	Cumulative 2023				Cumulative 2022			
		Value of estimated works EAP 2023	Value of contracted works	Value of completed works	Percent achievement 2023	Value of estimated works 2022 EAP	Value of contracted works	Value of completed works	Achievement percentage 2022
1	IRON GATES	10.58	10.13	8.67	81.96%	12.25	8.13	5.24	42,78%
2	HATEG	5.34	4.21	2.96	55.41%	3	2.6	2.2	73,22%
3	BISTRITA	7.69	6.07	2.93	38.10%	9.37	5.58	2.29	24,42%
4	CURTEA DE ARGES	9.87	6.43	2.85	28.93%	7.78	7.54	7.22	92,71%
5	RAMNICU VALCEA	14.65	13.32	11.78	80.44%	6.92	5.32	4.95	71,57%
6	CLUJ	3.79	2.78	1.61	42.52%	2.49	1.4	1.23	49,22%
7	SEBES	6.21	5.73	5.27	85.00%	5.54	4.18	2.99	53,95%
8	WIND	0.4	0.2	0	0.00%	0	0	0	0,00%
9	EXECUTIVE	0	0	0	0.00%	0	0	0	0,00%
TOTAL		58.52	48.87	36.08	61.66%	47.35	34.75	26.11	55.14%

Source: Hidroelectrica

6.4. Investment Activity

The Investment Strategy of S.P.E.E.H. Hidroelectrica SA includes ongoing hydropower projects, new projects to diversify the business portfolio and projects for the refurbishment and modernization of structures, installations / systems, assemblies / subassemblies, equipment and components of electricity production capacities, classified in the category of fixed assets.

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

In this spirit, all development projects converge on green and sustainable production technologies. These, although they are mostly intended for the hydro area and for the development of the national hydrographic potential, are not limited here. The company is interested in investments in onshore and offshore wind farms, photovoltaic parks, biomass electricity production, hydrogen production by hydrolysis.

Hidroelectrica understands the priorities of NPS, as well as the urgent need to add new capacities to the national energy infrastructure and is willing to mobilize resources in this regard. In this regard, the company has proposed and is making sustained efforts to complete the investment objectives in various stages of execution and which would put in a relatively short term significant additional energy in the NPS.

The degree of implementation of the Investment Program for 2023 is presented in the following table:

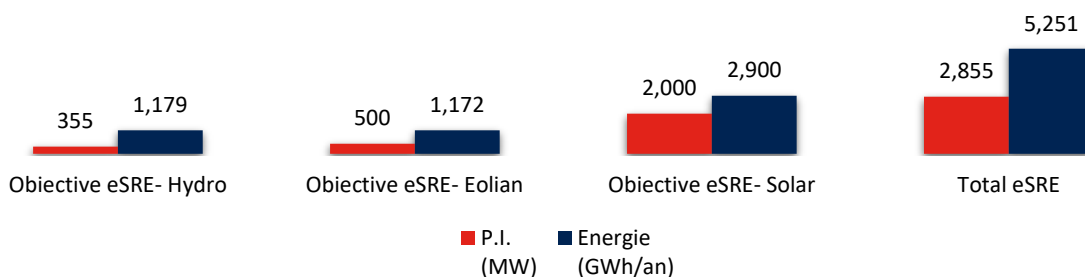
Activity	<i>million RON</i>					
	Approved 2023	Achieved 2023	Degree of achievement 2023 (%)	Approved 2022	Achieved 2022	Degree of achievement 2022 (%)
Development	192.35	57.98	30.28%	106.19	90.31	86.92%
Refurbishment*	89.93	67.30	75.77%	80.72	66.50	83.01%
Maintenance with equipment capitalization	57.92	47.95	82.78%	30.67	24.76	80.70%
Maintenance with capitalization of hyrotechnical constructions	23.76	12.89	54.25%	16.16	9.97	61.69%
Maintenance with capitalization works rehabilitation of administrative constructions	1.22	1.57	128.49%	3.30	1.71	52%
Other investment projects	27.68	1.33	4.79%	24.60	3.45	14.00%
Facilities	72.38	17.19	26.46%	68.02	8.13	11.95%
TOTAL	465.23	206.20	45.24%	329.66	204.82	62.68%

*The degree of achievement represents the reporting of the realized values to those allocated / budgeted from which the savings for 2023 amounting to RON 9.4 million, respectively for 2022, amounting to RON 2.9 million resulting from the performance of the refurbishment / modernization contracts were deducted.

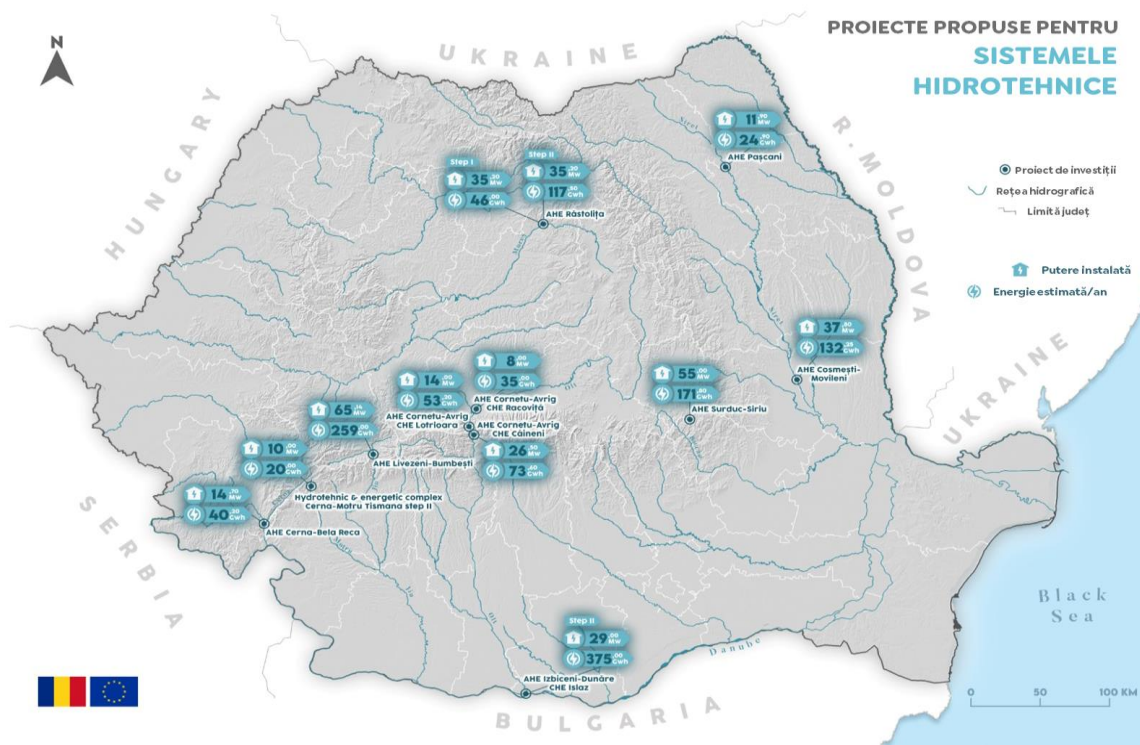
Source: Hidroelectrica

6.4.1. Development activity

Development objectives



A major direction of Hidroelectrica's investment policy is represented by the projects for the completion of production capacities in advanced stage of execution, approved in the elaborated multiannual budgets.



In the context of negotiations for RePower, Hidroelectrica included in the development budget a number of 10 investment objectives, objectives with complex functions, for which it is essential to allocate non-reimbursable funds, funds to cover at least partially their non-energy components.

Through the General Management Board for Environment of the European Commission, in the first part of 2023, Hidroelectrica was notified that non-reimbursable funds cannot be accessed for any of the 10 objectives, this notification having a major impact on the development activity.

In order to achieve the proposed and budgeted objectives, it was necessary to obtain land expropriation corridors necessary to build the objectives through HG. In 2023, the efforts to obtain expropriation corridors were continued, activity carried out in the following year, 2024.

In their absence, the development activity was significantly diminished, by executing works only in areas that allowed contracts to be carried out.

Hidroelectrica supports measures that actively lead to the restoration, reconnection or recreation of habitats where rare and endangered species of flora and fauna live, in order to make a net positive contribution to improving the ecological status of protected areas.

In this context, in order to complete AHE projects and develop projects, Hidroelectrica requested professional advice from the Ministry of Environment, Waters and Forests, as central public authority responsible for environmental protection, before continuing works or implementing new projects.

Following discussions with MMAP and in light of the new legislative regulations from an environmental point of view, Hidroelectrica decided to request the revision of the existing regulatory acts for the started and unfinished objectives, as well as to request all regulatory acts necessary for the implementation of new projects. Although environmental procedures are complex and lengthy, the company wants to carry out its activity in full compliance with national and European legislation on environmental protection.

During 2023, investment objectives related to Development Projects amount to RON 88.9 million were received, as follows:

		<i>million RON</i>
Branch	Investment project	PIF Value
SH Bistrita	AHE of Bistrița River on Borca-Poiana Teiului sector	3,7
SH Iron Gates	Additional protection measures for the Iron Gates I spillway dam dissipator	76,9
SH Sebeș	AHE of Olt River gorge on Cornetu-Avrig sector	8,3

6.4.2. Refurbishment activity

Hidroelectrica aims to make the most of all the opportunities offered by the energy sector, so for the period 2020 – 2025, the Investment Strategy of Hidroelectrica was approved, targeting: new hydropower projects in progress, refurbishment and modernization projects, new projects to diversify the business portfolio.

The refurbishment activity is carried out in accordance with the Hidroelectrica Refurbishment Strategy, defined and approved, which aims to "Define the SISC Refurbishment & Modernization Strategy (structures, installations [systems], assemblies, subassemblies, equipment and components of electricity production capacities, classified in the category of fixed assets, for which WFP applies) for the next 5 years, in order to ensure the refurbishment / modernization of SISC in a standardized and optimized manner across the company."

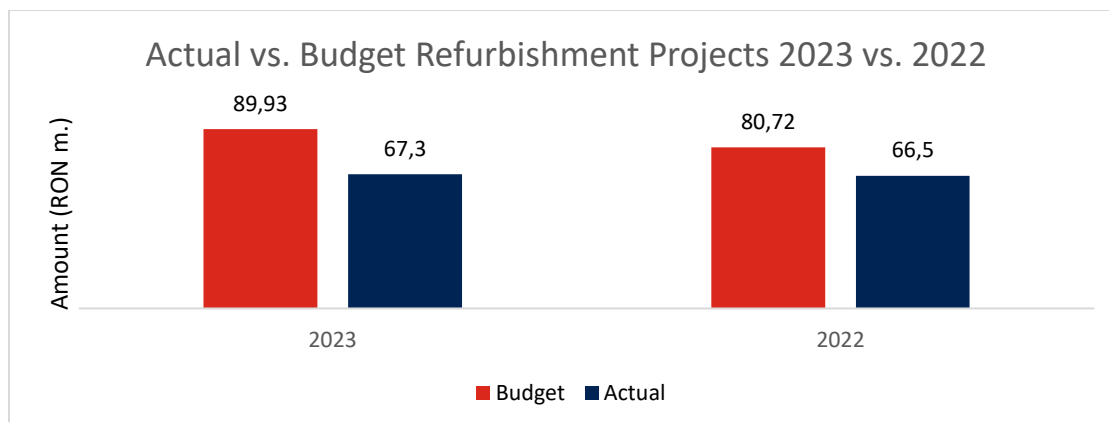
Thus, the refurbishment activity is permanently focused on continuing the program of promotion and development of projects for the modernization and refurbishment of hydropower objectives included in the company's Investment Strategy, while also pursuing their behavior during the warranty period.

In 2023, the refurbishment activity focused mainly on the preparation, promotion, contracting, development and commissioning of investment objectives related to refurbishment and modernization projects for power plants, hydroaggregates, as well as stations and related installations.

Thus, the documents necessary for the tender documentation for carrying out the procurement procedures for large refurbishments were prepared, such as Refurbishment of AHE Vidraru, Refurbishment of CHE Bradisor, Refurbishment of SH Valcea high-power energy pumping stations, procedures to be carried out in 2024, but also for upgrades of CHE-related power stations that have an important role in the implementation of the digitization program.

For investment objectives in different investment stages, all the necessary stages for the performance of contracts have been completed, respectively tracking the contractual phases in the stages of design, execution, commissioning, follow-up during the warranty period. Thus, contracts were carried out for the refurbishment of equipment in CHE Tismana Underground, 110kV and 20kV substations in CHE Ruieni, 10 110kV substations within SH Hațeg, 110kV substations within SH Rm. Valcea etc., the objectives being completed and put into operation. Total amount put in function of the investment objectives belonging to the Refurbishment activity during 2023 was of RON 132.8 million.

In 2023, investments in refurbishment projects were slightly above the previous year's level, with an increase of 1.21%, respectively from RON 66.5 million to RON 67.3 million.



Source: Hidroelectrica

6.5. Procurment

Procurement activity at Hidroelectrica and its subsidiaries is carried out in accordance with applicable laws, as well as internal procedures and regulations where applicable. The aim is to meet the needs for goods, services, and works necessary for the smooth operation of the Group's activities.

Hidroelectrica complies with sectoral procurement legislation, primarily Law no. 99/2016 on sectoral procurement and Government Decision no. 394/2016 approving the Methodological Norms for the application of the provisions regarding the award of the sectoral contract/framework agreement from Law no. 99/2016 on sectoral procurement.

6.6. Project Management

The Project Management Department of Hidroelectrica is the department with specialized competence in the professional management of projects, programs and portfolios of projects/programs whose complexity requires their management through project teams coordinated by Project Managers. The project management activity is carried out within the Program and Project Management Service (SMPP), which contains a pool of Project Managers who manage active projects within the Project Portfolio of S.P.E.E.H. Hidroelectrica S.A.

In 2023, the Project Management Department managed 8 development projects and 5 refurbishment-modernization projects, plus large-scale projects in the areas of:

- Corporate/Strategy – **IPO package owned by Fondul Proprietatea S.A.** – Listing on the Bucharest Stock Exchange.
- Information Technology / Digitization – Integrated information system for recording and processing information received, generated and transmitted within Hidroelectrica workflows – DMS (Document Management System)

- Asset Management - Leasing of a real estate asset required for changing the headquarters and conducting the activities of the executive staff of Hidroelectrica S.A.
- Exploitation/Production - Smart metering - data management from electricity meters installed in Hidroelectrica installations
- On 19 March 2023, a **Joint Venture Agreement ("JVA") was signed between ABU DHABI FUTURE ENERGY COMPANY PJSC - MASDAR ("Masdar") and Hidroelectrica**, to govern the relationship of the future partnership within a JOINT VENTURE COMPANY ("JVC"). The JVA is to be replaced by a Shareholder Agreement (SHA), which will be transposed into an Articles of Association ("AoA") allowing the incorporation of the above-mentioned entity ("JVC") as a joint stock company in Romania. These two documents (SHA & AoA) are currently in the negotiation phase between partners. JVC's field and object of activity: developing, investing, supporting the construction and operation of renewable energy projects in Romania and making capital investments in companies that own and operate Projects exclusively from the following technology categories:
 - Floating photovoltaic (Floating PV);
 - Offshore Wind - fixed and floating.

As a pilot project, 7 storage lakes and 7 hydropower facilities on the Olt River were chosen: Arcesti, Drăgășani, Frunzaru, Ipotești, Izbiceni, Rusinesti, Zavideni, on which floating photovoltaic devices with an estimated total capacity of 1,500MW would be mounted.

6.7. Mergers and Acquisitions ("M&A")

Hidroelectrica encourages diversification including through inorganic growth, M&A opportunities, acquisition of mature projects (at least in the "ready to build" stage).

The Company's specialized M&A project management service is responsible for examining and supervising M&A Company projects. Over the past three years, the Company has been able to increase its knowledge in the field of M&A, exploring M&A projects in its sector of activity in Romania.

On 8 December 2023, Hidroelectrica announced to its stakeholders the signing of the framework contract on Business Transfer from UCM Resita S.A. ("UCMR"), specialized in the manufacture and marketing of hydroaggregates and auxiliary equipment, as well as in the provision of maintenance services and specialized technical assistance in the energy field.

The transaction is part of the objectives assumed in Hidroelectrica's Investment Strategy, approved by the General Assembly of Hidroelectrica Shareholders in 2020. Within the Strategy, a main pillar is to maintain the high degree of availability of the plants in Hidroelectrica's portfolio by: (i) carrying out the maintenance program and (ii) implementing the modernization and refurbishment investment program in order to grant a new life cycle to the hydropower units in Hidroelectrica's portfolio.

The transaction aims to secure UCMR's asset base, unique in Southeastern Europe, with an essential role in streamlining maintenance and refurbishment, improving the availability of hydropower units, ensuring a more efficient management of Hidroelectrica's electricity generation assets, thus achieving consolidation of the maintenance function at group level.

The transaction allows Hidroelectrica to hold within the Group the equipment and know-how necessary to carry out the investment program in its own portfolio, thus benefiting from the joining of UCMR's equipment design and production capabilities with those of assembly and maintenance held by Hidroserv, with a positive effect on the control of costs and the execution time of the modernization, refurbishment and maintenance works.

Business Transfer includes taking over:

- ABC industrial production platform and partly Calnicel production platform;
- specialists in the field of design, technology and execution;
- know-how related to projects and documentation from its own archive;
- assets / endowments with machine tools and machinery necessary to execute both new, complex equipment and repairs and refurbishments of equipment in operation.

The transaction was completed following the fulfillment of condition precedent on 11 March 2024. The total price for the transfer of ownership of the Business and all assets falling within the scope of the Transaction is RON 67,879,000. See chapter '*Subsequent events*'.

6.8. Human Resources

The Human Resources activity is carried out in accordance with the Company's Management Plan in force and has as objectives the maintenance and development of professional experience, through:

- Optimizing and streamlining the organizational structure of the Company;
- Increasing human capital and periodic training / training of employees;
- Introduction of an integrated performance management system for employees;
- Improving staff development measures through courses and training.

Optimization and efficiency of the organizational structure of the Company

In the fourth quarter of 2023, the organizational structure of the Company valid for 22 November 2023, approved by the Supervisory Board and endorsed by the Company's Management Board was approved. The organizational structure of Hidroelectrica in force includes a number of 3,906 positions, of which 729 in the Executive and 3,177 in branches.

Evolution of the Company's personnel number

In the approved Income and expense budget (IEB) of 2023, the average number of employees is set at 3,640 and the staff at the end of the year at 3,686 employees.

As of 31 December 2023, the number of employees was 3,551 employees, of which 30 with suspended contracts. Of the 3,551 employees, 3,549 are full-time and 2 part-time.

As of 31 December 2022, the number of employees was 3,465 employees, of which 28 with suspended contracts. Of the 3,465 employees, 3,464 are full-time and 1 part-time.

Age groups	Employee structure as at 31.12.2023		Employee structure as at 31.12.2022	
	Average age/Categories	Nr. of employees	Average age/Categories	Nr. of employees
<30 years	26.4	221	26.6	209
31 – 40 years	36.1	587	36.1	569
41 – 50 years	45.7	975	45.6	922
51 – 60 years	55.3	1,613	55	1,633
>60 years	62.4	155	62.4	132

Source: Hidroelectrica

The average number of employees and the average monthly salary per employee (RON/employee) at Group level are presented as follows:

Hidroelectrica Group	2023	2022
Average number of employees	4,564	4,491
Average monthly salary per employee (RON/person) on the basis of salary expenses	12,109	10,404

Source: Hidroelectrica

Increasing human capital and periodic training/training of employees

Human capital is fundamental to achieving the company's objectives, so in the context of changes in the external environment it is necessary for it to transform the skills and performance of its employees into a competitive advantage. Developing and retaining valuable existing employees and recruiting new suitable human resources that will ensure the quality of human capital in the future.

During January to December 2023, a total of 468 completed recruitments (including competitions/interviews/practical tests) were conducted for a total of 635 positions, resulting in an occupancy rate of 75%.

Identifying key positions in the company and necessary skills

Identifying the necessary competencies for all positions within the company, including key positions, is continuously carried out through job descriptions that are prepared and updated in accordance with the current procedures within the company.

Implementation of social responsibility programs designed to attract young people to the hydropower profession (granting private scholarships, organizing professional competitions).

In 2023, social responsibility programs continued as follows:

- Granting private scholarships
- Providing financial support to students in the dual education program
- Involvement in organizing internships for students
- Internship

Increasing employee engagement, motivation and productivity

The effectiveness and labor productivity of the company's employees are key success factors for achieving the proposed results.

Performance management involves clearly defining goals and responsibilities, a motivated, engaged workforce (managers and experts/executive staff) and capable employees.

Degree of unionization of employees: Within Hidroelectrica, over 85% of employees are union members, the representative union at company level being Hidroelectrica Hidrosind Union. The working conditions are stipulated in the collective labor agreement valid until 2024.

The relationship between manager and employees: The hierarchical relationship between managers and employees of the company is regulated by the organizational structure approved at company level and by the job descriptions of employees.

Conflicting elements: Through the Internal Regulation - Code of Conduct in SPEEH Hidroelectrica SA were detailed provisions regarding:

- amicable settlement of individual labor disputes, individual requests or complaints of employees;
- rules on compliance with the principle of non-discrimination and elimination of any form of violation of dignity;
- concrete rules on labor discipline in the unit;
- disciplinary misconduct and applicable sanctions;
- rules relating to disciplinary proceedings.

In 2023, no significant labor conflicts were registered between employees and Hidroelectrica. These were individual and consisted of taking the company to court for reasons such as:

- recognition of superior work groups for periods worked by employees or former employees within Hidroelectrica in periods prior to 2001;

- annulment of sanctioning decisions issued by the company;
- appeal of the individual dismissal decision following the termination of the employee's position;
- claiming monetary rights.

6.9. Tangible assets

6.9.1. Location and main characteristics of production capacities

The company has seven hydroelectric branches:

- SH Bistrita,
- SH Cluj,
- SH Curtea de Arges,
- SH Hațeg,
- SH Iron Gates,
- SH Ramnicu Valcea,
- SH Sebeș,

and a branch that manages the Crucea wind farm, the most important for the Group in terms of their energy production capacities and shares in the Group's total energy production being the Iron Gates and Ramnicu Valcea.

Iron Gates Hydropower and Navigation System I

Hydropower and Navigation System ("S.H.E.N.") The Iron Gates I is located on the Danube at km 943 and was designed and executed in collaboration with the Serbian side.

The construction of the Iron Gates I System began on 7 September 1964, with the official inauguration of the site. The objective is symmetrical to the Danube axis and is composed of two hydroelectric power plants with six hydroegregates each with Kaplan high-capacity turbines, two locks with dimensions of 310 m x 34 m (one for each side) and a spillway dam with 14 spillway fields (7 for each side). The first objective put into operation on the Romanian side was the lock on 14 August 1969.

By their size and installed power, the aggregates in power plants were the largest of their kind in the world. Similarly, by the size of the chassis and by the fall, the locks at the Iron Gates I are included in the list of the largest constructions of this kind in the world.

Both at the plant and at the lock, in the last 15 years, refurbishment programs have been carried out, which have led to an increase in the installed power from 175 to 194.4 MW on each aggregate in the plant, an increase in the technical performance of equipment and installations, as well as an increase in operational safety.

The Iron Gates I Hydroelectric Power Plant has, after refurbishment, an annual project electricity production of 5,241 GWh in the average hydrological year, which represents about 10% of the national production. In addition, the plant provides almost half of the system technology services in Romania.

Iron Gates Hydropower and Navigation System II

The Iron Gates I Hydropower and Navigation System is located on the Danube at km 853, in the area of the Romanian island of Ostrovul Mare and was also designed and executed in collaboration with the Serbian side. The construction of the Iron Gates II system began in 1977.

The objective has a non-symmetrical configuration, the Danube being barred in two fronts (the main one on the main arm of the Danube and the second on the Gogosu arm). The objective consists of a base plant with 16 bulb units (8 for each part put into operation between 1984 and 1986), two additional power plants (operational since 1994, the Romanian one, respectively since 2000, the Serbian one), three locks (two on the Romanian side and one on the Serbian side) and two spillway dams (the Romanian one on the Gogosu arm, the Serbian one in the main barrage front).

The Romanian part of the base plant is at the last unit in the refurbishment program, the installed power increasing from 216 Mw before the refurbishment to 251.2 Mw after the refurbishment.

The additional power plant Romanian, located on the secondary arm of the Danube, is equipped with 2 bulb hydropower units, identical in interior disposition and constructive solutions to those in the base plant, has an installed capacity of 54 MW. The Gogosu plant, whose hydropower units will be refurbished, will reach an installed capacity of 62.8 MW after refurbishment.

The main parameters of hydroelectric power plants in the Danube Development are presented below:

- Iron Gates Hydropower and Navigation System I: $P_i = 6 \times 194.4$ MW, Kaplan turbines, medium production (GWh/year) = 5241;
- Iron Gates Hydropower and Navigation System II (base plant): $P_i = 8 \times 31.4$, bulb turbines, average production (GWh/year) = 1240;
- Iron Gates II – Gogoșu Hydropower and Navigation System (additional power plant): $P_i = 2 \times 27$, bulb turbines, average production (GWh/year) = 84.

Hydropower development of the Lotru River

The development of the hydropower potential of the Lotru River was carried out between 1965 and 1985 and is of particular importance because, through its 160 kilometers of transmission galleries and through a complex system of abstractions and derivatives, it concentrates the flows from the neighboring basins in a single accumulation, Vidra.

The average annual potential of the Lotru basin is 1,243 GWh, the energy recovery of the flows accumulated in Vidra Lake being achieved in three stages of fall between 1289 m and 300 m elevations, in Ciunget, Malaia and Bradisor power plants.

The main elements of the Lotru hydropower development are:

- 3 hydropower plants (Ciunget, Malaia, Brădișor) with a total installed capacity of 643 MW;
- 3 energy pumping stations (Petrimanu, Jidoaia, Lotru-Aval) with a total installed capacity of 61.5 MW;
- 7 dams, of which 5 concrete arch dams (Petrimanu, Galbenu, Jidoaia, Lotru-Aval, Bradisor) with heights between 42 and 62 m, a rock dam (Vidra) and a dam made of local materials (Malaia);
- 82 secondary catchments with a network of galleries of 160 km.

Hydropower development of Olt River – middle sector

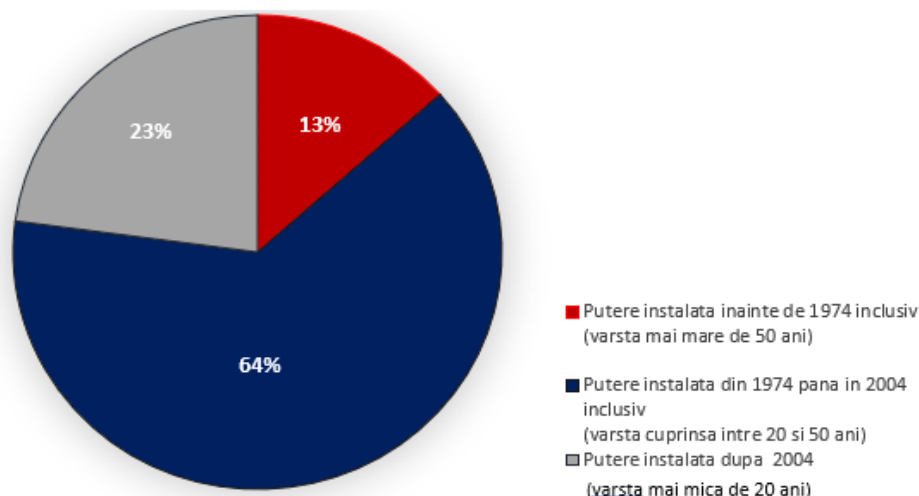
The hydropower potential of the Olt River is estimated at 1.9 GW, which represents 17% of the potential of inland rivers. The flow installed in hydropower plants increases as the river makes its way from its sources, from the top of the alpine peaks of the Hasmasul Mare Mountains, to the mouth into the Danube, reaching 330 cubic meters / s on the middle sector.

The hydropower development of Olt began in 1969, with the construction of the Ramnicu Valcea hydropower plant. On the middle sector of Olt there are 12 hydropower plants of plant-dam type, equipped with Kaplan turbines (Cornetu, Gura Lotrului, Turnu, Călimănești, Daești, Ramnicu Valcea, Răureni, Govora, Babeni, Ionesti, Zavideni, Drăgășani), a micro-hydroelectric power plant and 4 pumping stations behind the dam, with a total installed capacity of 501.9 MW and a project electricity production of 1475.32 GWh / year.

6.9.2. Degree of attrition of production capacities

Hidroelectrica currently operates a number of 418 hydropower units, which can be structured according to the average age from commissioning or refurbishment, according to the following figures:

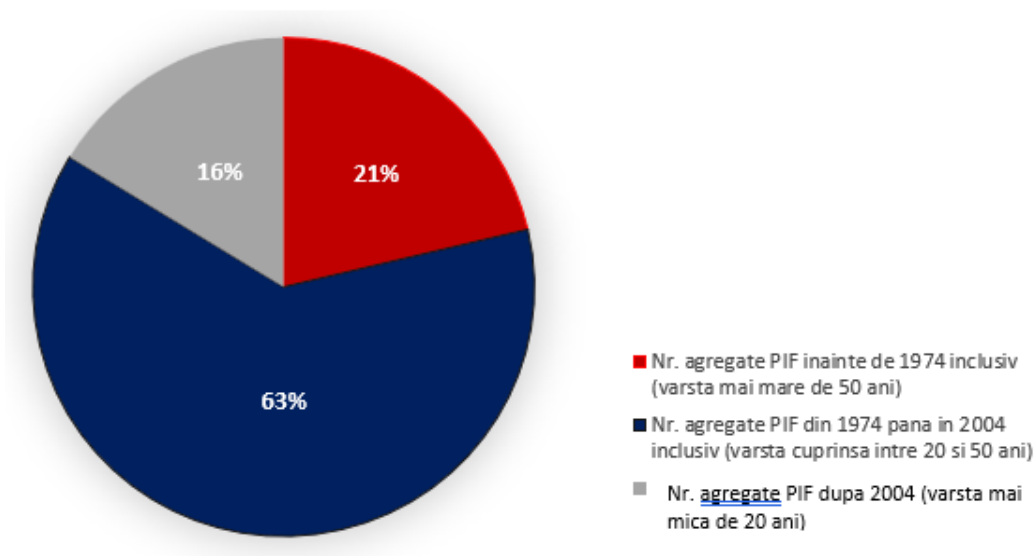
Average age - installed power



Source: Hidroelectrica

It can be seen that the installed power of new or refurbished hydropower units in the last 20 years represents about 23% of the total installed hydro power.

Average age - aggregate number



Source: Hidroelectrica

It is observed that the majority of hydro units (63%) were installed between 1974 and 2004 (with an age ranging from 20 to 50 years since commissioning), 16% being commissioned or refurbished after 2004, while 21% were commissioned before 1974.

6.8.3. Ownership of tangible assets

In November 1998 was issued Law nr. 213/1998 regulating the status of the public domain. This law provides that ownership of public property belongs to the state or local authorities, which may lease publicly owned property. In accordance with the provisions of Law nr. 213/1998 and Law no. 219/1998, the Ministry of Economy and Trade (currently the Ministry of Energy) leased to the Company the hydropower developments (dams, dams, locks, reservoirs) and the lands on which they are located. Thus, in December 2004 concession contract no. 171/27.12.2004 was concluded between the Ministry of Economy and Trade (currently the Ministry of Energy) (grantor) and the Company (concessionaire) for hydropower assets in public patrimony as at 31 December 2003.

The main clauses of the concession contract and its subsequent amendments are as follows:

- The State, through the Ministry of Economy and Commerce (currently the Ministry of Energy), holds ownership of the public domain assets that are the object of the contract;
- The company has the right to use these assets for a period of 49 years from the date of signing (the period may be extended in accordance with the provisions of the law on concessions, by half of the initial period, by mutual agreement of the parties), for the purpose of exploitation, rehabilitation, modernization, refurbishment, as well as the construction of new hydropower facilities, according to investment programs;
- The company pays an annual royalty of 1/1000 of the annual revenues from electricity production and system services produced in hydropower plants;
- Upon termination of the contract, certain assets that have been used by the concessionaire in the performance of the concession will be returned to the grantor as explained below;
- The company has the obligation to use the assets in accordance with the provisions of the concession agreement and the operating license.

The concession contract includes the following types of assets:

- Return goods – assets in the public domain belonging to the grantor and returned to the grantor in full, free of charge and free of any encumbrance, upon termination of the concession contract. The return goods are assets in the public domain such as dams, locks, which are subject to concession / leasing, as well as those resulting from investments / modernizations of these assets made by the Company during the concession contract. The company depreciates these assets for the minimum period between the remaining period of the concession contract and the useful life of those assets.
- Take-over goods – assets belonging to the concessionaire and used by the concessionaire during the concession period and which are similar in nature to the above public domain assets (land improvements, buildings, special installations and technological equipment), over which, upon termination of the concession contract, the grantor has the option of taking over in return for a payment equal to the 'present book value' at the takeover date. In the Company's interpretation, "present carrying amount" is the net carrying amount at the takeover date and, as the Company uses the revaluation model, this amount will be the amount revalued at that date. These assets are depreciated over their estimated useful life.
- Own property – assets which, upon termination of the concession contract, remain the property of the concessionaire. Own property is the assets (constructions, special installations, technological equipment, measuring and control devices, means of transport, furniture, office equipment, protective equipment and other tangible assets) belonging to the concessionaire and used by him during the concession period, except for take-over goods. These assets are depreciated over their estimated useful life.

7. Financial Results for 2023

7.1. Financial indicators

Financial indicators are calculated on the basis of consolidated financial statements prepared in accordance with IFRS-EU

Indicators	RON million			
	2023	2022	Variation (%)	2021
Revenue	12,160	9,452	29%	6,489
EBITDA	8,016	5,985	34%	4,506
Operating profit	7,200	5,208	38%	3,756
Profit for the period	6,365	4,464	43%	3,116
Basic and diluted earnings per share (RON)	14.17	9.95	42%	6.95

Source: Hidroelectrica

Indicators	Calculation mode	2023	2022	2021
Current liquidity indicator	Current assets/Current liabilities	7.50	5.21	4.48
Degree of indebtedness	Borrowed capital/Own capital x 100	1.84	2.32	3.08
Degree of indebtedness	Borrowed capital/capital employed x 100	1.80	2.26	2.99
Receivables turnover	Average Receivable balance/Revenue x 365	66.02	38.89	28.17
Fixed assets turnover	Revenue/Fixed assets	0.58	0.47	0.36

Source: Hidroelectrica

Net Debt/ (Cash) Adjusted

	RON million			
	2023	2022	Variation (%)	2021
Bank borrowings	394	484	-19%	578
Lease liabilities	66	15	330%	13
Cash and cash equivalents	(408)	(661)	-38%	(1,105)
Short-term Investments (investments in deposits)	(4,349)	(3,035)	43%	(2,561)
Adjusted Net Debt/(Cash)	(4,297)	(3,196)	34%	(3,075)
Adjusted EBITDA	8,253	6,009	37%	4,834
Adjusted Net Debt/(Cash) to Adjusted EBITDA Ratio	(0.52)	(0.53)	-2%	(0.64)

Source: Hidroelectrica

Financial indicators calculated on the basis of consolidated financial statements prepared in accordance with OMFP nr. 2844/2016

Indicators	RON million			
	2023	2022	Variation (%)	2021
Revenue	12,160	9,452	29%	6,489
EBITDA	8,016	5,787	39%	4,323
Operating profit	7,200	5,011	44%	3,572
Profit for the period	6,365	4,461	43%	3,086
Basic and diluted earnings per share (RON)	14.17	9.95	42%	6.88

Source: Hidroelectrica

Indicators	Calculation mode	2023	2022	2021
Current liquidity indicator	Current assets/Current liabilities	7.50	5.21	4.63
Degree of indebtedness	Borrowed capital/Own capital x 100	1.83	2.31	3.07
Degree of indebtedness	Borrowed capital/capital employed x 100	1.80	2.26	2.98
Receivables turnover	Average Receivable balance/Revenue x 365	66.01	38.87	28.80
Fixed assets turnover	Revenue/Fixed assets	0.58	0.47	0.35

Source: Hidroelectrica

Net Debt/ (Cash) Adjusted

	RON million			
	2023	2022	Variation (%)	2021
Bank borrowings	394	484	-19%	578
Lease liabilities	66	15	330%	13
Cash and cash equivalents	(408)	(661)	-38%	(1,105)
Short-term Investments (investments in deposits)	(4,349)	(3,035)	43%	(2,561)
Adjusted Net Debt/(Cash)	(4,297)	(3,196)	34%	(3,076)
Adjusted EBITDA	8,253	5,933	39%	4,700
Adjusted Net Debt/(Cash) to Adjusted EBITDA Ratio	(0,52)	(0,54)	-3%	(0,68)

Source: Hidroelectrica

Financial indicators calculated on the basis of individual financial statements prepared in accordance with OMFP no. 2844/2016

Indicators	RON million			
	2023	2022	Variation (%)	2021
Revenue	12,159	9,212	32%	6,323
EBITDA	7,996	5,664	41%	4,230
Operating profit	7,178	4,902	46%	3,478
Profit for the period	6,352	4,394	45%	3,020
Basic and diluted earnings per share (RON)	14.14	9.80	44%	6.73

Source: Hidroelectrica

Indicators	Calculation mode	2023	2022	2021
Current liquidity indicator	Current assets/Current liabilities	7.46	5.26	4.69
Degree of indebtedness	Borrowed capital/Own capital x 100	1.84	2.30	3.02
Degree of indebtedness	Borrowed capital/capital employed x 100	1.80	2.25	2.94
Receivables turnover	Average Receivable balance/Revenue x 365	65.96	39.66	29.12
Fixed assets turnover	Revenue/Fixed assets	0.58	0.46	0.34

Source: Hidroelectrica

Net Debt/ (Cash) Adjusted

	RON million			
	2023	2022	Variation (%)	2021
Bank borrowings	394	483	-19%	574
Lease liabilities	66	15	330%	5
Cash and cash equivalents	(378)	(642)	-41%	(1,028)
Short-term Investments (investments in deposits)	(4,349)	(3,035)	43%	(2,561)
Adjusted Net Debt/(Cash)	(4,268)	(3,178)	34%	(3,011)
Adjusted EBITDA	8,225	5,795	42%	4,604
Adjusted Net Debt/(Cash) to Adjusted EBITDA Ratio	(0.52)	(0.55)	-5%	(0.65)

Source: Hidroelectrica

7.2. Breakdown of revenue

A. According to the consolidated financial statements prepared in accordance with IFRS-EU

		2023	2022	Variation (%)	2021
Generation Energy Sold (Net)	GWh	17,639	13,544	30%	16,716
External Acquisitions	GWh	1,699	1,000	70%	638
Total Energy Sold	GWh	19,338	14,544	33%	17,354
<hr/>					
Wholesale market Energy Sold	GWh	12,665	10,295	23%	15,604
Average Wholesale Price	RON / MWh	487	532	-8%	299
Wholesale market revenues	RON million	6,172	5,474	13%	4,668
<hr/>					
Supply Energy Sold	GWh	6,239	3,676	70%	1,029
Average Supply Price (ex transferred costs - pass through ¹)	RON / MWh	551	414	33%	309
	RON million	3,438	1,522	126%	318
Supply revenues related to active energy					
	RON million	1,498	627	139%	99
<hr/>					
Transferred costs (pass through revenues)					
<hr/>					
Balancing	GWh	433	574	-25%	721
Average Balancing Price	RON / MWh	1,310	2,521	-48%	1,330
Balancing Revenues	RON million	567	1,447	-61%	959
<hr/>					
System Services (STS) Revenues					
	RON million	151	65	132%	29
<hr/>					
Other revenues from customer contracts					
	RON million	12,160	9,452	29%	6,489

Source: Hidroelectrica

Generation Energy Sold (Net)

The energy produced and sold (net) increased by 30% (17,639 GWh) in the year ended on 31 December 2023 from 13,544 GWh in 2022. This increase was mainly due to the improvement of hydrological conditions in 2023 compared to 2022, the quantity of energy produced in 2023 being above the multiannual average.

¹ Revenues from the Group's supply segment include pass through costs, which are: green certificate costs, costs of transporting and distributing electricity, costs of introducing the electricity to the grid, and system servicing costs. The Group also categorizes its revenues corresponding to these pass-through costs as **pass through revenue**.

Wholesale market Revenues

Considering the surplus production of 30% compared to the same period of the previous year, combined with the new operating conditions of the wholesale market (implemented starting from 1 January 2023 of MACEE), the revenue related to these transactions registered a 13% increase in 2023 compared to 2022. This increase was influenced by a decrease of aprox 60% of SPOT price in 2023 compared to 2022 .

Supply Revenues

The revenues from the power supply activity increased by 126%, to RON 3,438 million revenues in the year ended 31 December 2023, from RON 1,522 million revenues in 2022. This evolution of revenues is due to both the increase in the portfolio of clients and the increase in the average selling price.

Transferred costs (pass through revenues)

The transfer costs related to the supply of electricity increased by 139%, to RON 1,498 million in the year ended 31 December 2023, from RON 627 million in 2022. The increase in these costs is directly proportional to the increase in the client portfolio to which the increase in regulated tariffs is added.

Balancing Revenues

Revenues from Balancing decreased by 61%, from RON 567 million in the year ended 31 December 2023, from RON 1,447 million in 2022. The decrease is caused by the decrease in the amount of energy related to the Balancing Market from 574 GWh to 433 GWh, as well as by the decrease in the price on the Balancing Market from 2,521 RON / MWh to 1,310 RON / MWh for the year ended 31 December 2023.

Other revenues from customer contracts

Other revenues refer to revenues related to the services provided based on contracts with clients, other than the revenues from the sale of electricity.

During the reporting period, other revenues represent mainly services provided by the Company as the Party Responsible for Balancing. The evolution of these revenues is influenced by the behavior of all participants in the electricity market regarding the management of imbalances.

B. According to the consolidated financial statements prepared in accordance with OMF 2844/2016

		2023	2022	Variation (%)	2021
Generation Energy Sold (Net)	GWh	17,639	13,544	30%	16,716
External Acquisitions	GWh	1,699	1,000	70%	638
Total Energy Sold	GWh	19,338	14,544	33%	17,354
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Wholesale market Energy Sold	GWh	12,665	10,295	23%	15,604
Average Wholesale Price	RON / MWh	487	532	-8%	299
Wholesale market revenues	RON million	6,172	5,474	13%	4,668
<hr/>					
	GWh				
Supply Energy Sold	RON / MWh	6,239	3,676	70%	1,029
Average Supply Price (ex transferred costs - pass through ²)	RON / MWh				
	RON million	551	414	33%	309
Supply revenues related to active energy		3,438	1,522	126%	318
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	RON million				
Transferred costs (pass through revenues)		1,498	627	139%	99
<hr/>					
	GWh				
Balancing	RON / MWh	433	574	-25%	721
Average Balancing Price	RON million	1,310	2,521	-48%	1,330
Balancing Revenues		567	1,447	-61%	959
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	RON million				
System Services (STS) Revenues		334	317	5%	416
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	RON million				
Other revenues from customer contracts		151	65	132%	29
<hr/>					
	RON million				
Generation Energy Sold (Net)	GWh	12,160	9,452	29%	6,489

Source: Hidroelectrica

Generation Energy Sold (Net)

The energy produced and sold (net) increased by 30% (17,639 GWh) in the year ended on 31 December 2023 from 13,544 GWh in 2022. This increase was mainly due to the improvement of hydrological conditions in 2023 compared to 2022, the quantity of energy produced in 2023 being above the multiannual average.

² Revenues from the Group's supply segment include pass through costs, which are: green certificate costs, costs of transporting and distributing electricity, costs of introducing the electricity to the grid, and system servicing costs. The Group also categorizes its revenues corresponding to these pass-through costs as **pass through revenue**.

Wholesale market Revenues

Considering the surplus production of 30% compared to the same period of the previous year, combined with the new operating conditions of the wholesale market (implemented starting from 1 January 2023 of MACEE), the revenue related to these transactions registered a 13% increase in 2023 compared to 2022. This increase was influenced by a decrease of aprox 60% of SPOT price in 2023 compared to 2022 (.

Supply Revenues related to active energy

The revenues from the electricity supply activity increased by 126%, to RON 3,438 million revenues in the year ended 31 December 2023, from RON 1,522 million revenues in 2022. This evolution of revenues is due to both the increase in the portfolio of clients and the increase in the average selling price.

Transferred costs (pass trough revenues)

The transfer costs related to the supply of electricity increased by 139%, to RON 1,498 million in the year ended 31 December 2023, from RON 627 million in 2022. The increase in these costs is directly proportional to the increase in the client portfolio to which the increase in regulated tariffs is added.

Balancing Revenues

Revenues from Balancing decreased by 61%, from RON 567 million in the year ended 31 December 2023, from RON 1,447 million in 2022. The decrease is caused by the decrease in the amount of energy related to the Balancing Market from 574 GWh to 433 GWh, as well as by the decrease in the price on the Balancing Market from 2,521 RON / MWh to 1,310 RON / MWh for the year ended 31 December 2023.

Other revenues from customer contracts

Other revenues refer to revenues related to the services provided based on contracts with clients, other than the revenues from the sale of electricity.

During the reporting period, other revenues represent mainly services provided by the Company as the Party Responsible for Balancing. The evolution of these revenues is influenced by the behavior of all participants in the electricity market regarding the management of imbalances.

C. According to the separate financial statements prepared in accordance with OMFP 2844/2016

		2023	2022	Variation (%)	2021
Generation Energy Sold (Net)	GWh	17,639	13,245	33%	16,517
External Acquisitions	GWh	1,699	1,088	56%	598
Total Energy Sold	GWh	19,338	14,333	35%	17,116
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Wholesale market Energy Sold	GWh	12,665	10,082	26%	15,366
Average Wholesale Price	RON / MWh	487	522	-7%	295
Wholesale market revenues	RON million	6,172	5,258	17%	4,526
<hr/>					
	GWh				
Supply Energy Sold	RON / MWh	6,239	3,677	70%	1,029
Average Supply Price (ex transferred costs - pass through ³)	RON / MWh				
	RON million	551	414	33%	310
Supply revenues related to active energy		3,438	1,523	126%	319
<hr/>					
	RON million				
Transferred costs (pass through revenues)		1,498	627	139%	99
<hr/>					
	GWh				
Balancing	RON / MWh	433	574	-25%	721
Average Balancing Price	RON million	1,310	2,521	-48%	1,330
Balancing Revenues		567	1,447	-61%	959
<hr/>					
	RON million				
System Services (STS) Revenues		334	317	5%	416
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	RON million				
Other revenues from customer contracts		150	40	275%	3
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	RON million				
Generation Energy Sold (Net)	GWh	12,159	9,212	32%	6,323

Source: Hidroelectrica

Generation Energy Sold (Net)

The energy produced and sold (net) increased by 33% (17,639 GWh) in the year ended on 31 December 2023 from 13,245 GWh in 2022. This increase was mainly due to the improvement of hydrological conditions in 2023 compared to 2022, the quantity of energy produced in 2023 being above the multiannual average.

Wholesale market Revenues

³ Revenues from the Group's supply segment include pass through costs, which are: green certificate costs, costs of transporting and distributing electricity, costs of introducing the electricity to the grid, and system servicing costs. The Group also categorizes its revenues corresponding to these pass-through costs as **pass through revenue**.

Considering the surplus production of 33% compared to the same period of the previous year, combined with the new operating conditions of the wholesale market (implementation starting from 1 January 2023 of MACEE), as well as with the variation of the SPOT price in 2023 compared to 2022 (60% decrease) and the merger between Hidroelectrica and Crucea Wind Farm at the end of 2022, the revenue related to these transactions registered a 17% increase in 2023 compared to 2022.

Supply Revenues related to active energy

The revenues from the electricity supply activity increased by 126%, to RON 3,438 million revenues in the year ended 31 December 2023, from RON 1,523 million revenues in 2022. This evolution of revenues is due to both the increase in the portfolio of clients and the increase in average selling price.

Transferred costs (pass trough)

The transfer costs related to the supply of electricity increased by 139%, to RON 1,498 million in the year ended 31 December 2023, from RON 627 million in 2022. The increase in these costs is directly proportional to the increase in the client portfolio to which the increase in regulated tariffs is added.

Balancing Revenues

Revenues from Balancing decreased by 61%, from RON 567 million in the year ended 31 December 2023, from RON 1,447 million in 2022. The decrease is caused by the decrease in the amount of energy related to the Balancing Market from 574 GWh to 433 GWh, as well as by the decrease in the price on the Balancing Market from 2,521 RON / MWh to 1,310 RON / MWh for the year ended 31 December 2023.

Other revenues from customer contracts

Other revenues refer to revenues related to the services provided based on contracts with clients, other than the revenues from the sale of electricity.

During the reporting period, other revenues represent mainly services provided by the Company as the Party Responsible for Balancing. The evolution of these revenues is influenced by the behavior of all participants in the electricity market regarding the management of imbalances.

7.3. Operating Expenses

A. According to consolidated financial statements prepared in accordance with IFRS-EU

	2023	2022	Variation	2021
<i>Cost breakdown</i>	RONm.	RONm.	(%)	RONm.
Turbinated water	639	451	42%	540
Employee benefits expenses	717	631	14%	590
Transport and distribution of electricity	1,208	498	142%	110
Electricity purchased	456	697	-35%	90
Green certificates expenses	297	183	62%	54
Depreciation and amortization	799	772	4%	761
Impairment loss on property, plant and equipment	237	24	892%	359
Impairment loss on trade receivables	80	43	84%	11
Repair, maintenance, materials and consumables	85	82	4%	71
Tax for electricity producers	225	672	-66%	133
Other operating expenses	251	236	6%	189

Source: Hidroelectrica

Turbinated water

Turbinated water expenses increased by 42%, to RON 639 million in the year ended 31 December 2023 from RON 451 million in 2022. This increase was mainly caused by the increase in the amount of processed water used to produce electricity, as well as the increase in the tariff set by ANAR to RON 1.40 per thousand cubic meters until 12 June 2023 from RON 1.23 per thousand cubic meters in 2022.

On 12 June 2023, emergency ordinance no. 52/2023 according to which the tariff for processed water was set at 37 RON/MWh produced. The new tariff is applied starting from 12 June 2023.

Employee benefits expenses

Employees benefits expenses increased by 14% to RON 717 million in the year ended 31 December 2023, from RON 631 million in 2022. This increase reflects mainly the salary increases resulting from the negotiations had with the employees' union against the background of a double-digit inflation recorded at the end of 2022 but also due to the increase in the actual number of employees of the Group.

Transport and distribution of electricity

Electricity transport and distribution expenses increased by 142% to RON 1,208 million in the year ended 31 December 2023, from RON 498 million in 2022. This increase is due to the evolution of the quantities delivered on the portfolio of supply and of the regulated tariffs.

Electricity purchased

The electricity purchased decreased by 35% in the year ended 31 December 2023 to RON 456 million from RON 697 million in 2022. This decrease is due to the decrease in the average purchase price of electricity in 2023.

Green certificates expenses

Expenses with green certificates increased by 62% in the year ended 31 December 2023, to RON 297 million from RON 183 million in 2022. This increase is due to the need to purchase Green Certificates through the Centralized Anonymous Spot Market for Green Certificates to cover the consumption of final customers in the supply portfolio of Hidroelectrica S.A.

At the same time the company generated from its own production portfolio green certificates (GC) in the number of:

- 33,093 GC from hydropower plants for the year ended 31 December 2023, compared to 86,319 GC in 2022;
- 251,242 GC from wind power plants for year ended 31 December 2023, compared to 224,156 GC in 2022;

The average price for the year ended 31 December 2023 is 144.99 RON/GC.

The total value of GCs obtained in the year ended 31 December 2023 is RON 41 million.

Impairment loss on property, plant and equipment and intangible assets, net

Impairment loss on property, plant and equipment increased by 892% to RON 237 million for the year ended 31 December 2023, from RON 24 million in 2022. This increase was mainly caused by the impairment test performed in assets under construction at the end of 2023 due to the change in the assumptions used on future prices of electricity and by the update of the work schedule until completion, as well as the revaluation of assets at the end of 2023, resulting in a net loss.

Impairment loss on trade receivables, net

Impairment losses on trade receivables increased by 84% to RON 80 million in the year ended 31 December 2023, from RON 43 million in 2022. This increase was mainly caused by the increase in the Group's supply activity.

Tax for electricity producers

The tax for electricity producers decreased by 66% to RON 225 million in the year ended 31 December 2023 from RON 672 million in 2022. This decrease was mainly caused by the implementation of the centralized purchase mechanism through which the electricity producers will sell the amount of electricity available to the market operator, OPCOM, at the fixed price of 450 RON/MWh starting on 1 January 2023, and the decrease in electricity sales prices in 2023 compared to 2022.

**B. According to the consolidated financial statements prepared in accordance with OMFP
2844/2016**

	2023	2022	Variation	2021
<i>Cost breakdown</i>	<i>RONm.</i>	<i>RONm.</i>	<i>(%)</i>	<i>RONm.</i>
Turbined water	639	451	42%	540
Employee benefits expenses	728	626	16%	587
Transport and distribution of electricity	1,208	498	142%	110
Electricity purchased	456	697	-35%	90
Green certificates expenses	297	183	62%	52
Depreciation and amortization	799	772	4%	761
Impairment loss on property, plant and equipment	237	146	62%	408
Impairment loss on trade receivables	80	43	87%	20
Repair, maintenance, materials and consumables	85	82	4%	71
Tax for electricity producers	225	672	-66%	133
Other operating expenses	240	338	-29%	354

Source: Hidroelectrica

Turbined water

Turbined water expenses increased by 42%, to RON 639 million in the year ended 31 December 2023 from RON 451 million in 2022. This increase was mainly caused by the increase in the amount of processed water used to produce electricity, as well as the increase in the tariff set by ANAR to RON 1.40 per thousand cubic meters until 12 June 2023 from RON 1.23 per thousand cubic meters in 2022.

On 12 June 2023, emergency ordinance no. 52/2023 according to which the tariff for processed water was set at 37 RON/MWh produced. The new tariff is applied starting from 12 June 2023.

Employee benefits expenses

Employees benefits expenses increased by 16% to RON 728 million in the year ended 31 December 2023, from RON 626 million in 2022. This increase reflects mainly the salary increases resulting from the negotiations had with the employees' union against the background of a double-digit inflation recorded at the end of 2022 but also due to the increase in the actual number of employees of the Group.

Transport and distribution of electricity

Electricity transport and distribution expenses increased by 142% to RON 1,208 million in the year ended 31 December 2023, from RON 498 million in 2022. This increase is due to the evolution of the quantities delivered on the portfolio of supply and of the regulated tariffs.

Electricity purchased

The electricity purchased decreased by 35% in the year ended 31 December 2023 to RON 456 million from RON 697 million in 2022. This decrease is due to the decrease in the average purchase price of electricity in 2023.

Green certificates expenses

Expenses with green certificates increased by 62% in the year ended 31 December 2023, to RON 297 million from RON 183 million in 2022. This increase is due to the need to purchase Green Certificates through the Centralized Anonymous Spot Market for Green Certificates to cover the consumption of final customers in the supply portfolio of Hidroelectrica S.A.

At the same time the company generated from its own production portfolio green certificates (GC) in the number of:

- 33,093 GC from hydropower plants for the year ended 31 December 2023, compared to 86,319 GC in 2022;
- 251,242 GC from wind power plants for year ended 31 December 2023, compared to 224,156 GC in 2022;

The average price for the year ended 31 December 2023 is 144.99 RON/GC.

The total value of GCs obtained in the year ended 31 December 2023 is RON 41 million.

Impairment loss on property, plant and equipment and intangible assets, net

Impairment loss on property, plant and equipment increased by 62% to RON 237 million for the year ended 31 December 2023, from RON 146 million in 2022. This increase was mainly caused by the impairment test performed in assets under construction at the end of 2023 due to the change in the assumptions used on future prices of electricity and by the update of the work schedule until completion, as well as the revaluation of assets at the end of 2023, resulting in a net loss.

Impairment loss on trade receivables, net

Impairment losses on trade receivables increased by 87% to RON 80 million in the year ended 31 December 2023, from RON 43 million in 2022. This increase was mainly caused by the increase in the Group's supply activity.

Tax for electricity producers

The tax for electricity producers decreased by 66% to RON 225 million in the year ended 31 December 2023 from RON 672 million in 2022. This decrease was mainly caused by the implementation of the centralized purchase mechanism through which the electricity producers will sell the amount of electricity available to the market operator, OPCOM, at the fixed price of 450 RON/MWh starting on 1 January 2023, and the decrease in electricity sales prices in 2023 compared to 2022.

Other operating expenses

Other operating expenses decreased by 29% to RON 240 million in the year ended 31 December 2023 from RON 338 million in 2022. This decrease was mainly caused by the decommissioning provision registered in 2022.

C. According to the separate financial statements prepared in accordance with OMFP 2844/2016

	2023	2022	Variation	2021
<i>Cost breakdown</i>	<i>RONm.</i>	<i>RONm.</i>	<i>(%)</i>	<i>RONm.</i>
Turbinated water	639	451	42%	540
Employee benefits expenses	605	514	18%	488
Transport and distribution of electricity	1.208	497	143%	110
Electricity purchased	456	740	-38%	71
Green certificates expenses	297	164	81%	34
Depreciation and amortization	795	741	7%	737
Impairment loss on property, plant and equipment	236	146	62%	394
Impairment loss on trade receivables	80	43	85%	19
Repair, maintenance, materials and consumables	246	198	24%	178
Tax for electricity producers	225	557	-60%	113
Other operating expenses	229	323	-29%	339

Source: Hidroelectrica

Turbinated water

Turbinated water expenses increased by 42%, to RON 639 million in the year ended 31 December 2023 from RON 451 million in 2022. This increase was mainly caused by the increase in the amount of processed water used to produce electricity, as well as the increase in the tariff set by ANAR to RON 1.40 per thousand cubic meters until 12 June 2023 from RON 1.23 per thousand cubic meters in 2022.

On 12 June 2023, emergency ordinance no. 52/2023 according to which the tariff for processed water was set at 37 RON/MWh produced. The new tariff is applied starting from 12 June 2023.

Employee benefits expenses

Employees benefits expenses increased by 18% to RON 605 million in the year ended 31 December 2023, from RON 514 million in 2022. This increase reflects mainly the salary increases resulting from the negotiations had with the employees' union against the background of a double-digit inflation recorded at the end of 2022 but also due to the increase in the actual number of employees of the Company.

Transport and distribution of electricity

Electricity transport and distribution expenses increased by 143% to RON 1,208 million in the year ended 31 December 2023, from RON 497 million in 2022. This increase is due to the evolution of the quantities delivered on the portfolio of supply and of the regulated tariffs.

Electricity purchased

The electricity purchased decreased by 38% in the year ended 31 December 2023 to RON 456 million from RON 740 million in 2022. This decrease is due to the decrease in the average purchase price of electricity in 2023.

Green certificates expenses

Expenses with green certificates increased by 81% in the year ended 31 December 2023, to RON 297 million from RON 164 million in 2022. This increase is due to the need to purchase Green Certificates through the Centralized Anonymous Spot Market for Green Certificates to cover the consumption of final customers in the supply portfolio of Hidroelectrica S.A.

At the same time the company generated from its own production portfolio green certificates (GC) in the number of:

- 33,093 GC from hydropower plants for the year ended 31 December 2023, compared to 86,319 GC in 2022;
- 251,242 GC from wind power plants for year ended 31 December 2023

The average price for the year ended 31 December 2023 is 144.99 RON/GC.

The total value of GCs obtained in the year ended 31 December 2023 is RON 41 million, to which is added the GC balance of RON 50 million that the Company benefited from, as a result of the merger between Hidroelectrica and Crucea Wind Farm S.A.

Impairment loss on property, plant and equipment and intangible assets, net

Impairment loss on property, plant and equipment increased by 62% to RON 236 million for the year ended 31 December 2023, from RON 146 million in 2022. This increase was mainly caused by the impairment test performed in assets under construction at the end of 2023 due to the change in the assumptions used on future prices of electricity and by the update of the work schedule until completion, as well as the revaluation of assets at the end of 2023, resulting in a net loss.

Impairment loss on trade receivables, net

Impairment losses on trade receivables increased by 85% to RON 80 million in the year ended 31 December 2023, from RON 43 million in 2022. This increase was mainly caused by the increase in the Company's supply activity.

Tax for electricity producers

The tax for electricity producers decreased by 60% to RON 225 million in the year ended 31 December 2023 from RON 672 million in 2022. This decrease was mainly caused by the implementation of the centralized purchase mechanism through which the electricity producers will sell the amount of electricity available to the market operator, OPCOM, at the fixed price of 450 RON/MWh starting on 1 January 2023, and the decrease in electricity sales prices in 2023 compared to 2022.

Other operating expenses

Other operating expenses decreased by 29% to RON 229 million in the year ended 31 December 2023 from RON 323 million in 2022. This decrease was mainly caused by the decommissioning provision registered in 2022.

7.4. Cashflow

A. According to consolidated financial statements prepared in accordance with IFRS-EU

	2023	2022	Variation	2021
	RONm.	RONm.	%	RONm.
Net cash from operating activities	5,425	4,235	28%	4,048
Net cash used in investing activity	(1,229)	(751)	64%	(1,542)
Net cash used in financing activities	(4,448)	(3,929)	13%	(1,756)
Net increase/(decrease) in cash and cash equivalents	(253)	(444)	-43%	750
Cash and cash equivalents at 1 January	661	1,105	-40%	355
Cash and cash equivalents at 31 December	408	661	-38%	1,105

Source: Hidroelectrica

Net cash from operating activities

Net cash from operating activities amounted to RON 5,425 million for the year ended 31 December 2023 as compared to net cash from operating activities of RON 4,235 million for 2022. The increase was primarily due to the increase in profit for the year ended 31 December 2023 compared to 2022 and due to an increase in the balance of restricted cash in 2022. This cash inflow was partly offset by an increase in trade receivables balance, thus resulting in a 28% increase in net cash from operating activities in the year ended 31 December 2023 as compared to 2022.

Net cash used in investing activity

Net cash from investing activities amounted to RON 1,229 million for the year ended 31 December 2023 as compared to the net cash from investing activities of RON 751 million for the year ended 31 December

2022. The increase was primarily due to an increase in payments for deposits held for investment purposes (cash outflow) from RON 8,575 million to RON 9,145 million, by RON 570 million.

Net cash used in financing activities

Net cash used in financing activities was RON 4,448 million for the year ended 31 December 2023 as compared to net cash used in financing activities of RON 3,929 million for the year ended 31 December 2022. This increase was primarily due to an increase in dividends paid by RON 518 million in the year ended 31 December 2023 as compared to 2022.

B. According to the consolidated financial statements prepared in accordance with OMF 2844/2016

	2023	2022	Variation	2021
	RONm.	RONm.	%	RONm.
Net cash from operating activities	5,425	4,234	28%	4,056
Net cash used in investing activity	(1,229)	(749)	64%	(1,550)
Net cash used in financing activities	(4,448)	(3,929)	13%	(1,755)
Net increase/(decrease) in cash and cash equivalents	(253)	(444)	-43%	750
Cash and cash equivalents at 1 January	661	1,105	-40%	355
Cash and cash equivalents at 31 December	408	661	-38%	1,105

Source: Hidroelectrica

Net cash from operating activities

Net cash from operating activities amounted to RON 5,425 million for the year ended 31 December 2023 as compared to net cash from operating activities of RON 4,234 million for 2022. The increase was primarily due to the increase in profit for the year ended 31 December 2023 compared to 2022 and due to an increase in the balance of restricted cash in 2022. This cash inflow was partly offset by an increase in trade receivables balance, thus resulting in a 28% increase in net cash from operating activities in the year ended 31 December 2023 as compared to 2022.

Net cash used in investing activity

Net cash from investing activities amounted to RON 1,229 million for the year ended 31 December 2023 as compared to the net cash from investing activities of RON 749 million for the year ended 31 December 2022. The increase was primarily due to an increase in payments for deposits held for investment purposes (cash outflow) from RON 8,575 million to RON 9,145 million, by RON 570 million.

Net cash used in financing activities

Net cash used in financing activities was RON 4,448 million for the year ended 31 December 2023 as compared to net cash used in financing activities of RON 3,929 million for the year ended 31 December

2022. This increase was primarily due to an increase in dividends paid by RON 518 million in the year ended 31 December 2023 as compared to 2022.

C. According to the separate financial statements prepared in accordance with OMFP 2844/2016

	2023	2022	Variation	2021
	<i>RONm.</i>	<i>RONm.</i>	%	<i>RONm.</i>
Net cash from operating activities	5,407	4,146	30%	3,953
Net cash used in investing activity	(1,224)	(616)	99%	(1,514)
Net cash used in financing activities	(4,447)	(3,926)	13%	(1,754)
Net increase/(decrease) in cash and cash equivalents	(263)	(396)	-33%	685
Cash and cash equivalents at 1 January	642	1,028	-38%	343
Cash and cash equivalents at 31 December		10		
Net cash from operating activities	378	642	-41%	1,028

Source: Hidroelectrica

Net cash from operating activities

Net cash from operating activities amounted to RON 5,407 million for the year ended 31 December 2023 as compared to net cash from operating activities of RON 4,146 million for 2022. The increase was primarily due to the increase in profit for the year ended 31 December 2023 compared to 2022 and due to an increase in the balance of restricted cash in 2022. This cash inflow was partly offset by an increase in trade receivables balance, thus resulting in a 30% increase in net cash from operating activities in the year ended 31 December 2023 as compared to 2022.

Net cash used in investing activity

Net cash from investing activities amounted to RON 1,224 million for the year ended 31 December 2023 as compared to the net cash from investing activities of RON 616 million for the year ended 31 December 2022. The increase was primarily due to an increase in payments for deposits held for investment purposes (cash outflow) from RON 8,575 million to RON 9,145 million, by RON 570 million.

Net cash used in financing activities

Net cash used in financing activities was RON 4,447 million for the year ended 31 December 2023 as compared to net cash used in financing activities of RON 3,926 million for the year ended 31 December 2022. This increase was primarily due to an increase in dividends paid by RON 518 million in the year ended 31 December 2023 as compared to 2022.

7.5. Financial position

A. According to consolidated financial statements prepared in accordance with IFRS-EU

<i>RONm.</i>	31 December 2023	31 December 2022	% variation	31 December 2021
Assets				
Non-current assets				
Property, plant and equipment	20,427	19,521	5%	18,001
Intangible assets	6	6	0%	7
Restricted cash	-	101	-100%	-
Deferred tax assets	-	-	-	15
Investments in corporate bonds	353	351	1%	-
Other non-current assets	283	218	30%	220
Total non-current assets	21,069	20,198	4%	18,243
Current assets				
Inventories	71	72	-1%	65
Green certificates	-	-	-	35
Trade receivables	3,048	1,351	126%	664
Investments in deposits and government bonds	4,349	3,035	43%	2,561
Cash and cash equivalents	408	661	-38%	1,105
Restricted cash	101	-	100%	10
Other current assets	63	115	-45%	78
Total current assets	8,040	5,234	54%	4,519
Total assets	29,109	25,432	14%	22,762
Equity and liabilities				
Equity				
Share capital	5,527	5,513	0%	5,513
Revaluation reserve	12,039	11,021	9%	9,613
Other reserves	1,024	1,023	0%	962
Retained earnings	6,432	4,029	60%	3,095
Total equity	25,022	21,587	16%	19,184
Liabilities				
Non-current liabilities				
Bank borrowings	300	390	-23%	484
Lease liabilities	61	8	663%	9
Deferred income	177	182	-3%	187
Deferred tax liabilities	1,504	1,316	14%	1,017
Employee benefits	128	122	5%	123
Provisions	837	817	2%	729
Trade payables	-	-	-	3
Other payables	8	6	33%	19
Total non-current liabilities	3,015	2,841	6%	2,570

<i>RONm.</i>	31 December 2023	31 December 2022	% variation	31 December 2021
Current liabilities				
Bank borrowings	93	94	-1%	94
Lease liabilities	5	8	-38%	4
Trade payables	408	283	44%	171
Contract liabilities	42	85	-51%	93
Current tax liabilities	145	172	-16%	123
Deferred income	6	6	0%	6
Employee benefits	100	106	-6%	94
Provisions	165	122	35%	117
Tax for electricity producers	1	91	-99%	133
Other payables	107	39	174%	172
Total current liabilities	1,072	1,005	7%	1,008
Total liabilities	4,087	3,845	6%	3,578
Total equity and liabilities	29,109	25,432	14%	22,762

Source: Hidroelectrica

Property, plant and equipment

Property, plant and equipment as at 31 December 2023 increased by 5% to RON 20,427 million from RON 19,521 million as at 31 December 2022. This increase was due to the revaluation of assets at the end of 2023, except for the assets under construction and assets related to the right of use, partly offset by the negative result of the impairment test performed in assets under construction at the end of 2023.

Other non-current assets

Other non-current assets as at 31 December 2023 increased by 30% to RON 283 million, from RON 218 million as at 31 December 2022. The increase was due to the additional tax for electricity producers paid by Hidroelectrica following the control report issued in April 2023 by the General Antifraud Fiscal Division. The tax authorities applied the law 357/2022 retroactively from 1 September 2022, and therefore computed additional tax of RON 62 million.

On 7 August 2023, the Company received a tax decision regarding interest and penalties in the amount of RON 1,560 million related to the above tax decision. In 2023, Hidroelectrica paid both the tax and the related interest and penalties, the amount being recorded as other non-current assets. Hidroelectrica challenged this decision in court, estimating that the assets represented by the payment will be recovered over a period of more than one year.

Trade receivables

Trade receivables as at 31 December 2023 increased by 126% to RON 3,048 million from RON 1,351 million as at 31 December 2022. The increase was due to the implementation of new billing and customer relationship systems, which continued also in 2023, together with the frequent regulatory changes with respect of supply prices to end-users, the significant increase in the number of retail clients of the Group, which led to delays in invoicing electricity supplied to end users also in the first semester of 2023. These delays are in a continuous process to be overcome, as the unbilled trade receivables are on a descendent trend starting the second semester of 2023 thus increasing the billed trade receivables as at 31 December 2023.

Investments in deposits

Investments in deposits balance increased by 43% to RON 4,349 million as at 31 December 2023 from RON 3,035 million as at 31 December 2022. The increase was primarily due to increase in revenue and related collections.

Cash and cash equivalents

Cash and cash equivalents at 31 December 2023 decreased by 38% to RON 408 million from RON 661 million at 31 December 2022. The decrease is primarily due to the investment in bank deposits.

Revaluation reserve

Revaluation reserve increased by 9% to RON 12,039 million as of 31 December 2023 from RON 11,021 million as of 31 December 2022. The increase is due to the revaluation of assets at the end of 2023.

Bank borrowings

Bank borrowings decreased by 19% to RON 394 million as of 31 December 2023 from RON 484 million as of 31 December 2022. This decrease is due to loan repayments of RON 93 million in 2023.

Lease liabilities

Lease liabilities increased by 330% to RON 66 million as of 31 December 2023 from RON 15 million as of 31 December 2022. The increase is due to the addendum signed in December 2023 for the Company's headquarters extending the lease for 10 years.

Deferred tax liabilities

Deferred tax liabilities at 31 December 2023 increased by 14% to RON 1,504 million from RON 1,316 million at 31 December 2022. This increase is mainly due the revaluation of assets at the end of 2023.

Trade payables

Trade payables at 31 December 2023 increased by 44% to RON 408 million from RON 283 million at 31 December 2022. The increase was primarily due to the development of the Group's supply activity and

the increase in turbinated water expenses, caused by both the increase in volume and price of turbinated water.

Current tax liabilities

Current tax liabilities at 31 December 2023 decreased by 16% to RON 145 million from RON 172 million at 31 December 2022. The decrease was primarily due to tax facilities regarding the increase in equity that the Group benefited from in 2023.

Provisions

Short term provisions as at 31 December 2023 increased by 35% to RON 165 million from RON 122 million at 31 December 2022. The increase was primarily caused by recognized provisions for litigations of RON 40 million relating to the litigation with Benny Alex SRL.

Tax for electricity producers

Tax for electricity producers as at 31 December 2023 decreased by 99% to RON 1 million from RON 91 million as at 31 December 2022. This decrease was mainly caused by the implementation of the centralized purchase mechanism through which the electricity producers will sell the amount of electricity available to the market operator, OPCOM, at the fixed price of 450 RON/MWh starting on 1 January 2023, and the decrease in electricity sales prices in 2023 compared to 2022.

Other payables

Other payables as at 31 December 2023 increased by 174% to RON 107 million from RON 39 million at 31 December 2022. The increase was primarily due to increase in VAT payable to RON 80 million as at 31 December 2023 from RON 3 million as at 31 December 2022, due to increase in invoicing volume of electricity supplied to final consumers.

B. According to the consolidated financial statements prepared in accordance with OMFP 2844/2016

<i>RONm.</i>	31 December 2023	31 December 2022	% variation	31 December 2021
Assets				
Non-current assets				
Property, plant and equipment	20,393	19,486	5%	18,098
Intangible assets	39	42	-7%	44
Restricted cash	-	101	-100%	-
Deferred tax assets	-	-	-	15
Investment in corporate bonds	353	351	1%	-
Other non-current assets	284	218	30%	220
Total non-current assets	21,069	20,198	4%	18,377
Current assets				
Inventories	71	72	-2%	65
Green certificates	-	-	-	35
Trade receivables	3,048	1,351	126%	663
Investments in deposits and government bonds	4,349	3,035	43%	2,561
Cash and cash equivalents	408	661	-38%	1,105
Restricted cash	101	-	100%	10
Other current assets	63	116	-46%	46
Total current assets	8,040	5,234	54%	4,485
Total assets	29,109	25,432	14%	22,862
Equity and liabilities				
Equity				
Share capital	4,498	4,485	0%	4,484
Inflation adjustment to share capital	1,029	1,029	0%	1,029
Public patrimony	45	45	0%	45
Revaluation reserve	12,077	11,084	9%	9,676
Other reserves	1,024	1,023	0%	962
Retained earnings	6,394	3,966	61%	3,035
Total equity	25,067	21,632	16%	19,232
Liabilities				
Non-current liabilities				
Bank borrowings	300	390	-23%	484
Lease liabilities	61	8	663%	9
Deferred income	132	136	-3%	142
Deferred tax liabilities	1,504	1,316	14%	1,212
Employee benefits	128	122	5%	123
Provisions	837	817	2%	671
Trade payables	-	-	-	3
Other payables	8	6	33%	19
Total non-current liabilities	2,971	2,795	6%	2,661

<i>RONm.</i>	31 December 2023	31 December 2022	% variation	31 December 2021
Current liabilities				
Bank borrowings	93	94	-1%	94
Lease liabilities	5	8	-38%	4
Trade payables	408	283	44%	171
Contract liabilities	42	85	-51%	93
Current tax liabilities	145	172	-16%	123
Deferred income	6	6	0%	6
Employee benefits	76	71	7%	54
Provisions	189	157	21%	118
Tax for electricity producers	1	91	-99%	133
Other payables	107	39	177%	172
Total current liabilities	1,072	1,005	7%	969
Total liabilities	4,043	3,800	6%	3,631
Total equity and liabilities	29,109	25,432	14%	22,862

Source: Hidroelectrica

Property, plant and equipment

Property, plant and equipment as at 31 December 2023 increased by 5% to RON 20,393 million from RON 19,486 million as at 31 December 2022. This increase was due to the revaluation of assets at the end of 2023, except for the assets under construction and assets related to the right of use, partly offset by the negative result of the impairment test performed in assets under construction at the end of 2023.

Other non-current assets

Other non-current assets as at 31 December 2023 increased by 30% to RON 284 million, from RON 218 million as at 31 December 2022. The increase was due to the additional tax for electricity producers paid by Hidroelectrica following the control report issued in April 2023 by the General Antifraud Fiscal Division. The tax authorities applied the law 357/2022 retroactively from 1 September 2022, and therefore computed additional tax of RON 62 million.

On 7 August 2023, the Company received a tax decision regarding interest and penalties in the amount of RON 1,560 million related to the above tax decision. In 2023, Hidroelectrica paid both the tax and the related interest and penalties, the amount being recorded as other non-current assets. Hidroelectrica challenged this decision in court, estimating that the assets represented by the payment will be recovered over a period of more than one year.

Trade receivables

Trade receivables as at 31 December 2023 increased by 126% to RON 3,048 million from RON 1,351 million as at 31 December 2022. The increase was due to the implementation of new billing and customer relationship systems, which continued also in 2023, together with the frequent regulatory changes with respect of supply prices to end-users, the significant increase in the number of retail clients of the Group, which led to delays in invoicing electricity supplied to end users also in the first semester of 2023. These delays are in a continuous process to be overcome, as the unbilled trade receivables are on a descendent trend starting the second semester of 2023 thus increasing the billed trade receivables as at 31 December 2023.

Investments in deposits

Investments in deposits balance increased by 43% to RON 4,349 million as at 31 December 2023 from RON 3,035 million as at 31 December 2022. The increase was primarily due to increase in revenue and related collections.

Cash and cash equivalents

Cash and cash equivalents at 31 December 2023 decreased by 38% to RON 408 million from RON 661 million at 31 December 2022. The decrease is primarily due to the investment in bank deposits.

Revaluation reserve

Revaluation reserve increased by 9% to RON 12,077 million as of 31 December 2023 from RON 11,084 million as of 31 December 2022. The increase is due to the revaluation of assets at the end of 2023.

Bank borrowings

Bank borrowings decreased by 19% to RON 394 million as of 31 December 2023 from RON 484 million as of 31 December 2022. This decrease is due to loan repayments of RON 93 million in 2023.

Lease liabilities

Lease liabilities increased by 330% to RON 66 million as of 31 December 2023 from RON 15 million as of 31 December 2022. The increase is due to the addendum signed in December 2023 for the Company's headquarters extending the lease for 10 years.

Deferred tax liabilities

Deferred tax liabilities at 31 December 2023 increased by 14% to RON 1,504 million from RON 1,316 million at 31 December 2022. This increase is mainly due the revaluation of assets at the end of 2023.

Trade payables

Trade payables at 31 December 2023 increased by 44% to RON 408 million from RON 283 million at 31 December 2022. The increase was primarily due to the development of the Group's supply activity and

the increase in turbinated water expenses, caused by both the increase in volume and price of turbinated water.

Current tax liabilities

Current tax liabilities at 31 December 2023 decreased by 16% to RON 145 million from RON 172 million at 31 December 2022. The decrease was primarily due to tax facilities regarding the increase in equity that the Group benefited from in 2023.

Provisions

Short term provisions as at 31 December 2023 increased by 21% to RON 189 million from RON 157 million at 31 December 2022. The increase was primarily caused by recognized provisions for litigations of RON 40 million relating to the litigation with Benny Alex SRL.

Tax for electricity producers

Tax for electricity producers as at 31 December 2023 decreased by 99% to RON 1 million from RON 91 million as at 31 December 2022. This decrease was mainly caused by the implementation of the centralized purchase mechanism through which the electricity producers will sell the amount of electricity available to the market operator, OPCOM, at the fixed price of 450 RON/MWh starting on 1 January 2023, and the decrease in electricity sales prices in 2023 compared to 2022.

Other payables

Other payables as at 31 December 2023 increased by 174% to RON 107 million from RON 39 million at 31 December 2022. The increase was primarily due to increase in VAT payable to RON 80 million as at 31 December 2023 from RON 3 million as at 31 December 2022, due to increase in invoicing volume of electricity supplied to final consumers.

C. According to the separate financial statements prepared in accordance with OMFP 2844/2016

<i>RONm.</i>	31 December 2023	31 December 2022	% variation	31 December 2021
Assets				
Non-current assets				
Property, plant and equipment	20,324	19,428	5%	17,506
Intangible assets	39	41	-5%	4
Restricted cash	71	64	10%	299
Deferred tax assets	-	-	-	322
Investments in corporate bonds	-	101	-100%	-
Other non-current assets	353	351	1%	-
Total non-current assets	281	217	29%	218
	21,067	20,203	4%	18,348
Current assets				
Inventories				
Green certificates	61	64	-5%	57
Trade receivables	3,047	1,348	126%	654
Investments in deposits and government bonds	4,349	3,035	43%	2,561
Cash and cash equivalents	378	642	-41%	1,028
Restricted cash	101	-	100%	10
Other current assets	61	113	-46%	27
Total current assets	7,998	5,201	54%	4,338
Total assets	29,065	25,404	14%	22,686
Equity and liabilities				
Equity				
Share capital	4,498	4,485	0%	4,484
Inflation adjustment to share capital	1,029	1,029	0%	1,029
Public patrimony	45	45	0%	45
Revaluation reserve	12,048	11,066	9%	9,655
Other reserves	1,018	1,018	0%	954
Retained earnings	6,399	3,984	61%	2,986
Total equity	25,037	21,626	16%	19,153
Liabilities				
Non-current liabilities				
Bank borrowings	300	390	-23%	482
Lease liabilities	61	8	710%	2
Deferred income	131	136	-3%	142
Deferred tax liabilities	1,498	1,316	14%	1,212
Employee benefits	121	115	5%	114
Provisions	837	817	2%	650
Trade payables	-	-	-	0
Other payables	7	5	34%	7
Total non-current liabilities	2,956	2,788	6%	2,609

<i>RONm.</i>	31 December 2023	31 December 2022	% variation	31 December 2021
Current liabilities				
Bank borrowings	93	93	1%	92
Lease liabilities	5	8	-36%	3
Trade payables	427	298	43%	180
Contract liabilities	42	85	-51%	93
Current tax liabilities	145	172	-15%	123
Deferred income	6	6	0%	6
Employee benefits	62	56	11%	42
Provisions	187	155	21%	114
Tax for electricity producers	1	91	-99%	113
Other payables	104	26	293%	158
Total current liabilities	1,072	989	8%	925
Total liabilities	4,028	3,777	7%	3,533
Total equity and liabilities	29,065	25,404	14%	22,686

Source: Hidroelectrica

Property, plant and equipment

Property, plant and equipment as at 31 December 2023 increased by 5% to RON 20,324 million from RON 19,428 million as at 31 December 2022. This increase was due to the revaluation of assets at the end of 2023, except for the assets under construction and assets related to the right of use, partly offset by the negative result of impairment test performed in assets under construction at the end of 2023.

Other non-current assets

Other non-current assets as at 31 December 2023 increased by 29% to RON 281 million, from RON 217 million as at 31 December 2022. The increase was due to the additional tax for electricity producers paid by Hidroelectrica following the control report issued in April 2023 by the General Antifraud Fiscal Division. The tax authorities applied the law 357/2022 retroactively from 1 September 2022, and therefore computed additional tax of RON 62 million.

On 7 August 2023, the Company received a tax decision regarding interest and penalties in the amount of RON 1,560 million related to the above tax decision. In 2023, Hidroelectrica paid both the tax and the related interest and penalties, the amount being recorded as other non-current assets. Hidroelectrica challenged this decision in court, estimating that the assets represented by the payment will be recovered over a period of more than one year.

Trade receivables

Trade receivables as at 31 December 2023 increased by 126% to RON 3,047 million from RON 1,348 million as at 31 December 2022. The increase was due to the implementation of new billing and customer

relationship systems, which continued also in 2023, together with the frequent regulatory changes with respect of supply prices to end-users, the significant increase in the number of retail clients of the Group, which led to delays in invoicing electricity supplied to end users also in the first semester of 2023. These delays are in a continuous process to be overcome, as the unbilled trade receivables are on a descending trend starting the second semester of 2023 thus increasing the billed trade receivables as at 31 December 2023.

Investments in deposits

Investments in deposits balance increased by 43% to RON 4,349 million as at 31 December 2023 from RON 3,035 million as at 31 December 2022. The increase was primarily due to increase in revenue and related collections.

Cash and cash equivalents

Cash and cash equivalents at 31 December 2023 decreased by 41% to RON 378 million from RON 642 million at 31 December 2022. The decrease is primarily due to the investment in bank deposits.

Revaluation reserve

Revaluation reserve increased by 9% to RON 12,048 million as of 31 December 2023 from RON 11,066 million as of 31 December 2022. The increase is due to the revaluation of assets at the end of 2023.

Bank borrowings

Bank borrowings decreased by 19% to RON 394 million as of 31 December 2023 from RON 483 million as of 31 December 2022. This decrease is due to loan repayments of RON 93 million in 2023.

Lease liabilities

Lease liabilities increased by 330% to RON 66 million as of 31 December 2023 from RON 15 million as of 31 December 2022. The increase is due to the addendum signed in December 2023 for the Company's headquarters extending the lease for 10 years.

Deferred tax liabilities

Deferred tax liabilities at 31 December 2023 increased by 14% to RON 1,498 million from RON 1,316 million at 31 December 2022. This increase is mainly due the revaluation of assets at the end of 2023.

Trade payables

Trade payables at 31 December 2023 increased by 43% to RON 427 million from RON 298 million at 31 December 2022. The increase was primarily due to the development of the Group's supply activity and the increase in turbinated water expenses, caused by both the increase in volume and price of turbinated water.

Current tax liabilities

Current tax liabilities at 31 December 2023 decreased by 15% to RON 145 million from RON 172 million at 31 December 2022. The decrease was primarily due to tax facilities regarding the increase in equity that the Group benefited from in 2023.

Provisions

Short term provisions as at 31 December 2023 increased by 21% to RON 187 million from RON 155 million at 31 December 2022. The increase was primarily caused by recognized provisions for litigations of RON 40 million relating to the litigation with Benny Alex SRL.

Tax for electricity producers

Tax for electricity producers as at 31 December 2023 decreased by 99% to RON 1 million from RON 91 million as at 31 December 2022. This decrease was mainly caused by the implementation of the centralized purchase mechanism through which the electricity producers will sell the amount of electricity available to the market operator, OPCOM, at the fixed price of 450 RON/MWh starting on 1 January 2023, and the decrease in electricity sales prices in 2023 compared to 2022.

Other payables

Other payables as at 31 December 2023 increased by 293% to RON 104 million from RON 26 million at 31 December 2022. The increase was primarily due to increase in VAT payable to RON 76 million as at 31 December 2023 from RON 3 million as at 31 December 2022, due to increase in invoicing volume of electricity supplied to final consumers.

8. Execution of the Income and Expenses Budget for 2023

The income and expenses budget is prepared at the level of separate financial statements.

In 2023, total revenues achieved were 110% compared to the budgeted revenues. Expense indicators were lower than budgeted due to the reduction in the energy producer tax.

					<i>RON million</i>	
INDICATORS*			Approved budget	Actual	%	
			2023	2023		
<i>0</i>	<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>	<i>5=4/3</i>	
I.		TOTAL REVENUE	11,631	12,737	110	
	1	Total operating revenues	11,357	12,402	109	
	2	Financial income	273	335	123	
II		TOTAL EXPENSES	7,172	5,294	74	
	1	Operating expenses	7,131	5,224	73	
	A.	Materials and services	3,495	2,775	79	
	B.	Taxes, duties and similar payments	1,730	304	18	
	C.	Employees benefits	677	605	89	
		C0 Salaries and other remuneration	627	566	90	
		C1 Salaries	573	515	90	
		C2 Bonuses	54	51	94	
		C3 Other employees benefits	9	1	12	
		Mandate contract and other management and control bodies, commissions and committees	14	14	97	
		C5 Social security contributions	27	24	91	
	D.	Other operating expenses	1,228	1,541	125	
	2	Financial expenses	41	70	171	
III		GROSS PROFIT	4,459	7,443	167	
IV	1	INCOME TAX	796	1,091	141	
V		NET PROFIT OF THE REPORTING PERIOD	3,663	6,352	173	

Source: Hidroelectrica

*The indicators are calculated according to the budget forms of Order 3818/2019 and are aligned with the indicators presented in the form S1040 - Annual accounting reporting to NAFA, prepared at the level of Hidroelectrica SA.

9. Subsequent events

Below are presented the relevant events that occurred within the Group between the close of the financial year 2023 and the date of this report:

- On the OGMS and EGMS meetings held on 22 January 2024, Hidroelectrica's shareholders approved, with the majority of votes cast/held, as the case may be, the following:

OGMS

- Election of 3 members of SB Hidroelectrica (2 positions allocated to the majority shareholder Romanian State and one position allocated to minority shareholders, by reference to the provisions of the Articles of Association), starting with the date of the meeting, in accordance with the provisions of art. 29 of GEO nr. 109/2011 on corporate governance of public enterprises, respectively with the provisions of art. 13.9 and 13.10 of the Articles of Association in force, approving the term of office of the elected members, their gross fixed remuneration and their mandate contract;

EGMS

- Approval of the transaction and of the Transaction Documents regarding the takeover of the business from U.C.M. Reșița S.A.
- Approval of the establishment of a limited liability company ("S.R.L."), to which the business transfer from U.C.M. Reșița S.A. will be made, which will have the name of "Uzina de Constructii Masini Hidroenergetic S.R.L.", a share capital of RON 119,650,000 and the main object of activity CAEN code 2811 - Manufacture of engines and turbines (except those for airplanes, motor vehicles and motorcycles).

The transaction – subject to approval on the agenda of the EGMS was finalized following the fulfillment of the suspensive conditions, on 11 March 2024. The total price for the transfer of ownership of the Business and all assets falling within the scope of the Transaction is RON 67,879,000.

- On 23 January 2024, the Supervisory Board decided to appoint Mr. Petre Iulian-Nicolescu as Chairman of the Supervisory Board and decided on the composition of the advisory committees, including the constitution of a new Governance and Sustainability Committee, which replaces the Investor Relations Committee.

The structure of the Committees is available on the company's website, www.hidroelectrica.ro, About Us – Management section.

- On 25 January 2024, Hidroelectrica's OGMS was convened for 28 February 2024, having as main item on the agenda the approval of the Income and Expenses Budget for 2024, approved on the date of the meeting by the Company's shareholders, with the majority of votes cast.
- On 30 January 2024, Hidroelectrica's OGMS was convened for 25 March 2024, with the main topics subject to shareholder approval:
 - Key financial and non-financial performance indicators resulting from Hidroelectrica's Management Plan, which will constitute an annex to the mandate contracts of the members of the Supervisory Board and the Management Board

- Variable component of the remuneration of SB members
 - Form and content of the Addendum to the mandate contract to be concluded with the SB members of the Company
 - General limit of the variable component of the remuneration of the members of the Management Board.
- On 30 January 2024, a Current Report was published on correcting the errors identified in the current reports for the second half of 2023 regarding the related party transactions concluded by Hidroelectrica, in accordance with art. 108 of Law nr. 24/2017. Subsequently, on 30 January 2024, the financial auditor's Independent Limited Assurance Report on the transactions reported by Hidroelectrica in the second half of 2023 was issued.

10. Litigation

The main litigations involving the Group, with a potential exposure of RON 468 million as at 31 December 2023 (31 December 2022: RON 883 million), are disclosed as contingent liabilities:

- **Litigation with Ministry of Energy**

Potential exposure: RON 373 million as at 31 December 2022 (0 as at 31 December 2023)

Plaintiff: Ministry of Energy

File no. 3200/2/2018

Subject-matter: Claims arising from concession agreement no.171/2004

The Ministry of Energy claims the following:

1. enforcing the Company to consent to conclude an addendum to the concession agreement as follows:
 - a) the Ministry of Energy, as grantor, to be able to change the royalty discretionary; and
 - b) the annual royalty to be changed to an amount equal to the annual depreciation of property, plant and equipment subject to royalty as per the concession agreement.
2. The Ministry of Energy also claims RON 373 million representing additional royalties for the period 2013 – 2018 computed as described in 1b) above.

The Court appointed an expert to determine the amount payable by the Group, if any. The court also approved an expert engaged by the Group. Both experts concluded that the royalty calculated and paid by the Group for the period 2013 - 2018 was in accordance with the provisions of the concession agreement and is accurate and complete.

On 11 May 2021, the first Court rejected the claims of the Ministry of Energy as groundless. During 2022, the Ministry of Energy appealed the Court decision. On 14 February 2024, the Court declares nul the appeal filed by the Ministry of Energy, the decision is final.

- **Litigations with Tax authorities regarding past tax treatments**

Potential exposure: RON 214 million as at 31 December 2023 and 2022

Plaintiff: Hidroelectrica

Subject: Annulment of the Decision on settling the preliminary tax appeal no. 406/18.12.2014 and annulment of Tax Decision no. F-MC 851/21.01.2014

The Company was subject to a general tax inspection covering the period 01.01.2006-30.06.2012 concluded with several tax decisions issued by ANAF in 2014, which imposed additional taxes of RON 214 million, which includes mainly income tax of RON 27 million and related late payment interest and penalties of RON 119 million, value added tax of RON 38 million and related late payments interest and penalties of RON 27 million. The Company filed a complaint in Court in 2015 requesting the cancellation of the tax decisions.

In 2021 the experts appointed by the Court issued their report, which concluded that ANAF is entitled to receive RON 511 thousand plus interest and penalties. ANAF objected to the experts' report. In February 2023, the independent experts submitted the updated report containing responses to the ANAF's objections. In the updated report, the experts concluded that ANAF is entitled to receive RON 987 thousand.

On 7 April 2023 the Court of Appeal pronounced the sentence through which ANAF tax decision regarding to the Company's additional payment obligations of 214 million was cancelled. The decision was appealed by ANAF, next term being 2 April 2024.

Based on the final decision of the Bucharest Court of Appeal in the Company's insolvency file according to which ANAF is deprived of the right to request payment of the tax obligations imposed by the tax decisions, and based on the experts' report which is favorable to the Group, as well as the Court of Appeal ruling from 7 April 2023, management estimates that the litigation will be ruled in the Group's favor, and consequently an outflow of resources is not probable.

- **Litigation with Tax authorities**

Potential exposure: RON 64 million as at 31 December 2023 (RON 62 million as at 31 December 2022)

Plaintiff: Hidroelectrica

File no. 638/2/2024

Subject matter: Annulment of Tax Decision No. A-DAF 6890/11.05.2023

Tax for electricity producers was subject to multiple changes with respect to the method of computation during 2022. The latest change was instated through Law no. 357/2022, which was published on 16 December 2022. The Company applied the provisions of the law starting with 16 December 2022.

The Company was subject to a tax control by the General Antifraud Division of ANAF on the tax for electricity producers. As per the control report on 11 April 2023, the tax authorities applied the changes introduced by the law retroactively starting 1 September 2022, and therefore computed additional tax of RON 62 million.

On 28 April 2023 the Company received the imposing decision for the amount of RON 62 million. The Group challenged the imposing decision within the procedural term, the challenge being rejected by the General Division for Solving Disputes within the Finance Ministry.

The Company argued in its Court application that successive changes of legislation regarding the calculation methodology of the tax for electricity producers can only be applicable for the future, starting with the date of publication of legislative amendments and not retroactively, as tax authorities considered.

On 7 August 2023 the Company received a decision regarding interest and penalties in the amount of RON 1.6 million related to the previously mentioned imposing decision. The Group challenged the decision within the procedural term. The decision will be the object of a new litigation if the challenge will be rejected.

Management estimates that the litigation will be ruled in the Group's favor, and consequently an outflow of resources is not probable.

- **Litigation with Hidroconstructia SA**

Potential exposure: RON 99 million as at 31 December 2023 and 2022

Plaintiff: Hidroconstructia SA

File no. 12257/3/2022

Subject-matter: Termination of Contract no. 672/1989 regarding the Fagaras-Hoghiz investment project; claims

Hidroconstructia SA filed claims to recover RON 99 million consisting of unrealized profits as a result of the suspension by Hidroelectrica of the construction works related to the Fagaras Hoghiz investment project. Also, Hidroconstructia requested the court to enforce the termination of the underlying contract.

In January 2023, the Court ruled in favor of the Company, rejecting Hidroconstructia's claims. The decision was appealed by Hidroconstructia.

On 12 October 2023, the Court of Appeal set aside the first Court ruling and granted a new hearing on the merits. On 14 December 2023, the Court approved an expertise report to establish the unrealized profits of the plaintiff as a result of the suspension of construction works and regarding the termination of the contract, next term being 4 April 2024.

Based on the legal analysis of the Hidroconstructia claims, the management considers the statement of claims as unsubstantiated. Considering the above, management estimates that the litigation will be ruled in favor of the Group and consequently an outflow of resources is not probable.

- **Litigation with Hidroconstructia SA**

Potential exposure: RON 33 million as at 31 December 2023 and 2022

Plaintiff: Hidroconstructia SA

Files no. 44443/3/2016 and 11314/3/2021

Subject-matter: Claims - the equivalent value of the costs generated by the cessation of construction works related to investment projects in progress.

Hidroconstructia SA claims the costs generated by the suspension of construction works rendered before the Company's insolvency. The Group argues that such claims have no grounds considering the insolvency process of Hidroelectrica and the fact that the claimant lost its right to claims as it failed to register the claim in the table of creditors.

In March 2018 the first Court rejected the claims of Hidroconstructia SA. This ruling was contested by Hidroconstructia SA. The Group also contested the ruling, as it provided for legal fees for Hidroelectrica.

In April 2019 the Court of appeal sent the case back to the first court for reexamination. The dispute was reopened by the first Court (file no. 11314/3/2021).

In April 2022, the Court requested an expertise report in hydrotechnical constructions and an accounting expertise report to be performed by independent experts. Currently, the expert report is being drafted, next term being 2 April 2024.

Based on the initial first Court ruling, management estimates that the litigation will be ruled in favor of the Group and consequently an outflow of resources is not probable.

- **Litigation with Hidroconstructia SA**

Potential exposure: RON 29 million as at 31 December 2023 and 2022

Plaintiff: Hidroconstructia SA

File no. 31451/3/2020

Subject-matter: Claims - commercial discounts granted to the Group during 2014 – 2019 for construction works related to the Siriu-Surduc investment project

Hidroconstructia SA filed claims in the amount of RON 29 million representing discounts granted during 2014 – 2019 to the Group for construction of AHE Siriu-Surduc project, as well as indexation of the price of workings performed during the respective period.

As per contract between the parties, Hidroconstructia granted discounts to Hidroelectrica and agreed to maintain the prices flat as long as Hidroelectrica will ensure the financing of the project.

Hidroconstructia claims that Hidroelectrica failed to ensure the financing of the project and is entitled to recover the discounts granted.

In September 2022, the independent expert issued a report establishing a potential liability between RON 9 million and RON 31 million. The independent expert did not analyse if the Group failed or not to finance the project.

On 10 April 2023, the Court rejected Hidroconstructia claims. The decision was challenged by Hidroconstructia.

On 26 October 2023 the Court rejected the appeal filed by Hidroconstructia as unfounded. The decision was challenged by Hidroconstructia, no term being settled yet.

Considering that the Group does not have a liability to Hidroconstructia in respect of the works made during 2014 – 2019 for AHE Siriu – Surduc project, the management assesses that the condition to ensure the financing of the project were met by Hidroelectrica and estimates that the litigation will be ruled in favor of the Group and consequently an outflow of resources is not probable.

- **Arbitration with Romelectro S.A.**

Potential exposure: RON 29 million as at 31 December 2023 and 2022

Plaintiff: Romelectro S.A.

File no. 8/2021, currently File no. 30/2022

Subject-matter: Claims arising from the construction contract related to the refurbishment of Stejaru hydroelectric power plant.

Hidroelectrica filed an arbitration request for RON 78.7 million representing penalties for delayed works and related interest, plus legal expenses in relation to the Retechnologizare Stejaru investment project.

Romelectro made its counterclaims of EUR 9 million, equivalent of RON 44 million, plus related interest, VAT and legal expenses. The claims refer mainly to costs incurred and lost profit by Romelectro due to delays in execution of the contract generated by Hidroelectrica.

During 2022, due to insolvency of Romelectro, Hidroelectrica requests for RON 79 million was terminated, as Hidroelectrica will be entitled to requests these amounts in the insolvency procedure.

Following the termination of Hidroelectrica request, file no. 30/2022 was constituted, containing only Romelectro claims.

During 2022, Romelectro adjusted their initial claims and requested only EUR 6 million, the equivalent of RON 29 million, plus VAT and legal expenses. The claims mainly refer to the counter value of the costs borne by Romelectro, generated by delays attributable to Hidroelectrica, such as site organization costs, personnel costs, finance costs.

In November 2022, the Arbitration Court requested a financial and accounting analysis to be performed by an independent expert. Currently, the expert report is being drafted, next arbitration term being 11 April 2024.

Based on the legal analysis of the contract between the parties and the documents related to the project, the Group argues that the delays in the execution of the project are not attributable to Hidroelectrica, but to Romelectro, which constantly proposed technical solutions that were not in conformity with the contract.

Based on the above, management estimates that the litigation will be ruled in favor of the Group and consequently an outflow of resources is not probable.

- **Litigation with *Beny Alex S.R.L.***

Potential exposure: RON 44 million as at 31 December 2022 (provisioned at December 2023)

Plaintiff: Beny Alex SRL

File no. 36646/3/2018*

Subject-matter: Claims - the value of additional works performed under the subcontracting agreement concluded with Hidroserv (Company's subsidiary).

Beny Alex SRL claims the amount of additional works performed based on the subcontracting agreement concluded with Hidroserv (the Company's subsidiary). The first Court overruled the claim on the grounds of prescription of the material right of action. In 2020 Benny Alex appealed to this ruling. The appeal was approved by the Court of judicial control, which fully cancelled the initial Court ruling and resent the case to the first Court for reexamination.

In December 2022, an independent expertise report was finalized. Based on the expert report the value of the additional works performed is RON 40 million. Hidroelectrica submitted objections to the report.

On 30 May 2023, the court ruled in favor of the plaintiff BENY ALEX S.R.L, the Company appealed the decision.

Considering the court's decision, the Group estimated that an unfavorable outcome is probable and, accordingly, recognized a provision of RON 40 million in 2023.

11. Risk Management

By its position in Romania's energy system, Hidroelectrica is a vital company in a strategic sector of the country, being a leader in electricity production (approximately 30% of the country's total production, depending on the hydrometeorological conditions of the year) and the main provider of technological services required in the National Power System (about 70% of the total secondary regulation service, about 84% of the rapid tertiary reserve service, and 100% of the service ensuring the reactive energy discharged or absorbed from the network in the secondary voltage regulation band of the National Power System).

Hidroelectrica is subject to specific risks inherent to its activity, some of which are significant, which is why the company pays special attention to the efficient and prudent management of risks, aiming to maintain them within acceptable limits and with a continuous improvement attitude. Hidroelectrica's Senior Management oversees and coordinates the risk management system by being directly involved in this process and continuously updating the necessary control measures. At the same time, the risk management process provides the opportunity to assess whether long-term sustainability and medium-term liquidity are maintained, and whether the estimated impact of risks remains within acceptable limits.

At Hidroelectrica, risk management is ensured by a dedicated department operating based on a solid internal regulatory framework, with an IT infrastructure that allows for efficient risk management. The risk management system implemented by Hidroelectrica is an integral part of the decision-making process. Risks associated with large-scale projects or new business initiatives are assessed and communicated to the management before approving any decisions, as part of the evaluation process for the respective project or business initiative.

In 2023, the European economy lost momentum in the context of high cost of living and tightening monetary policy. Although economic activity was expected to gradually recover throughout 2023 after major events (Covid-19 pandemic, armed conflicts in the region, and beyond), the European Commission's Q3 forecasts revised down the EU's GDP growth compared to summer projections. Inflation in the EU, despite a decrease, remained high, and the tightening monetary policy had a stronger impact than anticipated. Economic data indicated modest economic activity in Q4 of 2023 amid increasing uncertainties.

It is anticipated that economic activity in the EU will gradually recover in 2024 as consumption increases in the context of a robust labor market, sustained wage growth, and continued decline in inflation. Despite tighter monetary policy, investments are expected to continue to grow, supported by strong global corporate balance sheets and the recovery and resilience mechanism. Uncertainty and risks of negative developments in economic outlook have increased in recent months amid the prolonged conflict between Russia and Ukraine and the conflict in the Middle East. So far, the latter's impact on energy markets has been limited, but there is a risk of energy supply disruptions that could have a significant impact on energy prices, global production, and overall price levels. Economic developments in the EU's main trading partners, especially China, could also present risks.

Global estimates indicate that precipitation in the region including Romania will change, with winters becoming wetter and summers drier. Thus, under a pluviometric aspect, increasing trends in seasonal precipitation are present in most parts of the country in the autumn season. In winter, spring, and summer, significant decreasing trends in precipitation have been identified in some regions of eastern and southwestern Romania, alternating with episodes of significant daily precipitation that generate increasingly frequent rapid local floods due to the increasing rate of rainfall intensity in short periods of time.

Climate change affects Romania in terms of quality of life, stability of economic and social services, as well as the conduct of sectoral activities (agriculture, energy, forestry, fishing, industry, transportation, construction, tourism, etc.).

Thus, we can say that 2023 was marked by a series of internal and external actions of the company, actions that did not fit into the usual parameters (even if external events have been unfolding for some time). The actions range from major internal initiatives, such as the implementation of the Supply strategy, diversification of electricity sources, listing of shares on the BSE, to significant external events, such as price increases (e.g., raw materials, energy, etc.) due to armed conflicts in the region, political decisions regarding energy strategy, both within the European Union and in Romania, on the one hand, and the insolvency of relevant entities (electricity suppliers, providers of key services or insurers), the lack of purchasing power of the population, have led to drastic measures and adjustments to the internal risk strategy and, at the same time, to the re-updating of certain internal processes.

In this context, the Risk Management department continued its efforts to improve and develop risk management activities to increase the company's capabilities to address vulnerabilities and threats and to evaluate strengths and weaknesses to optimally respond to uncertainties and changes determined by the evolution of the context and risk factors.

Risks related to the Group's activity and the industry in which it operates

- **HSE (Health, Safety and Environment)**

Hidroelectrică's number one priority in terms of HSE remains to avoid any accidents among staff and partners operating in the company's perimeters, to act in a sustainable, ethical and environmentally responsible manner and to comply with all relevant legal requirements. Hidroelectrică permanently assesses occupational safety and health risks, identifies significant environmental aspects and ensures continuous training of employees in terms of occupational safety, environmental protection and emergency situations.

Throughout the year 2023, no work accidents or occupational incidents were recorded. In the year 2022, a total of 2 work accidents were recorded.

Also, given the specifics of the activity and the nature of the managed production assets, Hidroelectrică has implemented intervention plans in case of accidental pollution as well as action plans in case of accidents at dams.

- **Climate risks**

Extreme weather phenomena such as heatwaves, wildfires, droughts, and floods, which have had devastating effects across Europe and beyond, with increasing frequency and magnitude, illustrate the dramatic consequences that climate change can have not only on the environment and affected individuals but also on the economy.

Actions to mitigate the negative effects of climate change:

Water scarcity risk reduction - Developing programs and actions to reduce the risk of water scarcity in potentially deficit areas, considering climate change perspectives. Periodically assessing the impact of climate change on water resources based on the periodic updating of climate evolution scenarios in Romania.

Flood risk reduction - Developing plans, actions, and measures to reduce the risk of flooding in areas with potentially significant risk. Conducting climatology and hydrology studies, preparedness, and emergency response.

Enhancing dam and levee safety - Increasing the safety of flood defense infrastructure. Rehabilitating existing dams requiring urgent interventions for safe operation.

Enhancing resilience to climate change - Developing investment programs in energy production units to compensate for energy production losses. Promoting investments in new production capacities.

Establishing critical infrastructure and implementing measures to address extreme event impacts - Conducting detailed analyses regarding the vulnerability magnitude that production units exhibit to climatic anomalies. Extensive quantitative and qualitative analyses to identify vulnerable areas to climatic anomalies and establish infrastructure portions requiring modernization and reinforcement to provide additional resilience to climate change.

Integrating climate change considerations into planning and decision-making processes - Increasing investment volumes to allow for offsetting negative effects associated with climate change. Allocating development funds to ensure enhanced resilience to the most severe phenomena manifested due to climate change.

- **Cyber threats**

With the increasing digitization of processes and activities, the adoption of new working technologies (example - artificial intelligence is already a common element for both attackers who write malware and for the security solutions used), significantly increases the risk of cyber threats and vulnerabilities. In conjunction with the current geopolitical context, the global trend indicates an increase in the frequency and intensity of cyber attacks (in 2023, according to PaloAlto, there were more than 50% ransomware attacks compared to 2022).

In this context, Hidroeléctrica pays special attention to managing this risk through a complex system that includes multiple lines of defense such as: hard/soft protection systems, redundancy, specific procedures, awareness trainings and preventive behavior of users, etc. Thus, the main measures adopted aimed at:

- Training users on the associated cybersecurity risks, as 90% of ransomware attacks have human resources as an attack vector;
- Rules have been implemented for stronger passwords for users, minimum 12 characters, combinations of uppercase letters, lowercase letters, numbers and special characters;
- Restrictions on remote computer network management, accessing the company's network through the exclusive use of secure connections;
- Prohibition of Internet exposure of some network services;
- Security rules adopted in active equipment such as firewalls, antivirus applications, etc.;
- Antivirus applications, firewall, up-to-date operating systems (where the technological flow allows it);
- Journalizing the activities of users connecting remotely;
- Restrictions on external device access to USB ports on all network terminals;

- Advanced firewall intrusion detection / intrusion prevention / web filtering solutions, supported by a series of dedicated cybersecurity equipment;
- Hidroelectrica is part of the national interest companies selected for the Titeica cybersecurity project, within which additional cybersecurity systems and institutional cooperation based on AI (artificial intelligence) have been installed and configured;
- A cybersecurity policy has been developed at the company level, from which standards, procedures, and IT&C security regulations derive, for compliance with the NIS directive (Law 362/2018), along with the implementation of an application for incident tracking and monitoring of security incidents and vulnerability detection at the company level (executive headquarters, branches, power plants), for compliance with the NIS directive.

- **GDPR – Risks of personal data leaks and personal data breaches**

Given the potential for significant risk caused by the regulations in the field of personal data protection, Hidroelectrica has assumed that this issue must become an integral part of the internal risk management system, becoming a priority assumed at the level of the company's management, in order to comply with corporate governance principles.

Taking into account the context and purposes of the processing, as well as the risks of varying likelihood and severity for the rights and freedoms of individuals, Hidroelectrica has implemented appropriate technical and organizational measures to guarantee and be able to demonstrate that the processing is carried out in accordance with the regulations in the field of personal data protection. These measures are periodically reviewed and updated to maintain continuity of compliance with GDPR provisions, but also to ensure the highest degree of data security.

Also, Hidroelectrica has implemented an Internal Regulation on personal data protection, which contains policies on personal data protection, and operational procedures, in order to ensure compliance of processing activities with the interference of national and European provisions in the field of personal data protection.

- **The basis of production assets**

By producing electricity, but also providing system services, hydropower developments are a key factor in ensuring Romania's energy security. It is therefore vital that these capacities function and are operated in an appropriate technical condition. In this respect, Hidroelectrica's strategy provides for an increase in hydropower capacity by promoting new projects and completing ongoing ones, but it is necessary to continuously invest in order to maintain optimal functioning of the installations.

Through the Refurbishment Strategy prepared by the refurbishment department, Hidroelectrica aims for the capacities in operation, staggered, as the normal use periods will be reached, that all equipment and related constructions, within the production capacities, be refurbished or modernized.

Within Hidroelectrica, in addition to the strategy of refurbishment and modernization of equipment within hydropower facilities, specific policies will be promoted aimed at assessing the technical condition of constructions and how maintenance activities are carried out, as well as tracking the behavior over time of constructions. With the implementation of these strategies, another desideratum of

Hidroelectrica is to achieve the necessary conditions for implementing a system of remote management and supervision of plants (operational management without operating personnel). In this respect, communication with the higher hierarchical level (DHE – Hidroelectrica Dispatch) must be based on 100% available and redundant communication paths, appropriately sized and capable of ensuring SCADA data transmission to DHE.

- **Human capital**

Human capital represents for Hidroelectrica a key element for achieving the company's objectives. The risk factors facing society in terms of human capital are: long-term demographic decline also correlated with the exodus of well-trained workforce to other countries, a decrease in young people's interest in technical schools and a high average age of the company's staff. To combat these risks, Hidroelectrica has a series of ongoing initiatives such as:

- a. offering private scholarships to students, especially from energy faculties, but also to students from energy high schools, organizing internships and apprenticeships at work;
- b. supporting dual education (Hidroelectrica supports students in dual vocational education from high schools with energy profile, who will obtain qualification as electricians or electromechanics for all branches of the company, will practice in hydroelectric power plants, and will be employed at the end of their studies);
- c. practice in hydroelectric power plants, carried out by pupils and students, based on practice conventions with universities / high schools in the field;
- d. motivating salary packages and other benefits paid to employees according to the JCC, professional training stages, authorization in trades specific to the energy sector;
- e. Constantly carrying out both external recruitment processes, in order to recruit new human resources with good professional training, thus ensuring the quality of human capital in the future, and internal, thus ensuring career development opportunities for the company's employees.

- **Legal and regulatory risks**

Due to the specificity of its activity and the sector in which it operates, Hidroelectrica has a high exposure to political and regulatory risk, determined by the possibility of materializing legislative, norms and policy changes, as a result of the action of decision-makers. In the context of the geopolitical crisis and conflicts in Ukraine and the Middle East, as well as the evolution of regional and global energy prices, it has led to an increase in exposure to this risk through the intensification of legislative changes adopted or questioned. Hidroelectrica continues to closely follow all legislative changes, and engages in a continuous and constructive dialogue with the relevant authorities.

It is important to note that tools to manage these risks, in terms of context and external determinants, are limited.

Also, the company's activity is permanently subject to the legal risk determined both by the economic activity essential in the functioning of the company and by the economic evolution of the contractual partners, economic, geopolitical crises, changes in energy supply parameters coming from outside, etc.

In this regard, it should be mentioned the permanent concern regarding the allocation of resources necessary to protect the interests of the company.

Financial risks

A. According to consolidated financial statements prepared in accordance with IFRS-EU

Financial risk management

Credit risk

Credit risk is the risk that the Group will incur a financial loss if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and this risk derives mainly from trade receivables, cash and cash equivalents, and other investments.

Cash and bank deposits are placed in financial institutions that are considered to have high creditworthiness.

Exposure to credit risk

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

	<i>RON million</i>	
	31 December 2023	31 December 2022
Trade receivables	3,048	1,351
Cash and cash equivalents	408	661
Restricted cash	101	101
Investments in corporate bonds and deposits	4,703	3,386
Total	8,260	5,499

Source: Hidroelectrica

Trade receivables

The Group's exposure to credit risk is mainly influenced by the individual characteristics of each client. The Group has established a credit policy according to which each new business client is analyzed individually from the point of view of creditworthiness before the conclusion of a contract, so that the sale is made to the clients with an adequate creditworthiness. For household clients, such credit risk analysis is not performed due to the nature and volume of the customers. Impairment adjustments of trade receivables reflect the expected credit losses, calculated based on the loss rates.

Increase of trade receivables is due to both significant unbilled revenues as a result of delays in the invoicing electricity supplied to end users, due to the implementation of a new billing and customer relationship systems, which continued also in 2023, together with the frequent regulatory changes with

respect of supply prices to end-users, the significant increase in the number of retail clients of the Group, which led to delays in invoicing electricity supplied to end users also in the first semester of 2023. These delays are in a continuous process to be overcome, as the unbilled trade receivables are on a descending trend starting the second semester of 2023 thus increasing the billed trade receivables as at 31 December 2023. The amount of the unbilled revenues included in trade receivables amounts to RON 1,229 million at 31 December 2023 (RON 1,116 million at 31 December 2022).

The following table provides information about the exposure to credit risk and expected credit loss (ECL) for trade receivables as at 31 December 2023:

	Weighted average loss rate	Gross carrying amount	Impairment loss allowance	<i>RON million</i> Net trade receivables
Not past due	2.32%	1,759	-41	1,719
Past due - from 0 to 3 months	24.80%	230	-57	173
Past due - from 3 to 6 months	80.61%	38	-30	7
Past due - from 6 months to 1 year	100.00%	13	-13	
Past due - more than 1 year	100.00%	16	-16	
Total		2,056	-157	1,899
Customers analyzed individually		1,149		1,149
Total trade receivables		3,205	-157	3,048

The following table provides information about the exposure to credit risk and expected credit loss (ECL) for trade receivables as at 31 December 2022:

	Weighted average loss rate	Gross carrying amount	Impairment loss allowance	<i>RON million</i> Net trade receivables
Not past due	2.45%	1,015	-25	990
Past due - from 0 to 3 months	36.40%	39	-14	25
Past due - from 3 to 6 months	62.86%	13	-8	5
Past due - from 6 months to 1 year	100.00%	19	-19	
Past due - more than 1 year	100.00%	11	-11	
Total		1,098	-77	1,020
Customers analyzed individually		331		331
Total trade receivables		1,428	-77	1,351

Source: Hidroelectrică

Customers analyzed individually represent outstanding amounts from customers for which the Group believes that there is a negligible risk to collect.

Loss rates for 2023 are based on the actual credit loss experienced over the past six quarters considering the evolution of the supply segment and the delays in invoicing the electricity supplied (31 December 2022: five years).

The Group has guarantees received from customers of RON 444,551 thousand at 31 December 2023 (RON 907,555 thousand at 31 December 2022). These are guarantees for payment in the form of bank letters of guarantee received in relation to electricity sales contracts. Decrease of guarantees received from customers is due to the implementation of the market for centralised acquisition mechanism of electricity. Transactions on this market are made through OPCOM as intermediary, meaning that the Group concluded one wholesale contract with OPCOM, thus the number of wholesale contracts decreased in 2023.

Liquidity risk

Liquidity risk represents the risk that the Group may have difficulties in meeting the obligations associated with financial liabilities settled by transfer of cash or another financial asset. The Group has significant cash and cash equivalents and short-term investments, therefore it does not face significant liquidity risk.

The Group monitors the level of cash inflows forecasted from collection of trade receivables, as well as the level of cash outflows forecasted for the payment of loans, trade and other payables. The Group aims to maintain a level of current bank accounts and bank deposits that exceeds the cash outflows forecasted for the payment of financial liabilities.

Exposure to liquidity risk

The following table shows the remaining contractual maturities of financial liabilities at the reporting date. The contractual cash flows are presented gross and undiscounted, and include estimated contractual interest payments.

	<i>RON million</i>				
	Contractual cash flows				
	Carrying amount	Total	< 12 months	1 - 5 Years	> 5 years
31 December 2023					
Financial liabilities					
Trade payables	408	408	408	0	-
Bank borrowings	394	430	108	322	
Lease liabilities	66	90	9	36	45
Total	868	928	524	358	45
	Contractual cash flows				
	Carrying amount	Total	< 12 months	1 - 5 Years	> 5 years
31 December 2022					

Financial liabilities					
Trade payables	283	283	283	0	
Bank borrowings	484	513	103	387	23
Lease liabilities	15	18	8	5	5
Total	783	815	395	392	28

Source: Hidroelectrica

Market risk

Market risk is the risk that changes in market prices – foreign exchange rate and interest rate – will affect the Group's profit or the value of the financial instruments held. The objective of market risk management is to control market risk exposures within acceptable parameters, while optimizing the return.

Interest rate risk

The Group has long-term bank borrowings with variable interest rates, which may expose the Group to interest rate risk.

	<i>RON million</i>	
	31 December 2023	31 December 2022
Fixed-rate instruments		
Financial assets		
Restricted cash	101	101
Investments in corporate bonds and deposits	4,703	3,386
Total	4,804	3,487
Financial liabilities	-	-
Lease liabilities	-66	-15
Total	-66	-15
Variable-rate instruments	-	-
Financial liabilities	-	-
Bank borrowings	-394	-484
Total	-394	-484

Source: Hidroelectrica

Fair value sensitivity analysis of fixed-rate instruments

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

Cash flow sensitivity analysis of variable-rate instruments

A reasonably possible change of 50 basis points in interest rates at the reporting date would have increased (decreased) the profit before tax by the amounts shown below. This analysis assumes that all other variables, in particular currency exchange rates, remain constant.

	Increase/ (decrease) of Profit before tax	
	50 bp increase	50 bp increase
2023		
Variable-rate instruments	(2)	2
2022		
Variable-rate instruments	(2)	2

Source: Hidroelectrica

Currency risk

The Group is exposed to transactional foreign currency risk to the extent that there is mismatch between the currencies in which sales, purchases, receivables and borrowings are denominated and the respective functional currencies of Group companies. The functional currency of the Group is the Romanian Leu (RON).

The currency in which these transactions are primarily denominated are RON. Certain liabilities are denominated in foreign currencies as EUR and USD. The Group's risk management policy is to primarily use the local currency. The Group does not use derivative instruments or hedging instruments.

	31 December 2023		
	- RON million equivalent of the currency		
	EUR	USD	CHF
Trade receivables	-	-	-
Investments in corporate bonds, deposits and government bonds	353	-	-
Cash and cash equivalents	28	-	-
Trade payables	(4)	-	-
Bank borrowings	(394)	-	-
Lease liabilities	(66)	-	-
Net statement of financial position exposure	(83)	-	-

	31 December 2022		
	- RON million equivalent of the currency		
	EUR	USD	CHF
Trade receivables	-	-	-
Investments in corporate bonds, deposits and government bonds	351	-	-
Cash and cash equivalents	4	-	-
Trade payables	(4)	-	-
Bank borrowings	(483)	-	-
Lease liabilities	(14)	-	-
Net statement of financial position exposure	(145)	-	-

Source: Hidroelectrica

The following exchange rates have been applied:

	31 December 2023	31 December 2022
RON / EUR	4.9746	4.9474
RON / USD	4.4958	4.6346
RON / CHF	5.3666	5.0289

Source: Hidroelectrica

Sensitivity analysis

A 5% appreciation of the Romanian leu (RON) against all other foreign currencies as at 31 December would have affected the profit before tax by the amounts shown below. This analysis assumes that all other variables remain constant.

	Increase/(decrease) of Profit before tax 2023 (RON million)	Increase/(decrease) of Profit before tax 2022 (RON million)
EUR	4	7
USD	-	-
CHF	-	-
Total	4	7

Source: Hidroelectrica

A 5% depreciation of the Romanian leu (RON) against all other foreign currencies as at 31 December would have affected the profit before tax by the amounts shown below. This analysis assumes that all other variables remain constant.

	Increase/(decrease) of Profit before tax 2023 (RON million)	Increase/(decrease) of Profit before tax 2022 (RON million)
EUR	4	7
USD	-	-
CHF	-	-
Total	4	7

Source: Hidroelectrica

B. According to consolidated financial statements prepared in accordance with OMFP 2844/2016

Financial risk management

Credit risk

Credit risk is the risk that the Group will incur a financial loss if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and this risk derives mainly from trade receivables, cash and cash equivalents, and other investments.

Cash and bank deposits are placed in financial institutions that are considered to have high creditworthiness.

Exposure to credit risk

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

	<i>RON million</i>	
	31 December 2023	31 December 2022
Trade receivables	3,048	1,351
Cash and cash equivalents	408	661
Restricted cash	101	101
Investments in corporate bonds and deposits	4,703	3,386
Total	8,260	5,499

Source: Hidroelectrica

Trade receivables

The Group's exposure to credit risk is mainly influenced by the individual characteristics of each client. The Group has established a credit policy according to which each new business client is analyzed individually from the point of view of creditworthiness before the conclusion of a contract, so that the sale is made to the clients with an adequate creditworthiness. For household clients, such credit risk analysis is not performed due to the nature and volume of the customers. Impairment adjustments of trade receivables reflect the expected credit losses, calculated based on the loss rates.

Increase of trade receivables is due to both significant unbilled revenues as a result of delays in the invoicing electricity supplied to end users, due to the implementation of a new billing and customer relationship systems, which continued also in 2023, together with the frequent regulatory changes with respect of supply prices to end-users, the significant increase in the number of retail clients of the Group, which led to delays in invoicing electricity supplied to end users also in the first semester of 2023. These delays are in a continuous process to be overcome, as the unbilled trade receivables are on a descendent trend starting the second semester of 2023 thus increasing the billed trade receivables as at 31 December

2023. The amount of the unbilled revenues included in trade receivables amounts to RON 1,229 million at 31 December 2023 (RON 1,116 million at 31 December 2022).

The following table provides information about the exposure to credit risk and expected credit loss (ECL) for trade receivables as at 31 December 2023:

	Weighted average loss rate	Gross carrying amount	Impairment loss allowance	<i>RON million</i> Net trade receivables
Not past due	2.32%	1,759	-41	1,719
Past due - from 0 to 3 months	24.80%	230	-57	173
Past due - from 3 to 6 months	80.61%	38	-30	7
Past due - from 6 months to 1 year	100.00%	13	-13	
Past due - more than 1 year	100.00%	97	-97	
Total		2,137	-238	1,899
Customers analyzed individually		1,149		1,149
Total trade receivables		3,286	-238	3,048

The following table provides information about the exposure to credit risk and expected credit loss (ECL) for trade receivables as at 31 December 2022:

	Weighted average loss rate	Gross carrying amount	Impairment loss allowance	<i>RON million</i> Net trade receivables
Not past due	2.56%	1,016	-26	990
Past due - from 0 to 3 months	36.40%	39	-14	25
Past due - from 3 to 6 months	62.78%	13	-8	5
Past due - from 6 months to 1 year	100.00%	19	-19	
Past due - more than 1 year	100.00%	90	-90	
Total		1,178	-158	1,020
Customers analyzed individually		331		331
Total trade receivables		1,509	-158	1,351

Source: Hidroelectrica

Customers analyzed individually represent outstanding amounts from customers for which the Group believes that there is a negligible risk to collect.

Loss rates for 2023 are based on the actual credit loss experienced over the past six quarters considering the evolution of the supply segment and the delays in invoicing the electricity supplied (31 December 2022: five years).

The Group has guarantees received from customers of RON 444,551 thousand at 31 December 2023 (RON 907,555 thousand at 31 December 2022). These are guarantees for payment in the form of bank letters of guarantee received in relation to electricity sales contracts. Decrease of guarantees received from customers is due to the implementation of the market for centralised acquisition mechanism of electricity. Transactions on this market are made through OPCOM as intermediary, meaning that the Group concluded one wholesale contract with OPCOM, thus the number of wholesale contracts decreased in 2023.

Liquidity risk

Liquidity risk represents the risk that the Group may have difficulties in meeting the obligations associated with financial liabilities settled by transfer of cash or another financial asset. The Group has significant cash and cash equivalents and short-term investments, therefore it does not face significant liquidity risk.

The Group monitors the level of cash inflows forecasted from collection of trade receivables, as well as the level of cash outflows forecasted for the payment of loans, trade and other payables. The Group aims to maintain a level of current bank accounts and bank deposits that exceeds the cash outflows forecasted for the payment of financial liabilities.

Exposure to liquidity risk

The following table shows the remaining contractual maturities of financial liabilities at the reporting date. The contractual cash flows are presented gross and undiscounted, and include estimated contractual interest payments.

	<i>RON million</i>				
	Contractual cash flows				
	Carrying amount	Total	Carrying amount	Total	Carrying amount
31 December 2023					
Financial liabilities					
Trade payables	408	408	408	0	-
Bank borrowings	394	430	108	322	
Lease liabilities	66	90	9	36	45
Total	868	928	524	358	45
	Contractual cash flows				
	Carrying amount	Total	< 12 months	1 - 5 Years	> 5 years
31 December 2022					
Financial liabilities					
Trade payables	283	283	283	0	
Bank borrowings	484	513	103	387	23
Lease liabilities	15	18	8	5	5
Total	783	815	395	392	28

Source: Hidroelectrică

Market risk

Market risk is the risk that changes in market prices – foreign exchange rate and interest rate – will affect the Group's profit or the value of the financial instruments held. The objective of market risk management is to control market risk exposures within acceptable parameters, while optimizing the return.

Interest rate risk

The Group has long-term bank borrowings with variable interest rates, which may expose the Group to interest rate risk.

	<i>RON million</i>	
	31 December 2023	31 December 2022
Fixed-rate instruments		
Financial assets		
Restricted cash	101	101
Investments in corporate bonds and deposits	4,703	3,386
Total	4,804	3,487
Financial liabilities		
Lease liabilities	-66	-15
Total	-66	-15
Variable-rate instruments		
Financial liabilities		
Bank borrowings	-394	-484
Total	-394	-484

Source: Hidroelectrica

Fair value sensitivity analysis of fixed-rate instruments

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

Cash flow sensitivity analysis of variable-rate instruments

A reasonably possible change of 50 basis points in interest rates at the reporting date would have increased (decreased) the profit before tax by the amounts shown below. This analysis assumes that all other variables, in particular currency exchange rates, remain constant.

	Increase/ (decrease) of Profit before tax	
	50 bp increase	50 bp increase
2023		
Variable-rate instruments	(2)	2
2022		
Variable-rate instruments	(2)	2

Source: Hidroelectrica

Currency risk

The Group is exposed to transactional foreign currency risk to the extent that there is mismatch between the currencies in which sales, purchases, receivables and borrowings are denominated and the respective functional currencies of Group companies. The functional currency of the Group is the Romanian Leu (RON).

The currency in which these transactions are primarily denominated are RON. Certain liabilities are denominated in foreign currencies as EUR and USD. The Group's risk management policy is to primarily use the local currency. The Group does not use derivative instruments or hedging instruments.

	31 December 2023		
	- RON million equivalent of the currency		
	EUR	USD	CHF
Trade receivables	-	-	-
Investments in corporate bonds, deposits and government bonds	353	-	-
Cash and cash equivalents	28	-	-
Trade payables	(4)	-	-
Bank borrowings	(394)	-	-
Lease liabilities	(66)	-	-
Net statement of financial position exposure	(83)	-	-

	31 December 2022		
	- RON million equivalent of the currency		
	EUR	USD	CHF
Trade receivables	-	-	-
Investments in corporate bonds, deposits and government bonds	351	-	-
Cash and cash equivalents	4	-	-
Trade payables	(4)	-	-
Bank borrowings	(483)	-	-
Lease liabilities	(14)	-	-
Net statement of financial position exposure	(145)	-	-

Source: Hidroelectrica

The following exchange rates have been applied:

	31 December 2023	31 December 2022
RON / EUR	4,9746	4,9474
RON / USD	4,4958	4,6346
RON / CHF	5,3666	5,0289

Source: Hidroelectrica

Analiza de senzitivitate

A 5% appreciation of the Romanian leu (RON) against all other foreign currencies as at 31 December would have affected the profit before tax by the amounts shown below. This analysis assumes that all other variables remain constant.

	Increase/(decrease) of Profit before tax 2023 (RON million)	Increase/(decrease) of Profit before tax 2022 (RON million)
EUR	4	7
USD	-	-
CHF	-	-
Total	4	7

Source: Hidroelectrica

A 5% depreciation of the Romanian leu (RON) against all other foreign currencies as at 31 December would have affected the profit before tax by the amounts shown below. This analysis assumes that all other variables remain constant.

	Increase/(decrease) of Profit before tax 2023 (RON million)	Increase/(decrease) of Profit before tax 2022 (RON million)
EUR	4	7
USD	-	-
CHF	-	-
Total	4	7

Source: Hidroelectrica

C. According to individual financial statements prepared in accordance with OMFP 2844/2016

Credit risk

Credit risk is the risk that the Group will incur a financial loss if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and this risk derives mainly from trade receivables, cash and cash equivalents, and other investments.

Cash and bank deposits are placed in financial institutions that are considered to have high creditworthiness.

Exposure to credit risk

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

	<i>RON million</i>	
	31 December 2023	31 December 2022
Trade receivables	3,048	1,348
Cash and cash equivalents	378	642
Restricted cash	101	101
Investments in corporate bonds and deposits	4,703	3,386
Total	8,230	5,476

Source: Hidroelectrica

Trade receivables

The Group's exposure to credit risk is mainly influenced by the individual characteristics of each client. The Group has established a credit policy according to which each new business client is analyzed individually from the point of view of creditworthiness before the conclusion of a contract, so that the sale is made to the clients with an adequate creditworthiness. For household clients, such credit risk analysis is not performed due to the nature and volume of the customers. Impairment adjustments of trade receivables reflect the expected credit losses, calculated based on the loss rates.

Increase of trade receivables is due to both significant unbilled revenues as a result of delays in the invoicing electricity supplied to end users, due to the implementation of a new billing and customer relationship systems, which continued also in 2023, together with the frequent regulatory changes with respect of supply prices to end-users, the significant increase in the number of retail clients of the Group, which led to delays in invoicing electricity supplied to end users also in the first semester of 2023. These delays are in a continuous process to be overcome, as the unbilled trade receivables are on a descendent trend starting the second semester of 2023 thus increasing the billed trade receivables as at 31 December

2023. The amount of the unbilled revenues included in trade receivables amounts to RON 1,229 million at 31 December 2023 (RON 1,116 million at 31 December 2022).

The following table provides information about the exposure to credit risk and expected credit loss (ECL) for trade receivables as at 31 December 2023:

	Weighted average loss rate	Gross carrying amount	Impairment loss allowance	<i>RON million</i> Net trade receivables
Not past due	2.32%	1,759	-41	1,719
Past due - from 0 to 3 months	24.81%	230	-57	173
Past due - from 3 to 6 months	80.61%	38	-30	7
Past due - from 6 months to 1 year	100.00%	13	-13	
Past due - more than 1 year	100.00%	95	-95	
Total		2,134	-236	1,899
Customers analyzed individually		1,149		1,149
Total trade receivables		3,283	-236	3,048

The following table provides information about the exposure to credit risk and expected credit loss (ECL) for trade receivables as at 31 December 2022:

	Weighted average loss rate	Gross carrying amount	Impairment loss allowance	<i>RON million</i> Net trade receivables
Not past due	2.57%	1,013	-26	987
Past due - from 0 to 3 months	36.40%	39	-14	25
Past due - from 3 to 6 months	62.78%	13	-8	5
Past due - from 6 months to 1 year	100.00%	19	-19	
Past due - more than 1 year	100.00%	88	-88	
Total		1,173	-158	1,071
Customers analyzed individually		331		331
Total trade receivables		1,504	-158	1,348

Source: Hidroelectrica

Customers analyzed individually represent outstanding amounts from customers for which the Group believes that there is a negligible risk to collect.

Loss rates for 2023 are based on the actual credit loss experienced over the past six quarters considering the evolution of the supply segment and the delays in invoicing the electricity supplied (31 December 2022: five years).

The Group has guarantees received from customers of RON 444,551 thousand at 31 December 2023 (RON 907,555 thousand at 31 December 2022). These are guarantees for payment in the form of bank letters of guarantee received in relation to electricity sales contracts. Decrease of guarantees received from customers is due to the implementation of the market for centralised acquisition mechanism of electricity. Transactions on this market are made through OPCOM as intermediary, meaning that the Group concluded one wholesale contract with OPCOM, thus the number of wholesale contracts decreased in 2023.

Liquidity risk

Liquidity risk represents the risk that the Group may have difficulties in meeting the obligations associated with financial liabilities settled by transfer of cash or another financial asset. The Group has significant cash and cash equivalents and short-term investments, therefore it does not face significant liquidity risk.

The Group monitors the level of cash inflows forecasted from collection of trade receivables, as well as the level of cash outflows forecasted for the payment of loans, trade and other payables. The Group aims to maintain a level of current bank accounts and bank deposits that exceeds the cash outflows forecasted for the payment of financial liabilities.

Exposure to liquidity risk

The following table shows the remaining contractual maturities of financial liabilities at the reporting date. The contractual cash flows are presented gross and undiscounted, and include estimated contractual interest payments.

	<i>RON million</i>				
	Contractual cash flows				Carrying amount
	Carrying amount	Total	Carrying amount	Total	
31 December 2023					
Financial liabilities					
Trade payables	427	427	427	0	-
Bank borrowings	394	430	108	322	
Lease liabilities	66	90	9	36	45
Total	887	947	523	358	45
			Contractual cash flows		

31 December 2022	Carrying amount	Total	< 12 months	1 - 5 Years	> 5 years
Financial liabilities					
Trade payables	298	298	298	0	
Bank borrowings	483	512	102	387	23
Lease liabilities	15	18	8	5	5
Total	797	828	408	392	28

Source: Hidroelectrica

Market risk

Market risk is the risk that changes in market prices – foreign exchange rate and interest rate – will affect the Group's profit or the value of the financial instruments held. The objective of market risk management is to control market risk exposures within acceptable parameters, while optimizing the return.

Interest rate risk

The Group has long-term bank borrowings with variable interest rates, which may expose the Group to interest rate risk.

	31 December 2023	31 December 2022
<i>RON million</i>		
Fixed-rate instruments		
Financial assets		
Restricted cash	101	101
Investments in corporate bonds and deposits	4,703	3,386
Total	4,804	3,487
Financial liabilities		
Lease liabilities	-66	-15
Total	-66	-15
Variable-rate instruments		
Financial liabilities		
Bank borrowings	-394	-484
Total	-394	-484

Source: Hidroelectrica

Fair value sensitivity analysis of fixed-rate instruments

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

Cash flow sensitivity analysis of variable-rate instruments

A reasonably possible change of 50 basis points in interest rates at the reporting date would have increased (decreased) the profit before tax by the amounts shown below. This analysis assumes that all other variables, in particular currency exchange rates, remain constant.

	Increase/ (decrease) of Profit before tax	
	50 bp increase	50 bp increase
2023		
Variable-rate instruments	(2)	2
2022		
Variable-rate instruments	(2)	2

Source: Hidroelectrica

Currency risk

The Group is exposed to transactional foreign currency risk to the extent that there is mismatch between the currencies in which sales, purchases, receivables and borrowings are denominated and the respective functional currencies of Group companies. The functional currency of the Group is the Romanian Leu (RON).

The currency in which these transactions are primarily denominated are RON. Certain liabilities are denominated in foreign currencies as EUR and USD. The Group's risk management policy is to primarily use the local currency. The Group does not use derivative instruments or hedging instruments.

	31 December 2023		
	- RON million equivalent of the currency		
	EUR	USD	CHF
Trade receivables	-	-	-
Investments in corporate bonds, deposits and government bonds	353	-	-
Cash and cash equivalents	28	-	-
Trade payables	(4)	-	-
Bank borrowings	(394)	-	-
Lease liabilities	(66)	-	-
Net statement of financial position exposure	(83)	-	-

	31 December 2022		
	- RON million equivalent of the currency		
	EUR	USD	CHF
Trade receivables	-	-	-
Investments in corporate bonds, deposits and government bonds	351	-	-
Cash and cash equivalents	4	-	-
Trade payables	(4)	-	-
Bank borrowings	(483)	-	-
Lease liabilities	(14)	-	-
Net statement of financial position exposure	(146)	-	-

Source: Hidroelectrica

The following exchange rates have been applied:

	31 December 2023	31 December 2022
RON / EUR	4,9746	4,9474
RON / USD	4,4958	4,6346
RON / CHF	5,3666	5,0289

Source: Hidroelectrica

Sensitivity analysis

A 5% appreciation of the Romanian leu (RON) against all other foreign currencies as at 31 December would have affected the profit before tax by the amounts shown below. This analysis assumes that all other variables remain constant.

	Increase/(decrease) of Profit before tax 2023 (RON million)	Increase/(decrease) of Profit before tax 2022 (RON million)
EUR	4	7
USD	-	-
CHF	-	-
Total	4	7

Source: Hidroelectrica



A 5% depreciation of the Romanian leu (RON) against all other foreign currencies as at 31 December would have affected the profit before tax by the amounts shown below. This analysis assumes that all other variables remain constant.

	Increase/(decrease) of Profit before tax 2023 (RON million)	Increase/(decrease) of Profit before tax 2022 (RON million)
EUR	4	7
USD	-	-
CHF	-	-
Total	4	7

Source: Hidroelectrica

Hidroelectrica's Management Board

Karoly BORBELY

Chairman of the Management Board

Bogdan-Nicolae BADEA

Member of the Management Board

Marian FETIȚA

Member of the Management Board

Radu-Ioan CONSTANTIN

Member of the Management Board

Ianăș RĂDOI

Member of the Management Board

Glossary of terms and definitions

GMS	The General Meeting of Shareholders, which can be either the Ordinary General Meeting of Shareholders (OGMS) or the Extraordinary General Meeting of Shareholders (EGMS)
BSE	Bucharest Stock Exchange
FSA (FSA)	Financial Supervisory Authority
CHE	Hydroelectric Power Plant
AHE	Hydropower development
MHC	Microhydropower plant
NBR	National Bank of Romania
ANRE	Romanian Energy Regulatory Authority (Romanian: Autoritatea Nationala de Reglementare in Domeniul Energiei)
ANAR	Romanian Waters National Administration (Romanian: Administrația Națională Apele Române)
CHE	Hydroelectric plant (Romanian: Centrala hidroelectrică)
AHE	Hydropower station (Romanian: Amenajare hidroenergetică)
SB	Supervisory Board
GEO	Government Emergency Ordinance
Hidroserv	Company branch, S,S,H, Hidro serv S,A
GO	Government Ordinance
GEO	Government Emergency Ordinance
IFRS	International Financial Reporting Standards
ESG	Environmental, Social, Governance
GD	Government Decision
IAS	International Accounting Standards
LEI	The identification code of the legal entity
M&A	Mergers and acquisitions
PAM (EAP)	Energy Asset Performance
SISC	Structures, installations (systems), assemblies, subassemblies, equipment and components of capacities in the electricity and heat sector, managed by license holders, classified as fixed assets, for which EAP applies
CEPM (MACEE)	Centralized Electricity Purchasing Mechanism (Romanian: MACEE)
NRRP (PNRR)	The National Recovery and Resilience Plan (Romanian: PNRR)
GDPR	General Data Protection Regulation
OPCOM	The operator of the electricity and natural gas market in Romania - OPCOM S.A.
NPS	National Power System (Romanian: SEN)
Hidroelectrica	SOCIETATEA DE PRODUCERE A ENERGIEI ELECTRICE IN HIDROCENTRALE "HIDROELECTRICA" S.A.
Transelectrica	The national operator of transport and electricity system



- **EBITDA** is defined as profit/(loss) before tax before (i) depreciation and amortization of property, plant and equipment and intangible assets and (ii) interest income and interest expense.
- **EBITDA Margin** is defined as EBITDA divided by revenue.
- **Adjusted EBITDA** is defined as EBITDA adjusted for (a) impairment/reversal of impairment of property, plant and equipment and (b) gain on bargain purchase of subsidiaries.
- **Adjusted EBITDA Margin** is defined as Adjusted EBITDA divided by revenue.
- **Adjusted Net Debt/(Cash)** is defined as bank loans and liabilities related to leasing contracts minus cash and cash equivalents and short-term investments (investments in deposits and government bonds).
- **Adjusted Net Debt/(Cash) to Adjusted EBITDA Ratio** is defined as Adjusted Net Debt/(Cash) divided by Adjusted EBITDA

III. Management Board statement

Based on the available information, we confirm that the Consolidated Financial Statements as of and for the financial year ended 31 December 2023, prepared in accordance with International Financial Reporting Standards adopted by the European Union ("IFRS-EU") and the Management Board's Report for the year 2023, prepared in accordance with the provisions of FSA Regulation no. 5/2018, provide a true and fair view of the assets, liabilities, financial position, profit and loss account, and cash flows of Hidroelectrica Group, and that the Management Board's Report provides a fair analysis of the issuer's development and performance, as well as a description of the main risks and uncertainties specific to the activities carried out, available as of the date of this report.

Based on the available information, we confirm that the Separate and Consolidated Financial Statements as of and for the financial year ended 31 December 2023, prepared in accordance with the Order of the Minister of Public Finance no. 2844/2016 for approval of accounting regulations in accordance with International Financial Reporting Standards, and subsequent amendments ("OMFP no. 2844/2016") and the Management Board's Report for the year 2023, prepared in accordance with the provisions of FSA Regulation no. 5/2018, provide a true and fair view of the assets, liabilities, financial position, profit and loss account, and cash flows of Hidroelectrica Group, and that the Management Board's Report provides a fair analysis of the issuer's development and performance, as well as a description of the main risks and uncertainties specific to the activities carried out, available as of the date of this report.

Hidroelectrica's Management Board

Karoly BORBELY

Chairman of the Management Board

Bogdan-Nicolae BADEA

Member of the Management Board

Marian FETIȚA

Member of the Management Board

Radu-Ioan CONSTANTIN

Member of the Management Board

Ianăș RĂDOI

Member of the Management Board



IV. Financial Statements

Consolidated financial statements - IFRS-EU

Consolidated financial statements - OMFP 2844/2016

Separate financial statements - OMFP 2844/2016

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



CONSOLIDATED FINANCIAL STATEMENTS
for the year ended
31 December 2023

Prepared in accordance with International Financial Reporting Standards
as adopted by the European Union

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S.P.E.E.H. HIDROELECTRICA S.A. Two-tier system Company
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2023

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

	Note	31 December 2023	31 December 2022
Assets			
Non-current assets			
Property, plant and equipment	21	20,426,654	19,521,363
Intangible assets		5,588	6,250
Restricted cash	17	-	101,057
Investments in corporate bonds	18	353,397	351,338
Other non-current assets	20	283,520	218,236
Total non-current assets		21,069,159	20,198,244
Current assets			
Inventories		70,923	72,433
Trade receivables	19	3,047,968	1,350,677
Investments in deposits	18	4,349,482	3,034,745
Cash and cash equivalents	17	407,634	660,734
Restricted cash	17	101,057	-
Other current assets	20	62,941	115,400
Total current assets		8,040,005	5,233,989
Total assets		29,109,164	25,432,233
Equity			
Share capital	22	5,526,898	5,513,466
Revaluation reserve	22	12,038,616	11,021,335
Other reserves	22	1,024,034	1,023,188
Retained earnings		6,431,686	4,028,861
Total equity		25,021,234	21,586,850
Liabilities			
Non-current liabilities			
Bank borrowings	23	300,253	390,491
Lease liabilities		61,255	7,567
Deferred income	26	176,832	181,522
Deferred tax liabilities	16	1,503,655	1,315,946
Employee benefits	15	128,443	121,840
Provisions	27	836,830	817,089
Trade payables	24	107	428
Other payables	25	8,466	5,765
Total non-current liabilities		3,015,841	2,840,648

(continued on page 2)

S.P.E.E.H. HIDROELECTRICA S.A. Two-tier system Company
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2023
(All amounts are in thousand RON, unless otherwise stated)

	Note	31 December 2023	31 December 2022
Current liabilities			
Bank borrowings	23	93,282	94,001
Lease liabilities		5,046	7,834
Trade payables	24	407,612	282,996
Contract liabilities	10	41,720	84,684
Current tax liabilities		145,413	171,978
Deferred income	26	5,723	5,696
Employee benefits	15	99,928	105,845
Provisions	27	165,359	121,760
Tax for electricity producers	12 D	877	91,370
Other payables	25	107,129	38,571
Total current liabilities		1,072,089	1,004,735
Total liabilities		4,087,930	3,845,383
Total equity and liabilities		29,109,164	25,432,233

The accompanying notes are an integral part of these consolidated financial statements.

Karoly BORBELY Chairman of the Management Board	Bogdan-Nicolae BADEA Member of the Management Board	Radu Ioan CONSTANTIN Member of the Management Board	Marian FETIȚA Member of the Management Board	Ianăș RĂDOI Member of the Management Board
Petronel CHIRIAC Financial Director			Gabriela VASILESCU Accounting Manager	

S.P.E.E.H. HIDROELECTRICA S.A. Two-tier system Company
CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2023
(All amounts are in thousand RON, unless otherwise stated)

	Note	2023	2022
Revenue	10	12,160,184	9,451,955
Other income	11	34,780	46,249
Turbined water	12 A	(639,206)	(450,963)
Employee benefits expenses	15	(717,478)	(630,723)
Transport and distribution of electricity	12 C	(1,207,650)	(498,055)
Electricity purchased	12 B	(456,163)	(697,142)
Green certificates expenses		(296,806)	(183,171)
Depreciation and amortization	21	(799,313)	(772,150)
Impairment loss on property, plant and equipment	21	(236,865)	(23,869)
Impairment loss on trade receivables	19	(79,918)	(43,461)
Repair, maintenance, materials and consumables		(85,392)	(82,337)
Tax for electricity producers	12 D	(225,159)	(671,739)
Other operating expenses	12 E	(250,630)	(236,243)
Operating profit		7,200,384	5,208,351
Finance income	13	319,352	247,196
Finance costs	13	(60,609)	(38,111)
Net finance result		258,743	209,085
Profit before tax		7,459,127	5,417,436
Income tax expense	16	(1,093,797)	(953,436)
Profit for the year		6,365,330	4,464,000
Earnings per share			
Basic and diluted earnings per share (RON)	14	14.17	9.95
Other comprehensive income			
Revaluation of property, plant and equipment, net of tax	21	1,409,973	1,777,815
Remeasurement of defined benefit liabilities, net of tax	15	(4,962)	(7,536)
Other comprehensive income		1,405,011	1,770,279
Total comprehensive income		7,770,341	6,234,279

The accompanying notes are an integral part of these consolidated financial statements.

Karoly BORBELY Chairman of the Management Board	Bogdan-Nicolae BADEA Member of the Management Board	Radu Ioan CONSTANTIN Member of the Management Board	Marian FETIȚA Member of the Management Board	Ianăș RĂDOI Member of the Management Board
Petronel CHIRIAC Financial Director			Gabriela VASILESCU Accounting Manager	

S.P.E.E.H. HIDROELECTRICA S.A. Two-tier system Company
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2023
(All amounts are in thousand RON, unless otherwise specified)

	Note	Share capital	Revaluation reserve	Other reserves	Retained earnings	Total equity
Balance at 1 January 2022		5,513,466	9,612,905	962,074	3,095,072	19,183,517
Total comprehensive income for the year						
Profit of the year		-	-	-	4,464,000	4,464,000
Other comprehensive income for the year						
Revaluation of property, plant and equipment, net of tax	21,22	-	1,777,815	-	-	1,777,815
Remeasurement of defined benefit liabilities, net of tax	15	-	-	-	(7,536)	(7,536)
Total other comprehensive income for the year		-	1,777,815	-	(7,536)	1,770,279
Total comprehensive income for the year		-	1,777,815	-	4,456,464	6,234,279
Transactions with owners of the Company						
Contributions and distributions						
Dividends	22	-	-	-	(3,830,946)	(3,830,946)
Total transactions with owners of the Company		-	-	-	(3,830,946)	(3,830,946)
Other changes in shareholders' equity						
Set up of legal reserves		-	-	61,114	(61,114)	-
Transfer of revaluation reserve to retained earnings due to depreciation and disposals of property, plant and equipment	22	-	(369,385)	-	369,385	-
Balance at 31 December 2022		5,513,466	11,021,335	1,023,188	4,028,861	21,586,850

(continued on page 5)

S.P.E.E.H. HIDROELECTRICA S.A. Two-tier system Company
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2023
(All amounts are in thousand RON, unless otherwise specified)

	Note	Share capital	Revaluation reserve	Other reserves	Retained earnings	Total equity
Balance at 1 January 2023		5,513,466	11,021,335	1,023,188	4,028,861	21,586,850
Total comprehensive income for the year						
Profit of the year		-	-	-	6,365,330	6,365,330
Other comprehensive income for the year						
Revaluation of property, plant and equipment, net of tax	21,22	-	1,409,973	-	-	1,409,973
Remeasurement of defined benefit liabilities, net of tax	15	-	-	-	(4,962)	(4,962)
Total other comprehensive income for the year		-	1,409,973	-	(4,962)	1,405,011
Total comprehensive income for the year		-	1,409,973	-	6,360,368	7,770,341
Transactions with owners of the Company						
Contributions and distributions						
Dividends	22	-	-	-	(4,349,389)	(4,349,389)
Issuance of ordinary shares		13,432	-	-	-	13,432
Total transactions with owners of the Company		13,432	-	-	(4,349,389)	(4,335,957)
Other changes in shareholders' equity						
Set up of legal reserves		-	-	846	(846)	-
Transfer of revaluation reserve to retained earnings due to depreciation and disposals of property, plant and equipment	22	-	(392,692)	-	392,692	-
Balance at 31 December 2023		5,526,898	12,038,616	1,024,034	6,431,686	25,021,234

The accompanying notes are an integral part of these consolidated financial statements.

Karoly BORBELY Chairman of the Management Board	Bogdan-Nicolae BADEA Member of the Management Board	Radu Ioan CONSTANTIN Member of the Management Board	Marian FETIȚA Member of the Management Board	Ianăș RĂDOI Member of the Management Board
Petronel CHIRIAC Financial Director		Gabriela VASILESCU Accounting Manager		

S.P.E.E.H. HIDROELECTRICA S.A. Two-tier system Company
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2023
(All amounts are in thousand RON, unless otherwise stated)

	Note	2023	2022
Cash flow from operating activities:			
Profit for the year		6,365,330	4,464,000
<i>Adjustments for:</i>			
Depreciation	21	797,344	769,968
Amortisation		1,969	2,182
Impairment loss on property, plant and equipment, net	21	236,865	23,869
Impairment loss on trade receivables, net	19	79,918	43,461
Write-down of inventories		4,626	638
Loss on disposal of property, plant and equipment	12 E	5,278	2,051
Net foreign exchange loss	13	142	574
Interest income	13	(302,518)	(243,708)
Interest expense	13	26,037	10,637
Income tax expense	16	1,093,797	953,436
		8,308,788	6,027,108
<i>Changes in:</i>			
Trade receivables		(1,777,209)	(730,610)
Inventories		(3,116)	(7,766)
Restricted cash		-	(90,800)
Other assets		11,719	14,348
Trade payables		119,832	91,041
Deferred income		(4,663)	(5,676)
Employee benefits		(15,808)	(4,830)
Provisions		66,728	88,383
Other payables		(66,482)	(214,973)
Cash generated from operating activities		6,639,789	5,166,225
Interest paid		(15,193)	(2,658)
Income tax paid		(1,200,025)	(928,247)
Net cash from operating activities		5,424,571	4,235,320
Cash flow from investing activities:			
Payments for acquisition of property, plant and equipment		(189,408)	(169,005)
Payments for acquisition of intangible assets		(1,273)	(1,240)
Proceeds from the sale of property, plant and equipment		-	203
Payments for acquisition of corporate bonds		-	(351,265)
Payments for deposits held for investment purposes		(9,145,000)	(8,575,000)
Proceeds from deposits held for investment purposes		7,825,000	7,898,000
Proceeds from maturity of government bonds		-	235,410
Interest received		281,282	212,038
Net cash flow used in investing activity		(1,229,399)	(750,859)

(continued on page 7)

S.P.E.E.H. HIDROELECTRICA S.A. managed in a two-tier system
CONSOLIDATED STATEMENT OF CASH FLOWS
 FOR THE YEAR ENDED 31 DECEMBER 2023
 (All amounts are in thousand RON, unless otherwise stated)

	Note	2023	2022
Cash flow from financing activities:			
Proceeds from issue of shares	22	2,679	-
Repayment of borrowings	23	(93,416)	(93,307)
Lease payments	23	(8,146)	(4,364)
Dividends paid	22	(4,349,389)	(3,830,946)
Net cash used in financing activities		(4,448,272)	(3,928,617)
Net increase/(decrease) in cash and cash equivalents		(253,100)	(444,156)
Cash and cash equivalents at 1 January	17	660,734	1,104,890
Cash and cash equivalents at 31 December	17	407,634	660,734

The accompanying notes are an integral part of these consolidated financial statements.

Karoly BORBELY Chairman of the Management Board	Bogdan-Nicolae BADEA Member of the Management Board	Radu Ioan CONSTANTIN Member of the Management Board	Marian FETIȚA Member of the Management Board	Ianăș RĂDOI Member of the Management Board
Petronel CHIRIAC Financial Director			Gabriela VASILESCU Accounting Manager	

1. REPORTING ENTITY AND GENERAL INFORMATION

(a) General information about the Group

Societatea de Producere a Energiei Electrice in Hidrocentrale Hidroelectrica S.A. ("the Company" or "Hidroelectrica") is a joint stock company, domiciled in Romania. The Company's registered office is 15-17 Ion Mihalache Blvd., Tower Center Building, 10-15 floors, Sector 1, Bucharest. The Company is registered at National Trade Register Officer with no. J40/7426/2000 and has unique registration code 13267213.

These consolidated financial statements comprise the Company and its subsidiaries (together referred as the "Group").

The Group's main lines of business are power generation (hydro and wind) and electricity supply to end consumers.

As of 31 December 2023, the Romanian State through the Ministry of Energy owns 360,094,390 shares, representing 80.0561% of the share capital and of the total voting rights. The rest of the shares are traded on the Bucharest Stock Exchange as follows: 75,535,576 shares, representing 16.7931% of the share capital are owned by legal persons and 14,172,601 shares representing 3.1508% of the share capital by individuals.

The Company is governed by a two-tier system comprising the Supervisory Board and the Management Board.

Initial public offering ("IPO")

Between 23 June and 4 July 2023, the Company went through an initial public offer on Bucharest Stock Exchange. The allocation of the shares was carried out on 5 July 2023, the total offer included the entire holding of Fondul Proprietatea, namely 89,708,177 shares, representing 19.9439% of the Company's share capital.

The first trading day of Hidroelectrica shares at the Bucharest Stock Exchange was 12 July 2023.

List of subsidiaries

As of 31 December 2023, and 31 December 2022 Hidroelectrica has the following subsidiaries:

Subsidiary	Activity	Registered Office	% participation at 31 December 2023	% participation at 31 December 2022
Hidroserv S.A. (company in insolvency)	Services (maintenance, repairs, construction)	Bucharest, Romania	100%	100%

Hidroserv S.A. entered the insolvency proceedings in October 2016. In 2020, a reorganization plan of the subsidiary was approved by the Assembly of Creditors and confirmed by the insolvency judge. Hidroserv is expected to exit the insolvency procedure during 2024.

All revenues are generated in Romania.

(b) Regulatory environment

The activity in the energy sector is regulated by the National Energy Regulatory Authority ("ANRE").

The main responsibilities of ANRE include: licensing the entities operating in the energy sector, issuance of regulations applicable to the electricity market, approval of regulated prices and tariffs and issuance of methodologies used to set regulated prices and tariffs.

(c) Main operations of the Group

Electricity generation and system services

The Group generates electricity by operating 187 hydropower plants and micro-hydropower plants, including five pumping stations, (the main generation capacities being Portile de Fier I and Portile de Fier II, which represent approximately 40% of the total electricity generated) and 36 wind turbines of 3 MW each.

The electricity generated is sold both wholesale and retail (supply to end consumers).

On 1 January 2023 a centralized electricity acquisition mechanism was implemented by the Government through which the electricity producers shall sell the available (not contracted as of November 2022) quantity of electricity to the market operator, OPCOM, at a fixed price of RON 450 per MWh. OPCOM will re-sale the electricity to electricity suppliers and certain large consumers (such as electricity distribution operators) at the same price of RON 450 per MWh. This price fixing mechanism is applicable between 1 January 2023 and 31 March 2025.

Hidroelectrica S.A. also provides system services to the national electricity system operator, Transelectrica. The system services involve making an agreed power generation capacity available to Transelectrica within a certain period of time, so that to allow the system operator to achieve permanent balancing of the electricity system.

Electricity supply to end users

The electricity market to end users in Romania is liberalized and all consumers are free to choose their electricity supplier from which they can purchase electricity at negotiated prices.

The Group supplies electricity at negotiated tariffs to both industrial consumers and household consumers. The supply tariff include, in addition to the electricity price, the electricity transmission and distribution costs (see accounting policy 6 c)), the contribution to high efficiency co-generation power support scheme, and the cost of green certificates (see *Green certificates* section).

Starting 1 November 2021, due to the significant increase in energy prices on the international and national markets and the impact thereof on Romanian consumers, the Government implemented consumer support schemes, as follows:

- capping the electricity supply tariffs for household (until 31 March 2025) and non-household consumers (until 31 January 2022 for certain types of non-household consumers, and for 1 February 2022 – 31 March 2025 for all non-household consumers); and receiving a subsidy from the State to compensate for the impact of capping mechanism; The impact of this mechanism on the Group's financial performance in 2023 was a reduction of revenue due to capped prices by RON 1,672 million (2022: reduction of revenue of RON 551 million).

On 7 July 2023, Law 206 approving GEO 153/2022 was published and brought a series of changes with impact on the revenues obtained from the Supply activity, respectively on the method of computing the invoiced price to the final consumer, for the consumers for which the electricity consumed is purchased by the Company. The impact of these changes on the Group's financial performance in 2023 implied a reduction of revenue by RON 61 million as a consequence of the legal obligation to sell at a price lower than the contractual price.

Green certificates ("GC")

As a producer of electricity from renewable sources (hydroelectric power in refurbished micro-hydropower plants with an installed capacity of no more than 10 MW and with a service life of at least 15 years from the date of commissioning, and wind power), the Group receives green certificates through the green certificates support scheme.

In 2023 the Group received between 2.86 and 3 green certificates for each MWh generated by the eligible micro-hydropower plants (7 micro-hydropower plants in January 2023 and 6 micro-hydropower plants starting February 2023; 2022: between 2.64 and 3 green certificates for each MWh generated by 8 micro-hydropower plants) and 0.75 green certificates for each MWh generated by the wind farm in 2023 and 2022. During 2023, the Group generated from its own production portfolio a number of 33,093 GC from hydropower plants and 251,242 GC from wind power plant (2022: 86,319 GC from hydropower plants and 224,156 GC from wind power plant).

The green certificates can be sold on the spot and forward market. The selling price must fall between the minimum and maximum values set by law:

- (a) a minimum trading value of EUR 29.4/GC and
- (b) a maximum trading value of EUR 35/GC.

The Group's wind power subsidiary sold green certificates in 2022 at the minimum price on all markets, as a result of the excess GC offered for sale compared to the suppliers' purchasing obligations.

As an electricity supplier, the Group is required to purchase a number of green certificates computed by multiplying the annual mandatory purchase quota of green certificates by the quantity (in MWh) of electricity supplied to end users. ANRE establishes the annual mandatory level of purchase obligations (quotas) of green certificates. Applicable annual quota for 2023 is 0.4946974 green certificate per Mwh (2022: 0.5014313 green certificate per Mwh).

Tax on electricity producers

Starting November 2021 the Government introduced a new tax for electricity producers. The tax is computed as 80% (for the period 1 November 2021 to 31 August 2022) and 100% (for the period 1 September 2022 to 31 March 2025) of net monthly average selling price in excess of RON 450 per Mwh.

Net monthly average selling price is computed based on monthly revenue of the generation segment, which includes the wholesale of electricity produced and the value of electricity transferred within the same entity from producer portfolio (generation segment) to supplier portfolio (supplier segment), less monthly cost of electricity purchased, market administration fees and trading fees. Electricity production costs are not included in the monthly expenses.

2. BASIS OF ACCOUNTING

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS-EU").

These financial statements are prepared in order to comply with reporting obligations under Law no.24/2017 regarding issuers of financial instruments and market operations and related amendments.

The consolidated financial statements were authorized for issue by the Company's Management Board on 25.03.2024 and by the Supervisory Board on 27.03.2024.

The Company also issues an original version of these consolidated financial statements prepared in accordance with IFRS-EU in Romanian language approved at the same date with these financial statements.

These consolidated financial statements have been prepared on a going concern basis. Details of the Group's accounting policies are included in Note 6.

The Group also prepares consolidated financial statements in accordance with Order of Minister of Public Finance no. 2844/2016 and subsequent amendments ("OMFP no. 2844/2016").

3. FUNCTIONAL CURRENCY AND PRESENTATION CURRENCY

These consolidated financial statements are presented in Romanian Lei (RON), which is the Group's functional currency. All amounts have been rounded to the nearest thousand, unless otherwise indicated.

4. USE OF JUDGEMENTS AND ESTIMATES

In preparing these consolidated financial statements, management has made judgements and estimates that affect the application of the Group's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively.

a) Judgements

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognized in the financial statements is presented below:

a1) Concession agreement

In November 1998 Law no. 213/1998 was issued regulating the statute of the public domain. This law provides that the ownership right over the public domain assets belongs to the State or local authorities, which can lease the assets that are in public property. In accordance with the provisions of Law no. 213/1998 and Law no. 219/1998, the Ministry of Economy and Commerce (currently the Ministry of Energy) has leased to the Company the hydropower facilities (dams, piers, locks, water storage reservoirs) and the land on which they are located. Thus, in December 2004, the concession contract no. 171/27.12.2004 was concluded between the Ministry of Economy and Commerce (currently the Ministry of Energy) (grantor) and Company (operator) for the hydropower assets in the public patrimony existing as at 31 December 2003.

The main terms of the concession contract and its subsequent amendments are the following:

- The State, through the Ministry of Economy and Commerce (currently the Ministry of Energy), holds the ownership right over the public assets that are the subject matter of the contract;
- The Company has the right to use these assets for a period of 49 years from the signoff date (the period may be extended in accordance with the provisions of the concessions law, by half of the original period, by mutual agreement of the parties), for the purpose of operation, refurbishment, modernization, rehabilitation, as well as construction of new hydro-power facilities according to the investment programs;
- The Company pays an annual royalty of 1/1000 of the annual revenues from power generation and system services generated in hydro-power facilities;
- Upon termination of the contract, certain assets that were used by the operator in carrying out the concession will be returned to the grantor, as explained below;
- The Company has the obligation to use the assets in accordance with the provisions of the concession contract and the operating license.

The concession contract provides for the following types of assets:

- Assets to be returned – assets of public domain that belong to the grantor and that are returned to the grantor in full right, free of charge and free of any encumbrances, upon termination of the concession contract. Assets to be returned are assets of public domain such as dams, piers, locks, that are subject to the concession/lease, as well as those resulting from investments/improvements to these assets made by the Company during the concession contract period. The Company depreciates these assets over the lower of the concession contract remaining period and the useful life of those assets.
- Takeover assets – assets that belong to the operator and are used by the operator during the concession period and which are similar in nature to assets of public domain above (land improvements and constructions, technical installations and machinery), over which, upon termination of the concession contract, the grantor has an option to

take over those assets in exchange for a payment equal to the “present book value” on the takeover date. In Company’s interpretation, the “present book value” is the net book value at the date of the takeover, and given that the Company uses the revaluation model, this value will be the revalued amount at that date. These assets are depreciated over their estimated useful life.

- Own assets – assets that, upon termination of the concession contract, remain the property of the operator. Own assets are assets (constructions, technological installations, machinery and equipment, measuring and control devices; vehicles; furniture, office equipment, protective equipment and other tangible assets) that belong to the operator and are used by the operator during the concession period, except for the takeover assets. These assets are depreciated over their estimated useful life.

In assessing the application of IFRIC 12 “Service concession arrangements”, the Group considered the following criteria of the public-private service concession arrangements in the analysis of the concession contract:

- a) The grantor controls or regulates what services the operator must provide within the infrastructure, to whom it must provide them and at what price; and
- b) The grantor controls – by ownership, beneficial entitlement or otherwise – any significant residual interest in the infrastructure at the end of the term of the arrangement.

The Group concluded that it is not within the scope of IFRIC 12 because it does not meet criterium a) above, the grantor does not regulate to whom the operator must provide the service and at what price. The Group considered that the price fixing mechanism introduced by the Government starting 1 January 2023 does not affect this conclusion as this mechanism is temporary and applied only to part of the production.

The Group recognizes the royalty of the concession contract in Other operating expenses.

a2) Leasing and refurbishing of assets to be returned

In assessing the application of IFRS 16 “Leases” to the concession contract presented above, the Group considered the following criteria to determine whether this contract contains a lease:

- a) the lessee has the right to obtain in essence all the economic benefits using the identified asset;
- b) the lessee has the right to direct the use of the identified asset.

The Group concluded that both criteria are met and, consequently, the concession contract contains a lease as the Ministry of Energy transferred the right to control the use of the assets of the public domain (assets to be returned) to the Group in exchange for a royalty. According to IFRS 16, the Group measured the carrying amount of the right-of-use asset and the amount of lease liability related to this contract as nil, because the future lease payments are variable and depending on Company’s revenue, the royalty being calculated as a percentage of revenues.

In respect of refurbishments made to the assets to be returned, the Group concluded that they are improvements of a leased asset for which the Group is the “accounting owner”, in the sense that these improvements serve the Group’s interest, as lessee, to use the leased assets. Consequently, the Group recognized improvements of assets to be returned as property, plant and equipment. The Group depreciates these assets over the lower of the concession contract remaining period and the useful life of those assets.

The Group believes that the following facts indicate that the Group is the “accounting owner” of improvements made:

- a) The Ministry of Energy, as a lessor, does not reimburse the Company, as lessee, for the cost of the improvements made. Consequently, the improvements are fully funded from the Group’s sources, and the Group is responsible to incur the costs;
- b) The Group has no obligation to make improvements of the assets to be returned. The decisions regarding refurbishment of the assets to be returned are made by the Group depending on its needs to use these assets and are unique to the Group’s intended use of the leased assets;
- c) The Group is permitted to alter the leasehold improvements without the consent of the lessor or without compensating the lessor;

- d) Improvements are made on the risk and responsibility of the Group (the Group bears the risk of overruns) and are not available to the grantor until the termination of the concession contract.

a3) Cash-generating units (“CGU”)

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

The Group concluded that the assets relating to hydro-power plants except for the ones mentioned below represent a single cash-generating unit, mainly based on the following considerations:

- the Company has a single hydro-power generation license which covers all power plants as a whole;
- the license stipulates the Company’s obligation to maintain the availability of its production capacities as a whole;
- the decision to produce electricity in a hydro-power plant is made based on the technical operating conditions of the other hydro-power plants;
- the balancing of the electricity contracted and produced is made at the Company’s level and not at individual plants;
- the contracts are concluded based on the total estimated electricity to be produced in a specific period in all of the Company’s hydro-power plants, and the price is set for the entire production.

Also, the Group concluded that the wind park is a separate single CGU and that each investment objective related to hydro-power assets with complex/multiple functions represent separate cash-generating units.

a4) Decommissioning obligations

Order of the Ministry of Water and Environment no. 119 of 11 February 2002 on approval of the Procedure of passage into conservation, post-utilisation or abandonment of dams provides the procedures for post-utilisation and abandonment of dams (including levees, hydro-power plants and locks) that must be carried out by the holders of dams under certain conditions provided by law. The Company has no legal or contractual obligations to disassemble and restore the site, other than those arising from Order no. 119, which are presented in the paragraphs below.

Dam holders are defined by GEO no. 244 of 28 November 2000 (republished) on the safety of the dams as legal persons of any title, who have in their possession, ownership and/or administration a dam.

Post-utilisation refers to the dams that have reached their normal operating life span and can be used for purposes other than those for which they were originally constructed for. Post-utilisation requires the implementation of a set of measures and works that will ensure the new functionality of the dam to protect the population and the environment in safe conditions. The necessary measures and works are carried out through the care of both the holder or administrator of the dam, and the post-user.

The post-utilisation of the dams is proposed by the holders of the dams and is approved by order of the minister that exercises control, coordination or authority over the entity that holds the dam, based on the endorsement of the Ministry of Water and Environment.

After the performance of the works required by the post-utilisation project, the hand over reception protocol between the former holder and the post-user is performed.

Abandonment refers to completed or unfinished dams, with or without the normal life span exceeded, which can no longer be kept in operation or post-utilisation due to technical impossibility or very high costs and which, at the same time, represent a potential danger for the population and the environment. Abandonment requires the implementation of a set of measures and works for the decommissioning of the dam, the ecological reconstruction of the area and enabling adequate liquid and solid flows, including the maximum water flow in the dammed section. The necessary measures and works are carried out with the care of the holder or the administrator of the dam and must ensure the flow conditions existing prior to the construction of the dam.

The triggering events of dam abandonment operations include:

- the request of the holders of the dams, when they find that the necessary performance requirements according to the law cannot be met, the dams presenting an unacceptable associated risk;
- the disposition of the control bodies, following expertises that show that the dams present an unacceptable associated risk, constituting a real danger for the population and the environment;
- accidents, when the conclusions of the expert report specifically indicate the abandonment due to the very high cost of the necessary repairs, as well as not meeting the performance requirements and the safety criteria, etc.

The reception of the decommissioning and ecological reconstruction works is carried out by representatives of the holder of the dam and of the central or local public administration, who take over the respective area, by concluding a handover protocol.

The Romanian State, represented by the Ministry of Economy and Commerce, currently the Ministry of Energy, holds the ownership right over the hydropower developments (dams, levees, locks, storage lakes) and the land on which they are located that belong to the public domain and which are the subject of the concession contract mentioned above. The Group has the right to use these assets for a period of 49 years (remaining 30 years as of 31 December 2023).

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

The Group considers that, in accordance with the applicable legal provisions and practices, abandonment occurs in extreme situations, when the dams become an unacceptable risk impacting the environment and the population. Given that these constructions have complex functions in addition to power generation, including flood protection, water supply, irrigation etc., post-utilisation is the usual way in which these constructions will be transferred to central or local public administration, after they can no longer be used for power generation purposes.

The necessary works for post-utilisation are established by technical documentation prepared on the basis of an assessment of the safety status of the dam at that time, carried out by experts certified by the ministries and certified/endorsed by the Ministry of Water and Environment.

Moreover, the abandonment works are carried out on the basis of a special documentation prepared with the water authority approval, the environmental protection agreement, and the endorsement of the local and central public administration. These documentations and endorsements will establish the activities necessary for abandonment.

The works and costs of transition into post-utilisation or abandonment are subject to significant uncertainties caused by the fact that the rate of degradation and the life span of a dam vary significantly from one case to another (some could reach more than 100 years), as well as by the complexity and variety of works that may be necessary for transition into post-use or abandonment, depending on the specific factual status of each dam at the time of entering post-utilisation or abandonment, on the cost sharing between the holder and the post-user, as well as by the very remote time period from present to the moment when the abandonment works would be performed, if any. Also, there are significant uncertainties related to the evolution of the degree of degradation and to the determination of the actual life span of a dam, which are dependent on natural disasters (floods, landslides, earthquakes, etc.) and on the reliability of the construction.

In addition, the Group estimates that, by the end of the concession contract (the remaining period of 30 years as of 31 December 2023), the occurrence of situations requiring post-utilisation or abandonment of public domain assets or its own assets – levees, hydro-power plants and locks (other than those in progress assets described in Note 21) is unlikely, considering the long life of the dams, which can be significantly extended over 100 years by maintenance and improvements.

Consequently, the Group recognizes decommissioning provisions only when management has taken the decision to abandon an asset or switch to post-utilisation or has no realistic alternative but to do so during the concession period. The provisions are recognized based on the costs resulting from the technical documentation prepared by specialists employed by the Group.

a5) Electricity sale-purchase contracts

Under IFRS 9 “Financial Instruments”, a contract to buy or sell a non-financial item (including electricity) may be classified and recognized as a financial instrument. According to paragraphs 2.4 and 2.6 of IFRS 9, if the contracts to buy or sell non-financial items can be settled net in cash or in another financial instrument, or by exchanging financial instruments, including if the underlying commodity is readily convertible into cash, they are in the scope of IFRS 9. The standard provides an exemption from applying IFRS 9 for the contracts that are entered into and continue to be held for the purpose of the receipt or delivery a non-financial item in accordance with the entity’s expected purchase, sale or usage requirements (“own-use exemption”).

The electricity is a commodity readily convertible into cash and therefore management has conducted an analysis in order to determine if own use exemption applies to its contracts.

The main considerations are:

- the Group is an electricity producer and its only intention and purpose is to sell all the electricity produced;
- the forward sell contracts are concluded with the sole intention of delivering the electricity produced; the Group does not act as an electricity broker/dealer;
- the buy-sell transactions on the spot markets (day-ahead, intra-day and balancing markets) are entered into only for meeting the Group’s own balancing necessity and responsibility;
- in 2020 the Group started to be active in the electricity supply sector (selling electricity to end users), acting also as a service provider (including customer service); and
- the Group has used limited forward purchase electricity contracts and their purpose was to cover the needs for the contractual commitments for deliveries to final end consumers.

The Group concluded that own use exemption applies in all its electricity sale and purchase contracts in 2023 si 2022 and therefore are not in scope of IFRS 9.

a6) Tax for electricity producers

Starting November 2021 the Government introduced a new tax for electricity producers. The tax is computed as 80% (for the period 1 November 2021 to 31 August 2022) and 100% (for the period 1 September 2022 to 31 March 2025) of net monthly average selling price in excess of RON 450 per Mwh.

Net monthly average selling price is computed based on monthly revenue of the generation segment, which includes the wholesale of electricity produced and the value of electricity transferred within the same entity from producer portfolio (generation segment) to supplier portfolio (supplier segment), less monthly cost of electricity purchased, transaction fees, such as market administration fees and trading fees. Electricity production costs are not included in the monthly expenses.

The Group analysed the nature of the tax in order to assess whether it falls under IAS 12 *Income tax* or IFRIC 21 *Levies*, main considerations being:

- the tax is revenue driven, as the main cost incurred by the producers, electricity production cost, is not considered in the net monthly revenue taxed;
- the costs deducted in the calculation (cost of electricity purchased and transaction fees) are marginal to revenue, as the Group has limited acquisitions of electricity as part of the electricity generation activity, and those are only for the purpose of balancing the production to the contractual commitments for sale of electricity on the wholesale market;
- the threshold of RON 450 per MWh for tax computation is not linked to producers’ costs, but rather reflects a sales price cap.

The Group concluded that the tax for electricity producers is a levy falling under the provisions of IFRIC 21 *Levies*, and not income tax.

b) Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties at the reporting date that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year is included in the following notes:

- Note 21 – assumptions related to the revaluation of property, plant and equipment;
- Note 21 – assumptions related to determination of recoverable amount of assets under construction;
- Note 6 h) and i) – estimates of useful lives of property, plant and equipment and intangible assets;
- Note 12 D – estimates in relation to electricity transfer price between production and supply activity used in calculation of tax for electricity producers;
- Notes 27 and 30 – recognition and measurement of provisions and contingent liabilities;
- Notes 6 l), 19 and 28 b) – determination of expected credit losses for trade receivables;
- Note 15 – assessment of obligations resulting from defined benefit plans and other long-term employee benefits: the main actuarial assumptions;
- Note 27 – estimates related to decommissioning provisions.

Measurement of fair values

A number of the Group's accounting policies and disclosures require the measurement of fair values, for financial assets and liabilities, and non-financial assets (property, plant and equipment).

When measuring the fair value of an asset or liability, the Group uses observable market data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices);
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability fall into different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

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

Further information about the assumptions made in measuring fair values is included in the following notes:

- Note 21: property, plant and equipment;
- Note 28: financial instruments.

Climate-related risks

Hidroelectrica is exposed to climate-related risks, which can impact water resource availability, a key factor in hydropower generation. These include variability in precipitation, with the potential for altered river flows impacting water availability for energy production. The increased incidence of extreme weather events—such as the drought experienced in 2022 that led to a significant decrease in hydro production—demonstrates the tangible effects of these risks. Nevertheless, the company has historically observed that during droughts, electricity prices have increased, which may benefit the company through increased profit margins rather than through volumes sold.

To address climate-related risks, Hidroelectrica is emphasizing the diversification of its energy portfolio, particularly focusing on expanding into renewable energy sources. The company plans to acquire solar parks and additional wind

farms, aiming for an additional 500 MW of installed capacity in the next years. This shift towards solar and wind energy is strategically significant, especially given the inverse correlation between solar power generation and water levels for hydropower. The adoption of solar power, therefore, offers an offset during periods of low water availability, underlining the importance of a versatile and resilient energy mix in response to the challenges posed by climate variability.

The financial implications of climate-related risks include the valuation of Hidroelectrica's property, plant and equipment, related to water resources and hydropower facilities that can be affected by a lower volume of power generation estimated during projected useful life associated with climate change compared with the initial technical and financial performance indicators of such projects.

5. BASIS OF MEASUREMENT

The consolidated financial statements have been prepared on the historical cost basis except for land, buildings, equipment and other items of property, plant and equipment, which are measured using revaluation model.

6. MATERIAL ACCOUNTING POLICIES

The Group has consistently applied the following accounting policies to all periods presented in these consolidated financial statements.

(a) Basis of consolidation

(i) Business combinations

The Group accounts for business combinations using the acquisition method when the acquired set of activities and assets meets the definition of a business and control is transferred to the Group (see 6 (a) (ii)). In determining whether a particular set of activities and assets is a business, the Group assesses whether the set of assets and activities acquired includes, at a minimum, an input and substantive process and whether the acquired set has the ability to produce outputs.

The Group has an option to apply a 'concentration test' that permits a simplified assessment of whether an acquired set of activities and assets is not a business. The optional concentration test is met if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets.

The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognized in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognized in profit or loss.

Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, other contingent consideration is remeasured at fair value at each reporting date and subsequent changes in the fair value of the contingent consideration are recognized in profit or loss.

(ii) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group 'controls' an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

(iii) Non-controlling interests ("NCI")

NCI are measured initially at their proportionate share of the acquiree's identifiable net assets at the date of acquisition.

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

(iv) *Loss of control*

When the Group loses control over a subsidiary, it derecognizes the assets and liabilities of the subsidiary, and any related NCI and other components of equity. Any resulting gain or loss is recognized in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

(v) *Transactions eliminated on consolidation*

Intra-group balances and transactions, and any unrealized gains or losses (except for foreign currency transactions gains or losses), are eliminated.

(b) Foreign currency transactions

Transactions in foreign currencies are translated into the functional currency of Group companies at the exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rate at the reporting date. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the exchange rate when the fair value was determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated at the exchange rate at the date of the transaction. Foreign currency differences are generally recognized in profit or loss and presented within finance costs.

(c) Revenue from contracts with customers

Revenue is measured based on the consideration specified in a contract with a customer. The Group recognises revenue when it transfers control over a good or service to a customer.

The following table provides information about the nature and timing of the satisfaction of performance obligations in contracts with customers, including significant payment terms, and the related revenue recognition policies.

	Nature and satisfaction of contractual obligations	Revenue recognition
Wholesale of electricity	<p>The Group sells the majority of electricity produced on forward contracts with electricity suppliers and traders, on the spot market (day-ahead market) to the market operator (OPCOM) and on the balancing market to the system operator (Transelectrica).</p> <p>Invoices are issued at the end of the month or at the beginning of the following month for the electricity delivered in the current month.</p> <p>The payment term is 30 days from invoice date.</p>	<p>Revenue is recognized over time, because the customer simultaneously receives the benefits provided by the performance of the Group as the Group delivers electricity; generation and use of electricity are simultaneous because electricity is not stored.</p> <p>Advance payments collected from customers for future electricity sales are recognized as contract liabilities.</p>
Electricity supply to end users (retail sales of electricity)	<p>The performance obligation is represented by delivery of electricity to the customer's location, which includes transmission and distribution, performed via third party assets.</p>	<p>Revenue is recognized over time, because the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group delivers electricity.</p>

Customers obtain control of electricity as electricity is consumed. Revenue is recognized based on the volumes communicated to the Group by the distribution operators, which are based on automated or manual meter readings performed by the distribution operators, self-readings reported by the consumers, or based on estimates of electricity delivered for which readings were not yet performed for the interval between the date of last reading and the end of period.

Invoices are usually issued on a monthly basis, in the month following consumption. However, in 2022 and 2023, the Group incurred significant delays in invoicing final consumers, due to the implementation of new billing and customer relationship systems, which continued also in 2023 for supply activity and significant increase in the number of new customers.

The payment term is 45 days from invoice date.

System services

System services consist of Group making available an agreed generation capacity to the system operator, Transelectrica, for a certain period of time. This capacity is used by Transelectrica in the process of balancing the electricity system.

Invoices for system services are issued on a monthly basis, at the beginning of each month for the services provided in the previous month.

The payment term is 30 days from invoice date.

Electricity supply revenue include transmission and distribution tariffs, which are invoiced by the Group to end users. The transmission and distribution services are provided by the transmission operator and the distribution operators, and the related costs are billed by the transmission operator and the distribution operators to the Group.

The Group assessed whether it is a principal or an agent in relation to transmission and distribution services passed through to the customer and it concluded that it acts as a principal. The considerations supporting this conclusion include: the Group has a single performance obligation, i.e. delivery of electricity to end user location, which includes transmission and distribution; electricity consumption happens instantaneously as the electricity is generated at the Group's plants and delivered through the transmission and distribution grids to the end user's location.

As the Group makes available generation capacity measured in MWh and not specific assets, the Group concluded that the contract does not contain a lease and therefore is in scope of IFRS 15.

Revenue is recognized over time, because the customer simultaneously receives and consumes the benefits provided by the Groups's performance as the services are performed.

The fee received for system services depends on the hourly capacities made available (ie number of hours for which the capacity multiplied by the capacity) and the hourly tariffs.

Both the hourly capacities and the hourly tariffs are established based on the results of daily auctions organized by the system operator.

If, during the interval the capacity is made available, the system operator orders the Group to produce electricity using the capacity made available, the electricity produced is sold on the balancing market at

		the price established on the respective market (see <i>Wholesale of electricity</i> section above).
Sales of green certificates	The Group sells on the spot market part of the green certificates granted through the support scheme to its wind farm for its green production. The customers obtains control of green certificates when the transaction is registered by the market operator in its electronic registry. The invoices are issued on transaction date. The payment term is 30 days from invoice date.	Revenue is recognised at a point in time, i.e. when the control over green certificates is transferred.

(d) Employee benefits

(i) Short-term employee benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(ii) Defined contribution plans

Obligations for contributions to defined contribution plans are expensed as the related service is provided. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

(iii) Defined benefit plans

The Group's net obligation in respect of defined benefit plans is calculated separately for each plan by estimating the amount of future benefits that employees have earned in the current and prior periods, discounting that amount. There are no plan assets.

The defined benefit plans include cash benefits on retirement and benefits in kind consisting of free electricity granted to employees after retirement.

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

Remeasurements of the defined benefit liability, which comprise actuarial gains and losses, are recognised immediately in other comprehensive income ("OCI"). The Group determines the net interest expense (income) on the net defined benefit liability for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability, taking into account any changes in the net defined benefit liability during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognized in profit or loss.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognised immediately in profit or loss. The Group recognises gains and losses on the settlement of a defined benefit plan when the settlement occurs.

(iv) Other long-term employee benefits

The Group's net obligation in respect of long-term employee benefits is the amount of future benefit that the employees have earned in return for their service in the current period and prior periods. That benefit is discounted to determine its present value. Remeasurements are recognized in profit or loss in the period in which they arise.

Other long term employee benefits include cash benefits paid to employees at the moment when they achieve certain seniority milestones.

(v) *Termination benefits*

Termination benefits are expensed at the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognises costs for a restructuring. If benefits are not expected to be settled wholly within 12 months of the reporting date, then they are discounted.

(e) Operating profit

Operating profit is the result generated from the continuing principal revenue-producing activities of the Group as well as other income and expenses related to operating activities. Operating profit excludes finance result and income taxes.

(f) Finance income and finance costs

The Group's finance income and finance costs include:

- interest income;
- interest expense;
- the foreign currency gain or loss on financial assets and financial liabilities;
- impairment losses (and reversals) recognised on financial assets (other than trade receivables);
- unwinding of non-current provisions.

Interest income or expense is recognised using the effective interest method.

The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- the gross carrying amount of the financial asset; or
- the amortised cost of the financial liability.

In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability. However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

(g) Income tax

Income tax expense comprises current and deferred tax. It is recognized in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in OCI.

The Group has determined that interest and penalties related to income taxes, including uncertain tax treatments, do not meet the definition of income taxes, and therefore accounted for them under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.

(i) *Current tax*

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to tax payable or receivable in respect of previous years. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any. It is measured using tax rates enacted or substantively enacted at the reporting date.

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

(ii) *Deferred tax*

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for:

- temporary differences that occur on the initial recognition of assets and liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;

- temporary differences related to investments in subsidiaries, associates and joint arrangements to the extent that the Group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Future taxable profits are determined based on the reversal of relevant taxable temporary differences. If the amount of taxable temporary differences is insufficient to recognise a deferred tax asset in full, then future taxable profits, adjusted for reversals of existing temporary differences, are considered, based on the business plans for individual subsidiaries in the Group. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized; such reductions are reversed when the probability of future taxable profits improves.

The measurement of deferred tax reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

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

(h) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are initially recognised at cost, which includes capitalized borrowing costs.

If significant parts of an item of property, plant and equipment have different useful lives, then they are accounted for as separate items (major components) of property, plant and equipment.

Any gain or loss on disposal of an item of property, plant and equipment is recognised in profit or loss.

After initial recognition:

- land, buildings, equipment and other items of property, plant and equipment are measured at revalued amount; and
- assets in progress are measured at cost less any accumulated impairment losses.

Revaluations are made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using the fair value at the end of the reporting period.

When an item of property, plant and equipment is revalued, the accumulated depreciation is eliminated from the gross book value, and the net amount is adjusted to the revalued amount of the asset.

If an asset's carrying amount is increased as a result of a revaluation, the increase is recognised and accumulated in equity under revaluation reserve. However, the increase is recognised in profit or loss to the extent that it reverses a revaluation decrease of the same amount of the same asset previously recognised in profit or loss.

If an asset's carrying amount is decreased as a result of a revaluation, the decrease is recognised in profit or loss. However, the decrease is recognized in equity in revaluation reserve if there is any credit balance existing in the revaluation reserve in respect of that asset.

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

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

(ii) Subsequent expenditure

Subsequent expenditure is capitalized only if it is probable that the future economic benefits associated with the expenditure will flow to the Group.

(iii) Depreciation

Depreciation is calculated using the straight-line method over the assets estimated useful lives, and is recognized in profit or loss. Land and assets under construction are not depreciated.

The estimated useful lives of property, plant and equipment for current and comparative periods are as follows:

Category	Useful life (years)
Buildings and special installations	65-97
Buildings and special installations representing assets to be returned, according to the concession contract (see Note 4 a1))	The lesser of useful economic life and remaining period of the concession contract
Technological equipment	25-47
Measurement and control devices	15-23
Vehicles	16-24
Fixture and fittings	12

Depreciation methods and useful lives are reviewed at each reporting date and adjusted if appropriate.

(i) Intangible assets

(i) Recognition and measurement

Intangible assets that are acquired by the Group and have finite useful lives are measured at cost less accumulated amortisation and any accumulated impairment losses. Intangible assets include mainly software and licenses.

(ii) Subsequent expenditure

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognized in profit or loss as incurred.

(iii) Amortisation

Amortisation is calculated to write off the cost of intangible assets less their estimated residual values using the straight-line method over their estimated useful lives, and is generally recognized in profit or loss.

The estimated useful lives of software and licenses for current and comparative periods are 3-5 years.

Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

(j) Green certificates

The Group recognizes the green certificates granted under the support scheme for renewable energy generators at cost (which is 0) at the time of obtaining the right to receive the grant (when electricity is generated).

The Group recognizes green certificates purchased at cost.

The Group, as an electricity supplier, is required by law to purchase a number of green certificates (see Note 1 c)), whose cost is subsequently charged to the end users based on the quantities of electricity consumed. In order to meet the legal annual purchase obligation (annual target or quota), the Group uses both green certificates granted under the support scheme and green certificates purchased.

Green certificates purchased to meet the purchase obligation (quota) are recognized in profit or loss when acquired. Green certificates purchased in excess of the mandatory quota at the end of the reporting period are recognized in the consolidated statement of financial position. If the mandatory quota is not met at the end of the reporting period, then the Group recognized a liability in the consolidated statement of financial position.

The cost of green certificates recharged to end users is recognized in profit or loss as part of Revenue from contracts with customers.

(k) Financial instruments

(i) Recognition and initial measurement

Trade receivables are initially recognized when they are originated. All other financial assets and financial liabilities are initially recognized when the Group becomes a party to the contractual provisions of the instrument.

Cash and cash equivalents include cash balances, demand deposits and deposits with maturity of up to three months from the date of origination that have an insignificant exposure to the risk of change in fair value, and are used by the Group to manage short-term commitments.

A financial asset (unless it is a trade receivable without a significant financing component) or a financial liability is initially measured at fair value plus or minus transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

(ii) Classification and subsequent measurement

Financial assets

On initial recognition, a financial asset is classified into one of the business models: held to collect, held to collect and sell or other.

Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is classified as held to collect and measured at amortized cost if it meets both of the following conditions:

- it is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All financial assets of the Group are classified as held to collect.

Financial assets – Subsequent measurement and gains and losses

Financial assets at amortized cost are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.

Financial liabilities – Classification, subsequent measurement and gains or losses

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

(iii) Derecognition

Financial assets

The Group derecognizes a financial asset when:

- the contractual rights to the cash flows from the financial asset expire; or
- it transfers the rights to receive the contractual cash flows in a transaction in which either:
 - substantially all of the risks and rewards of ownership of the financial asset are transferred; or
 - the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

Financial liabilities

The Group derecognizes a financial liability when its contractual obligations are discharged or cancelled, or expire. The Group also derecognizes a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognized at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognized in profit or loss.

(iv) Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously.

(l) Impairment

(i) Non-derivative financial assets

The Group recognizes a loss allowance for expected credit losses ("ECLs") on financial assets measured at amortised cost and contract assets.

The Group measures loss allowances at an amount equal to lifetime ECLs (Note 28).

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessments, that includes forward-looking information.

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 90 days past due.

The Group considers a financial asset to be in default when:

- the debtor is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or
- the financial asset is more than 180 days past due.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

Measurement of ECLs

ECLs are probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive).

Credit-impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortised cost are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the debtor;
- a breach of contract such as a default or being more than 180 days past due;
- the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise; or
- it is probable that the debtor will enter bankruptcy or other financial reorganisation.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

Write-off

The gross carrying amount of a financial asset is written off when the Group has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof.

(ii) Non-financial assets

At each reporting date, the Group reviews the carrying amounts of its non-financial assets (other than inventories, contract assets and deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs, according to the judgement described in Note 4 a3).

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs of disposal. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognized if the carrying amount of an asset or CGU exceeds its recoverable amount.

Impairment losses are recognized in profit or loss, except for the property, plant and equipment measured at revalued amount, in which case the impairment loss is recognized in other comprehensive income and decreases the revaluation reserve within equity to the extent that it reverses a previous revaluation surplus related to the same asset.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

A reversal of an impairment loss other than on revalued assets is recognized in profit or loss. A reversal of an impairment loss on a revalued asset is recognized in profit or loss to the extent that it reverses an impairment loss on the same asset that was previously recognized as an expense in profit or loss.

(m) Share capital

The Group recognized changes in share capital in accordance with the applicable legislation and after approval of the General Meeting of Shareholders and registration in the Trade Register.

Until 31 December 2003, the statutory share capital in nominal terms was restated according to IAS 29 "Financial Reporting in Hyperinflationary Economies" with a corresponding adjustment to retained earnings.

Ordinary shares

Incremental costs directly attributable to the issue of ordinary shares are recognized as a deduction from equity. Income tax relating to transaction costs of an equity transaction is accounted for in accordance with IAS 12 (see 6 (g)).

(n) Dividends

Dividends are recognized as a deduction from equity in the period in which their distribution is approved and recognized as a liability to the extent it is unpaid at the reporting date. Dividends are disclosed in the notes to financial statements when their distribution is proposed after the reporting date and before the date of the issuance of the financial statements.

(o) Provisions

A provision is recognized if, as a result of a past event, the Group has a current, legal or constructive obligation, which can be reliably estimated and it is likely that an outflow of resources incorporating economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as finance cost.

Decommissioning

A decommissioning provision in respect of abandoned or switched to post-utilization hydro-power assets, and the related expenses are recognized when management has taken the decision to abandon an asset or switch an asset to post-

utilisation or the Group has not a realistic alternative except to abandon or move to post-utilization an asset before the end of the concession period (see Note 4 (a4)).

Subsequent to initial measurement, the obligation is measured at the end of each reporting period to reflect the time value of money and any changes in the estimated future cash flows underlying the obligation. The increase in the provision due to time value of money is recognized as finance costs, while the changes in estimated future cash flow is recognized as operating expense.

The Group recognizes a decommissioning provision against property, plant and equipment in respect of decommissioning of the wind turbines. The obligation is measured at the end of each reporting period to reflect the time value of money and any changes in the estimated future cash flows underlying the obligation. The change in the provision due to time value of money is recognized as finance costs, while the changes in estimated future cash flow is recognized against property, plant and equipment.

(p) Contingent assets and liabilities

A contingent liability is:

- a) a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group; or
- b) a present obligation that arose from past events but is not recognized because:
 - i. it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or
 - ii. the amount of the obligation cannot be measured with sufficient reliability.

Contingent liabilities are not recognized in the financial statements, but disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group.

A contingent asset is not recognized in the financial statements, unless it is virtually certain. Contingent assets are only disclosed when an inflow of economic benefits is considered probable.

(q) Tax uncertainties

The Group applies IFRIC 23 *Uncertainties over income tax treatment* to account for uncertainties related to income tax.

An 'uncertain tax treatment' is an income tax treatment for which there is uncertainty over whether the relevant tax authority will accept it under tax law. Whether an uncertain tax treatment is present depends both on the specific position taken by the Group and on the applicable tax law. Therefore, uncertain tax treatments often occur when the applicable tax law is unclear or is not consistently understood.

If there is uncertainty about an income tax treatment, then the Group considers whether it is probable (more likely than not) that a tax authority will accept the Group's tax treatment included or planned to be included in its tax filing.

The Group reflects uncertainty about a tax treatment in measuring its current and deferred taxes as follows.

Tax authority is likely to accept the Group's tax treatment: If the Group concludes that it is probable that the tax authority will accept its tax treatment, then it measures current and deferred taxes consistently with the tax treatment used or planned to be used in its income tax filing.

Tax authority is unlikely to accept the Group's tax treatment: If the Group concludes that it is not probable that the tax authority will accept its tax treatment, then it reflects the effect of that tax uncertainty in determining the related taxable profit (or tax loss), tax bases, unused tax losses, unused tax credits and tax rates. To do so, the Group uses either the most likely amount or the expected value method - whichever better predicts the resolution of the uncertainty.

Uncertainties related to taxes that are not income taxes (e.g. value added tax or taxes in scope of IFRSC 21 *Levies*) are recognized and measured in accordance with IAS 37 *Provisions, contingent liabilities and contingent assets*, unless they are dealt with specifically in another standard (e.g. IAS 19 *Employee Benefits* for social security taxes).

Uncertainties surrounding the amount to be recognized as a provision are dealt with by various means according to the circumstances. Where the provision being measured involves a large population of items, the obligation is estimated by

weighting all possible outcomes by their associated probabilities. The name for this statistical method of estimation is 'expected value'. The provision will therefore be different depending on whether the probability of a loss of a given amount is. Where there is a continuous range of possible outcomes, and each point in that range is as likely as any other, the mid-point of the range is used.

Where a single obligation is being measured, the individual most likely outcome may be the best estimate of the liability. However, even in such a case, the Group considers other possible outcomes. Where other possible outcomes are either mostly higher or mostly lower than the most likely outcome, the best estimate will be a higher or lower amount.

(r) Leases

At inception of a contract, the Group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

As a lessee

At commencement or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices.

The Group recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Group by the end of the lease term or the cost of the right-of-use asset reflects that the Group will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if this rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

The Group determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed lease payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, if the Group changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group presents right-of-use assets in Property, plant and equipment in the consolidated statement of financial position.

Short-term leases and leases of low-value assets

The Group has elected not to recognize right-of-use assets and lease liabilities for short-term leases (lease term of 12 months or less) and leases of low-value assets (less than USD 5,000 equivalent). The Group recognises the lease payments associated with these leases as an expenses on a straight-line basis over the lease term.

(s) Government grants

Government grants related to assets are initially recognised as deferred income at fair value if there is reasonable assurance that they will be received and the Group will comply with the conditions associated with the grant. Grants related to the acquisition of assets are recognised in profit or loss as other income on a systematic basis over the useful life of the asset.

Grants that compensate the Group for expenses incurred are recognised in profit or loss as other income on a systematic basis in the periods in which the expenses are recognised, unless the conditions for receiving the grant are met after the related expenses have been recognised. In this case, the grant is recognised when it becomes receivable.

For green certificates grants refer to Note 6 (j).

(t) Segment reporting

Segment results that are reported to the Company's Management Board and Supervisory Board include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

(u) Subsequent events

Events occurring after the reporting dates until the date these financial statements were authorized for issue, which provide additional information about conditions prevailing at the reporting date (adjusting events) are reflected in these financial statements. Events occurring after the reporting dates until the date these financial statements were authorized for issue, which provide information on events that occurred after the reporting dates (non-adjusting events), when material, are disclosed in the notes to the financial statements.

(v) Fair value measurement

'Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

A number of the Group's accounting policies and disclosures require the measurement of fair values, for financial assets and liabilities, and non-financial assets (see Note 4 (b)).

When one is available, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as 'active' if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

7. CHANGE IN ACCOUNTING POLICY

Except as described above, the accounting policies applied in these consolidated financial statements are the same as those applied in the Group's consolidated financial statements as at and for the year ended 31 December 2022.

Deferred tax related to assets and liabilities arising from a single transaction.

The Group has adopted Deferred Tax related to Assets and Liabilities arising from a Single Transaction – Amendments to IAS 12 from 1 January 2023. The amendments narrow the scope of the initial recognition exemption to exclude transactions that give rise to equal and offsetting temporary differences – e.g. leases and decommissioning liabilities. For leases, and decommissioning liabilities, an entity is required to recognize the associated deferred tax assets and liabilities from the beginning of the earliest comparative period presented, with any cumulative effect recognized as an adjustment

to retained earnings or other components of equity at that date. For all other transactions, an entity applies the amendments to transactions that occur after the beginning of the earliest period presented.

The Group previously accounted for deferred tax on leases applying the “integrally linked” approach, resulting in a similar outcome to the amendments, except that the deferred tax asset or liability was recognized on a net basis. Following the amendments, the Group has recognized a separate deferred tax asset in relation to its lease liability and a deferred tax liability in relation to its right-of-use assets. However, there was no impact on the statement of financial position because the balances qualify for offset under paragraph 74 of IAS 12. There was also no impact on the opening retained earnings as at 1 January 2022 as a result of the change. The key impact for the Group relates to disclosures of the deferred tax assets and liabilities recognized.

8. STANDARDS ISSUED BUT NOT YET EFFECTIVE

The following amended standards are effective for annual periods beginning after 1 January 2023 and earlier application is permitted. The Group has not early adopted any of these amended standards and does not expect that they will have a significant impact on the Group’s consolidated financial statements when become effective.

- Classification of Liabilities as Current or Non-Current (Amendments to IAS 1);
- Non-current Liabilities with Covenants (Amendments to IAS 1);
- Supplier Finance Arrangements (Amendments to IAS 7 and IFRS 7);
- Lease Liability in a Sale and Leaseback (Amendments to IFRS 16);
- Lack of exchangeability (Amendments to IAS 21).

9. OPERATING SEGMENTS

A. Basis for segmentation

The Group has identified two reporting segments based on the operating licenses owned – production of electricity and supply of electricity.

The following summary describes the operations of each reportable segment:

Reportable segment	Operations
Electricity generation	Production of electricity through the operation of hydropower plants, micro-hydropower plants and wind turbines, rendering of system services to the system operator (meaning making available an agreed generation capacity for the balancing needs of the energy system). Electricity produced is sold mainly to electricity suppliers and entities that trade electricity on the wholesale electricity market, as well as supplied to final consumers through the electricity supply segment.
Electricity supply	Supply of electricity to non-households and households final consumers. Electricity supplied to end consumers is mainly generated by the electricity generation segment, and where there is a gap, this is covered through spot or forward electricity purchases.

The Management Board of the Company reviews management reports of each segment. Segment profit before tax is used to measure performance because management believes that such information is one of the most relevant in evaluating the results of the segments.

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B. Information about operating segments

Year ended 31 December 2023	Electricity generation	Electricity supply	Total for reportable segments	Inter-segment eliminations	Consolidated total
External revenues	7,224,608	4,935,576	12,160,184	-	12,160,184
Inter-segment revenue	1,373,506	-	1,373,506	(1,373,506)	-
Segment revenue	8,598,114	4,935,576	13,533,690	(1,373,506)	12,160,184
Segment profit before tax	5,879,788	1,579,339	7,459,127	-	7,459,127
Net finance income/(cost)	258,741	2	258,743	-	258,743
Amortization and depreciation	(799,241)	(72)	(799,313)	-	(799,313)
Impairment loss on property, plant and equipment	(236,865)	-	(236,865)	-	(236,865)
Electricity purchased	(12,003)	(1,723,826)	(1,735,829)	1,279,666	(456,163)
Green certificates expenses	-	(390,645)	(390,645)	93,839	(296,806)
Employee benefits expenses	(701,711)	(15,767)	(717,478)	-	(717,478)
Turbinated water	(639,206)	-	(639,206)	-	(639,206)
Tax for electricity producers	(225,159)	-	(225,159)	-	(225,159)
Transport and distribution of electricity	(80,783)	(1,126,867)	(1,207,650)	-	(1,207,650)
Other expenses	(315,397)	(100,543)	(415,940)	-	(415,940)

Year ended 31 December 2022	Electricity generation	Electricity supply	Total for reportable segments	Inter-segment eliminations	Consolidated total
External revenues	7,302,972	2,148,983	9,451,955	-	9,451,955
Inter-segment revenue	854,256	-	854,256	(854,256)	-
Segment revenue	8,157,228	2,148,983	10,306,211	(854,256)	9,451,955
Segment profit before tax	4,911,266	506,170	5,417,436	-	5,417,436
Net finance income/(cost)	204,718	4,367	209,085	-	209,085
Amortization and depreciation	(772,103)	(47)	(772,150)	-	(772,150)
Impairment loss on property, plant and equipment	(23,869)	-	(23,869)	-	(23,869)
Electricity purchased	(582,179)	(937,715)	(1,519,893)	822,751	(697,142)
Green certificates expenses	(34,781)	(179,895)	(214,676)	31,505	(183,171)
Employee benefits expenses	(622,197)	(8,526)	(630,723)	-	(630,723)
Turbinated water	(450,963)	-	(450,963)	-	(450,963)
Tax for electricity producers	(671,739)	-	(671,739)	-	(671,739)
Transport and distribution of electricity	(43,292)	(454,763)	(498,055)	-	(498,055)
Other expenses	(295,806)	(66,235)	(362,041)	-	(362,041)

Other expenses include the following captions from consolidated statement of profit or loss: Repair, maintenance, materials and consumables, Impairment loss on trade receivables and Other operating expenses.

The electricity generation segment includes also system services and production of electricity for system balancing which are billed to the system operator, Transelectrica SA (see details in Note 10).

Inter-segment revenue includes the value of electricity produced and transferred within the same entity from producer portfolio (generation segment) to supplier portfolio (supplier segment) of RON 1,279,832 thousand (2022: RON 714,079 thousand). Inter-segment revenue is calculated based on a methodology approved by the Management Board in 2021. The methodology used for computing transfer price between segments is based on the average electricity production cost in the last 12 months ending 2 months prior the calculation month, plus an internal margin.

All revenues are generated in Romania.

Total segment assets and total segment liabilities are not included in the management reports reviewed by the Management Board.

10. REVENUE

A. Revenue from contracts with customers

The Group generates revenue from:

	2023	2022
Wholesale of electricity	6,889,603	6,960,753
Electricity supplied to final consumers (retail sales)	4,935,576	2,148,983
System services	333,857	316,532
Sales of green certificates	-	24,632
Maintenance services	1,148	1,055
Total	12,160,184	9,451,955

Revenue from electricity supplied to final consumers reflect the value of volume supplied, including imbalances, which are based on automated or manual meter readings performed by the distribution operators, self-readings reported by the consumers, or based on volume estimated by distribution operators if readings are not available.

The majority of the Group's supply revenue in the year ended 31 December 2023 represent sales to non-household consumers (approx. 75% of volume, 85% in 2022), for which readings are performed at the end of each month, data sent by the distribution operators. Also, approximately 63% (35% in 2022) of the volume supplied to household consumers is determined based on meter readings at the end of the period, and the rest is based on estimates of the consumption. Group assesses that the risk of revenue adjustment subsequent to period end that could result from the difference between the meter readings and the estimated volumes would have a limited impact on the financial statements.

In 2023, the Group produced 17,639 GWh (2022: 13,544 GWh) and sold 19,338 GWh (2022: 14,544 GWh). From total quantity sold, 6,239 GWh were supplied to end users in 2023 (3,676 GWh in 2022).

The Group has contracts with customers for periods up to 12 months.

Individual clients who represent more than 10% of the Group's revenues are as follows:

- Transelectrica SA, the electricity system operator - system services and production of electricity for system balancing (latter included in Sale of electricity produced) – RON 1,275,342 thousand in 2023 (10%) and RON 2,063,761 thousand in 2022 (22%);
- OPCOM SA, the market operator – sale of electricity produced on the spot market of RON 4,505,119 thousand in 2023 (37%) and RON 1,233,993 thousand in 2022 (13%).

Timing of revenue recognition:

	2023	2022
Revenue recognised over time	12,159,035	9,426,267
Revenue recognized at a point in time	1,148	25,688
Total	12,160,184	9,451,955

B. Contract liabilities

As at 31 December 2023, the Group has contract liabilities of RON 41,720 thousand (31 December 2022: RON 84,684 thousand). These represent advance payments from customers for future contractual obligations for electricity delivery and supply.

Contract liabilities as at 31 December 2022 of RON 84,684 thousand were recognized as revenues during 2023 (2022: RON 93,331 thousand).

11. OTHER INCOME

	2023	2022
Grant income	5,757	5,714
Compensations, fines and penalties from suppliers	1,319	26,582
Other income	27,704	13,953
Total	34,780	46,249

12. OPERATING EXPENSES

A. Turbined water

Turbined water represents the water used by the hydropower plants in order to generate electricity. According to the Romanian legislation, a fee per cubic meter of water used is established annually by the National Agency for Water Administration. Starting 12 June 2023 the fee for turbined water was set at 37 RON/MWh produced. Until 12 June 2023, the fee was RON 1.40 per thousand cubic meters (2022: RON 1.23 per thousand cubic meters).

B. Electricity purchased

The Group purchases electricity in order to fulfill the deficit between the electricity contracted for sales and the actual electricity produced or in order to cover the electricity needs of the supply segment.

In 2023 the Group purchased 1,699 GWh (2022: 1,000 GWh) for RON 456,163 thousand (2022: RON 697,142 thousand). Decrease in value of electricity purchases as compared to 2022 is due to the decrease in the average acquisition price in 2023.

C. Transport and distribution of electricity

	2023	2022
Injection of electricity produced in the national system	64,565	30,868
Distribution of electricity supplied	932,464	342,984
Transport of electricity supplied	210,621	124,203
Total	1,207,650	498,055

Tariffs for transport and distribution of electricity are regulated. Increase in transport and distribution costs in 2023 is determined by increase in quantity of electricity supplied and increase in the regulated tariffs with approximately 15% starting 1 April 2023.

D. Tax for electricity producers

Starting November 2021 the Government introduced a new tax for electricity producers. The tax is computed as 80% (for the period 1 November 2021 to 31 August 2022) and 100% (for the period 1 September 2022 to 31 March 2025) of net monthly average selling price in excess of RON 450 per MWh.

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The net monthly average selling price is computed based on monthly revenue of the generation segment less monthly cost of electricity purchased, market administration fees and trading fees. Electricity production costs are not included in the monthly expenses.

The monthly revenue of the generation segment includes, according to the legislation, the wholesale of electricity produced and/or purchased and the value of electricity transferred within the same entity from producer portfolio (generation segment) to supplier portfolio (supplier segment). As the legislation does not define and does not include provisions on how the transfer value from producer portfolio to supplier portfolio should be computed, the Company has used its internal methodology for calculation of the transfer price between its licensed activities (generation and supply), which was approved by the Management Board on 8 June 2021, before the issuance of the legislation regarding the tax for electricity producers. This methodology is based on the average electricity production cost in the last 12 months ending 2 months prior the calculation month, plus an internal margin. This methodology may differ from the methodologies used by other companies taking into consideration that there is no regulation that stipulates a certain definition or method of calculation.

The tax computed by the Group for 2023 is RON 225,159 thousand (2022: RON 671,739 thousand). As at 31 December 2023 the outstanding amount payable is RON 877 thousand (31 December 2022: RON 91,370 thousand).

Romanian tax authorities, through the General Antifraud Fiscal Division, performed controls at the Group on the tax for electricity producers. The authorities did not make any changes to the method of computing the tax or to the method of computing the transfer price between the production and supply portfolios, but had a different point of view regarding the date from which Law 357/2023 was applied by the Company. Also, the authorities mentioned in the report that the provisions of the Fiscal Code regarding transfer pricing does not apply in respect of the transfer price of the electricity between the portfolios/ segments, since these provisions regulate the transactions between related parties and not the transactions performed within the same entity.

Law 357/2023 was published by the authorities on 16 December 2022 and modified the method of computing net monthly revenue, by limiting the revenues in scope only to electricity produced and sold or transferred between segments and the costs in scope only to the balancing costs capped to 5% of the revenue from electricity produced and transfer value of electricity transferred between segments. The text of the law mentions that the provisions of the law are applicable starting with 1 September 2022, however the Company applied the law starting with the publication date, 16 December 2022.

As per control report issued on 11 April 2023, the tax authorities applied the law retroactively from 1 September 2022, and therefore computed additional tax of RON 62,052 thousand. The Group paid the additional tax, the amount being presented in other non-current assets as Hidroelectrica challenged the decision, estimating that the asset resulted from the payment will be realized in a period longer than one year. Further analysis on the retroactive application of the law is presented in Note 30 c).

E. Other operating expenses

	2023	2022
Movement in provisions, net	32,785	73,503
Local taxes	51,212	60,839
Security	24,414	20,639
Sponsorship	6,135	1,930
Professional services	14,438	10,928
Services related to abandoned constructions	9,251	7,647
ANRE contribution	9,593	6,496
Loss on disposal of property, plant and equipment	5,278	2,051
Other expenses	93,625	52,210
Total	250,630	236,243

F. Auditors remuneration

Remuneration of the statutory auditor, KPMG Audit SRL, for the audit services for the years 2023 and 2022, as well as the fees charged for non-audit services, are as follows:

	2023 (EUR)	2022 (EUR)
Contractual fee for the audits of the separate and consolidated financial statements prepared in accordance with OMFP no. 2844/2016 and of the consolidated financial statements prepared in accordance with IFRS-EU	212,462	214,225
Total audit fees	212,462	214,225
Fees for non-audit services fees	260,000	-
Total fees	472,462	214,225

Non-audit services include reviews of interim condensed consolidated financial statements, limited assurance on the information included in the current reports issued by the Company in accordance with the requirements of Law no. 24/2017, and FSA Regulation no. 5/2018, comfort letters provided by the statutory auditor in an IPO. These services are not prohibited by the article no. 5(1) of European Union Regulation no. 537/2014.

Other firms within KPMG network did not provide any services to the Company or its subsidiaries.

13. FINANCE RESULT

	2023	2022
Interest income	302,518	243,708
Other finance income	16,834	3,488
Finance income	319,352	247,196
Interest expense	(26,037)	(10,637)
Unwinding of non-current provisions	(33,943)	(28,246)
Gain or (loss) from foreign exchange differences	(629)	936
Other finance expenses	-	(164)
Finance expenses	(60,609)	(38,111)
Net finance result	258,743	209,085

14. EARNINGS PER SHARE

The calculation of earnings per share has been based on the following profit attributable to ordinary shareholders and weighted-average number of ordinary shares outstanding.

	2023	2022
<i>Profit attributable to the owners of the Company</i>		
Profit for the year attributable to the owners of the Company	6,365,330	4,464,000
Profit attributable to ordinary shareholders	6,365,330	4,464,000
<i>Weighted average number of ordinary shares (basic and diluted)</i>		
Issued ordinary shares at 1 January	448,459,482	448,459,482
Effect of shares issued in May 2023	783,466	-
Weighted average number of ordinary shares at 31 December	449,242,948	448,459,482
Earnings per share (basic and diluted) RON/share	14.17	9.95

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15. EMPLOYEE BENEFITS

	31 December 2023	31 December 2022
Defined benefit plans	98,154	89,410
Other long-term employee benefits	44,163	49,034
Salaries payable	51,848	61,922
Social security contributions	21,636	17,135
Tax on salaries	3,905	3,257
Other	8,665	6,927
Total	228,371	227,685
- Current	99,928	105,845
- Non-current	128,443	121,840

Current portion of employee benefits is as follows:

	31 December 2023	31 December 2022
Defined benefit plans	9,587	9,873
Other long-term employee benefits	5,127	7,284
Salaries payable	51,848	61,369
Social security contributions	21,637	17,135
Tax on salaries	3,905	3,257
Other	7,824	6,927
Total	99,928	105,845

Post-employment benefits (defined benefit plans)

In accordance with the Collective Labour Agreements, the Group provides cash benefits to employees at retirement depending on the years of service in the Company and Hidroserv, as follows:

Years of service	31 December 2023	31 December 2022
Up to 10 years	1	1
Between 10 and 25 years	3	3
More than 25 years	6	6

Benefits in kind

Also, in accordance with Collective Labour Agreements, the Group provides benefits in kind consisting of free electricity (within the limit of 1,200 kWh annually) to employees retired from the Company and from Hidroserv subsidiary subject to meeting certain conditions (at least 15 cumulative years of seniority in the Company, Hidroserv or other companies operating in the electricity sector or at least 10 consecutive years of service in such companies before retirement). In the event of the retired person's death, the surviving spouse has the right to receive the same benefit until the time of their remarriage or death.

Until 27 June 2022, the Group provided benefits in kind consisting of free electricity (within the limit of 1,200 kWh annually) to employees retired from the predecessors entities of Hidroelectrica SA in accordance with the Government Decision no. 1041/2003. On 27 June 2022, the High Court of Cassation and Justice of Romania cancelled the Government Decision no. 1041/2003, following a request made by another Romanian energy sector entity. As a result, as at 31 December 2023 and 31 December 2022, the Group does not have the obligation to provide benefits in kind to employees retired from the predecessors entities.

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Other long-term employee benefits

In accordance with the Collective Labour Agreements, the Group provides cash benefits to the Company's and Hidroserv's employees depending on seniority in the companies, as follows:

Seniority	31 December 2023	31 December 2022
20 years	1	1
25 Years	2	2
30 years	3	3
35 years	4	4
40 years	5	5
45 years	6	6

(i) Movement in the defined benefit liability and other long-term employee benefits

The following tables show the reconciliation between the opening and closing balance for the defined benefit liability and other long-term employee benefits and their components. There are no benefit plan assets.

	2023	2022
Defined benefit liabilities		
Balance at 1 January	89,410	87,256
Included in profit or loss		
Current service cost	5,169	3,819
Past service cost	-	(5,932)
Interest cost	7,184	4,005
Benefits paid	(9,516)	(8,710)
Included in other comprehensive income		
Actuarial losses/(gains)	5,907	8,972
Balance at 31 December	98,154	89,410
Other long-term employee benefits		
Balance at 1 January	49,034	43,268
Included in profit or loss		
Current service cost	327	3,680
Interest cost	3,402	2,192
Actuarial losses/(gains)	(1,099)	5,903
Benefits paid	(7,501)	(6,009)
Balance at 31 December	44,163	49,034

(ii) Actuarial assumptions

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

(a) Macroeconomic assumptions:

- the inflation rate used as at 31 December 2023 and 2022 is based on the forecast of the National Bank of Romania ("NBR") for the inflation for RON, as follows:

Year	Valuation date 31 December 2023	Valuation date 31 December 2022
2023	n/a	12.4%
2024	5.3%	7.5%
2025	3.3%	4.2%
2026 – 2032	2.5%	4.2%
2033+	2.5%	2.3%

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- discount rate used was obtained from the interest rates for RON published by the European Insurance and Occupational Pensions Authority (EIOPA) as follows:

Year	Valuation date	Valuation date
	31 December 2023	31 December 2022
2023	n/a	7.091%
2024	5.995%	7.246%
2025	6.022%	7.437%
2026	6.049%	7.638%
	6.073%-4.077%	7.835%-3.631%
2027+	(average 4.847%)	(average 5.622%)

- increase in electricity price per kWh in line with the inflation rate. The electricity price used in the actuarial calculation is RON 0.810/kWh as at 31 December 2023 (31 December 2022: RON 0.747/kWh);
- mortality rate used on is the rate published by the National Institute of Statistics for the last 10 years as of the valuation date.
- taxes and social contributions are those in force at the reporting dates.

(b) Group specific assumptions:

- growth rate of gross salaries used as at 31 December 2023 is a rate equal to the inflation rate in the following years (31 December 2022: 9.6% for 2023 and a rate equal to the inflation rate in the following years);
- employee' turnover rate used as at 31 December 2023 is based on annual averages of employee' turnover for the last 7 years differentiated by age and gender (31 December 2022: last 6 years averages). The weighted average employee' turnover rate used as at 31 December 2023 is 1.40% (31 December 2022: 1.56%).

(iii) Sensitivity analysis

The significant actuarial assumptions used for the determination of the defined benefits and other long-term employee benefits obligations are discount rate, expected salary increase and employee turnover. The sensitivity analysis below shows the effect on employee benefit liabilities – increase/(decrease), and was determined based on the reasonable changes in the respective assumptions at the end of the reporting periods, while other assumptions remain constant.

	31 December 2023		31 December 2022	
	Increase	Decrease	Increase	Decrease
Discount rate (100 bp)	(10,939)	12,825	(9,546)	11,016
Employee turnover ratio (100 bp)	(7,485)	4,751	(7,002)	4,276
Annual salary increase rate (100 bp)	(6,449)	(5,788)	6,066	(5,500)

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

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Employee benefits expense

	2023	2022
Average number of employees	4,564	4,491
Number of employees at 31 December	4,723	4,621
	2023	2022
Salaries and other remuneration	659,206	594,930
Social security contributions	27,770	15,196
Meal tickets	30,502	20,597
Total	717,478	630,723

16. INCOME TAX

In the determination of the current and deferred tax the Company takes into account the impact of uncertain tax positions (see Note 30). This assessment relies on estimates and assumptions and may involve a series of judgments about future events.

The Group considers that the accounting records for income tax due are appropriate for all open tax years, based on assessment made by management taking into account various factors, including the interpretation of tax legislation and previous experience. New information may become available that causes the Group to change its judgement regarding the adequacy of the existing tax liabilities; such changes to tax liabilities will have impact in tax expense in the period that such determination is made (Note 30).

(a) Amounts recognized to profit or loss

	2023	2022
Current tax expense	1,173,460	976,926
Deferred tax benefit	(79,663)	(23,490)
Total	1,093,797	953,436

(b) Amounts recognized in OCI

	2023			2022		
	Before tax	Tax (expense)/ benefit	Net	Before tax	Tax (expense)/ benefit	Net
<i>Items that will not be reclassified to profit or loss</i>						
Revaluation of property, plant and equipment	1,678,290	(268,317)	1,409,973	2,116,546	(338,731)	1,777,815
Remeasurement of defined benefit liability	(5,907)	945	(4,962)	(8,972)	1,436	(7,536)
	1,672,383	(267,372)	1,405,011	2,107,574	(337,295)	1,770,279

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(c) Reconciliation of effective tax rate

		2023		2022
Profit before tax		7,459,127		5,417,436
Tax using the Company's domestic tax rate	16.0%	1,193,460	16.0%	866,790
Tax effect of:				
- Non-deductible expenses	0.1%	4,082	0.07%	3,614
- Tax-exempt income	(0.1%)	(4,798)	(0.2%)	(10,471)
- Tax incentives	(1.6%)	(118,279)	(0.5%)	(26,968)
- Deduction of legal reserves	(0.00%)	(143)	(0.6%)	(7,390)
- Distribution of previously tax deducted revaluation reserves	0.3%	19,475	2.4%	127,861
Income tax		14.7%		17.6%
		1,093,797		953,436

In 2023 and 2022, tax incentives refer to reinvested profit tax facility, positive tax incentive, increase in equity tax incentive and sponsorships granted. The main increase is due to the increase in equity tax incentive.

According to the Fiscal Code, certain revaluation reserves are subject to income tax at their distribution as dividends, if the revaluation reserves were previously tax deducted.

(d) Movement in deferred tax balances

	Net balance at 1 January 2023	Recognized in profit or loss	Reconized in OCI	Net balance at 31 December 2023	Deferred tax assets	Deferred tax liabilities
Property, plant and equipment and intangible assets	1,512,841	(39,634)	268,317	1,741,524	-	1,741,524
Provisions	(141,378)	(9,205)		(150,583)	(150,583)	-
Employee benefits	(21,993)	167	(945)	(22,771)	(22,771)	-
Leasing liabilities	-	(14,095)	-	(14,095)	(14,095)	-
Trade receivables	(23,259)	(20,255)	-	(43,514)	(43,514)	-
Inventories	(5,749)	(742)	-	(6,491)	(6,491)	-
Tax loss carried forward	(4,516)	4,101	-	(415)	(415)	-
Total deferred tax liabilities (assets) before set-off	1,315,946	(79,663)	267,372	1,503,655	(237,869)	1,741,524
Set-off tax					237,869	(237,869)
Net deferred tax liabilities (assets)					-	1,503,655

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	Net balance at 1 January 2022	Recognized in profit or loss	Reconized in OCI	Net balance at 31 December 2022	Deferred tax assets	Deferred tax liabilities
Property, plant and equipment and intangible assets	1,195,215	(21,104)	338,731	1,512,841	-	1,512,841
Provisions	(127,103)	(14,275)	-	(141,378)	(141,378)	-
Employee benefits	(21,883)	1,326	(1,436)	(21,993)	(21,993)	-
Trade receivables	(15,591)	(7,668)	-	(23,259)	(23,259)	-
Inventories	(5,646)	(103)	-	(5,749)	(5,749)	-
Green certificates	5,565	(5,565)	-	-	-	-
Tax loss carried forward	(28,415)	23,899	-	(4,516)	(4,516)	-
Total deferred tax liabilities (assets) before set-off	1,002,142	(23,490)	337,295	1,315,946	(196,895)	1,512,841
Set-off tax					196,895	(196,895)
Net deferred tax liabilities (assets)					-	1,315,946

(e) Potential consequences on income tax

The Group may have potential consequences on corporate income tax that may result from the payment to shareholders of dividends from revaluation reserves transferred to retained earnings which, according to tax law, are taxed at the time of change of destination, to the extent they were previously tax deducted. Thus, the distribution of dividends from such reserves will generate additional income tax. The Company has such reserves transferred in retained earnings at 31 December 2023, which following the distribution would generate additional income tax for the Group of RON 10,435 thousand (31 December 2022: RON 21,499 thousand).

The potential tax effect of revaluation reserves taxable at change in destination/distribution (at 16% tax rate) that were not yet transferred to retained earnings, amount to RON 363,332 thousand at 31 December 2023 (RON 371,761 thousand at 31 December 2022).

17. CASH AND CASH EQUIVALENTS AND RESTRICTED CASH

Cash and cash equivalents

	31 December 2023	31 December 2022
Bank accounts	384,484	647,941
Bank deposits with a maturity below 3 months	23,000	12,500
Petty cash	150	125
Cash equivalents	-	168
Total	407,634	660,734

Restricted cash

As at 31 December 2023, restricted cash represents a collateral deposit of RON 101,057 thousand at Banca Comerciala Romana for issuance of bank guarantee. The maturity of the collateral is 30 April 2024; during the period until maturity the Group does not have access to this deposit.

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18. INVESTMENTS IN DEPOSITS AND BONDS

	31 December 2023		31 December 2022	
	Current	Non-current	Current	Non-current
Bank deposits with maturity less than 1 year held for investment purposes	4,349,482	-	3,034,745	-
Corporate bonds with a maturity more than 1 year	-	353,397	-	351,338
Total	4,349,482	353,397	3,034,745	351,338

Bank deposits are short-term deposits with maturity between 3 to 12 months held for investment purposes rather than for short term cash commitments. The average interest rate on term deposits was 6.96% per year in 2023 (2022: 6.61% per year).

In 2022 the Group acquired from CEC Bank corporate bonds denominated in euro with maturity on 30 December 2025. The balance as at 31 December 2023 represents principal of RON 353,197 thousand and related interest of RON 201 thousand (31 December 2022: principal of RON 351,265 thousand and related interest of RON 73 thousand). The corporate bonds annual yield is 7.5%.

19. TRADE RECEIVABLES

	31 December 2023	31 December 2022
Trade receivables – generation segment (wholesale)	521,029	468,749
Trade receivables – supply segment (retail)	2,684,192	959,412
Impairment allowance	(157,253)	(77,484)
Total	3,047,968	1,350,677

The unbilled revenues included in trade receivables amounts to RON 1,229,147 thousand gross at 31 December 2023, representing 38% of total gross trade receivables (RON 1,116,046 thousand at 31 December 2022, representing 78% of total gross trade receivables), out of which RON 1,046,861 thousand gross relate to supply segment (RON 767,612 thousand as at 31 December 2022). In 2022 the Group started the implementation of new billing and customer relationship systems, which continued also in 2023, which together with the frequent regulatory changes with respect of supply prices to end-users and the significant increase in the number of retail clients of the Group conducted to delays in the billing process of the Group and a significant balance of unbilled revenues at 31 December 2023 and 31 December 2022.

Of the invoiced receivables balance at 31 December 2023, RON 522,940 thousand represent payment rescheduled receivables.

The movement of impairment loss for trade receivables is as follows:

	2023	2022
Balance at 1 January	77,484	34,023
Impairment loss recognized	93,413	58,731
Impairment loss reversed	(13,644)	(15,270)
Balance at 31 December	157,253	77,484

Trade receivables ageing analysis is disclosed in Note 28. Trade receivables due from related parties are disclosed in Note 31.

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20. OTHER ASSETS

	31 December 2023		31 December 2022	
	Current	Non-current	Current	Non-current
Payments made in connection with uncertain tax treatments	-	277,998	-	214,385
Prepayments	37,965	-	60,641	-
Value added tax receivable	726	-	41,648	-
Other assets	33,941	5,522	22,502	3,851
Impairment loss on other assets	(9,691)	-	(9,391)	-
Total	62,941	283,520	115,400	218,236

The movement of impairment losses for other receivables is as follows:

	2023	2022
Balance at 1 January	9,391	11,050
Impairment loss recognized	317	148
Impairment loss reversed	(17)	(1,807)
Balance at 31 December	9,691	9,391

Payments made in connection with uncertain tax treatments

RON 214,385 thousand represents amounts paid by the Group as a result of the forced execution by ANAF in 2016 of the bank guarantee issued by ING Bank in favor of the Company for guaranteeing the amounts resulting from a Tax Inspection concluded by ANAF in 2014. The Company initiated lawsuits against ING Bank and ANAF in order to recover this amount executed. Litigation details are presented in Note 30 b).

According to the General Antifraud Fiscal Division report from 11 April 2023 and related imposing decision, the fiscal authorities applied the Law 357/2022 regarding the tax for electricity producers retrospectively from 1 September 2022 and computed additional tax of RON 62,052 thousand (see Note 12.D). On 7 August 2023, the Company received a decision regarding interest and penalties in the amount of RON 1,560 thousand related to the previously mentioned imposing decision. In 2023, the Group paid both the additional tax imposed and the related interest and penalties, the amount being recorded as other non-current assets as Hidroelectrica challenged in Court these decisions, estimating that the assets represented by the payment will be recovered within a period longer than one year. The analysis regarding the retrospective application of the law is presented in Note 30 c).

The Group recognized these payments as an asset based on IFRIC 23 *Uncertainty over Income Tax Treatments* because they will either be refunded if the Company is successful in the litigations related to the liability or they will be used to pay the liability in case of loss of the dispute.

21. PROPERTY, PLANT AND EQUIPMENT

	Land and land improvements	Buildings and special constructions and installations	Machinery, equipment and other items	Assets under construction	TOTAL
GROSS CARRYING AMOUNT					
Balance at 1 January 2022	631,985	13,495,523	3,003,736	4,260,516	21,391,761
Additions	1,477	1,026	338	204,966	207,807
Transfers from assets under construction	-	55,771	63,247	(119,018)	-
Disposals	(35)	(246)	(424)	(9,599)	(10,304)
Revaluation recorded in other comprehensive income, net	(27,269)	1,812,847	330,968	-	2,116,546

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	Land and land improvements	Buildings and special constructions and installations	Machinery, equipment and other items	Assets under construction	TOTAL
Revaluation recorded in profit or loss, net	(9,007)	24,105	24,904	-	40,002
Accumulated depreciation eliminated against gross carrying amount at revaluation	-	(334,771)	(441,176)	-	(775,947)
Balance at 31 December 2022	597,151	15,054,255	2,981,593	4,336,865	22,969,865
Balance at 1 January 2023	597,151	15,054,255	2,981,593	4,336,865	22,969,865
Additions	17,907	58,752	1,027	193,463	271,149
Transfers from assets under construction	467	167,471	111,210	(279,148)	-
Disposals	-	(128)	(545)	(5,982)	(6,655)
Revaluation recorded in other comprehensive income, net	(19,351)	1,430,946	266,694	-	1,678,289
Revaluation recorded in profit or loss, net	(71,224)	(2,025)	(6,098)	-	(79,347)
Accumulated depreciation eliminated against gross carrying amount at revaluation	-	(364,893)	(427,888)	-	(792,781)
Balance at 31 December 2023	524,950	16,344,378	2,925,993	4,245,198	24,040,519
ACCUMULATED DEPRECIATION					
Balance at 1 January 2022	339	20,790	14,680	-	35,809
Depreciation charge	520	331,941	437,507	-	769,968
Accumulated depreciation of disposals	-	(79)	(82)	-	(161)
Accumulated depreciation eliminated against gross carrying amount at revaluation	-	(334,771)	(441,176)	-	(775,947)
Balance at 31 December 2022	859	17,881	10,929	-	29,669
Balance at 1 January 2023	859	17,881	10,929	-	29,669
Depreciation charge	569	369,167	427,607	-	797,343
Accumulated depreciation of disposals	-	(20)	(120)	-	(140)
Accumulated depreciation eliminated against gross carrying amount at revaluation	-	(364,893)	(427,888)	-	(792,781)
Balance at 31 December 2023	1,428	22,135	10,528	-	34,091
ACCUMULATED IMPAIRMENT LOSSES					
Balance at 1 January 2022	-	-	-	3,354,962	3,354,962
Impairment loss	-	-	-	142,780	142,780
Reversal of impairment loss	-	-	-	(78,909)	(78,909)
Balance at 31 December 2022	-	-	-	3,418,833	3,418,833
Balance at 1 January 2023	-	-	-	3,418,833	3,418,833
Impairment loss	-	5	4	175,505	175,514
Reversal of impairment loss	-	(5)	(4)	(14,564)	(14,573)
Balance at 31 December 2023	-	-	-	3,579,774	3,579,774
NET CARRYING AMOUNT					
Balance at 1 January 2022	631,647	13,474,733	2,989,056	905,554	18,000,990

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	Land and land improvements	Buildings and special constructions and installations	Machinery, equipment and other items	Assets under construction	TOTAL
Balance at 31 December 2022	596,293	15,036,374	2,970,664	918,032	19,521,363
Balance at 31 December 2023	523,522	16,322,243	2,915,465	665,424	20,426,654

Property, plant and equipment in use

The Group's property, plant and equipment include mainly special constructions, namely hydro-power plants, energy pumping stations, micro hydro-power plants, floodgates, as well as hydro-aggregates, equipment and installations and wind turbines. The Group operates 187 hydro-power plants with an installed capacity of 6,372.172 MW, out of which 5 pumping stations with an installed capacity of 91.5 MW, and 36 wind turbines with an installed capacity of 108 MW.

According to applicable legislation, the Group has to obtain environmental authorizations in order to operate. Starting 2021 the Group has obtained permanent authorizations, however there is an obligation to apply for annual permits from the Environmental Protection Agencies and Romanian Water Agency. In 2022 and 2023 annual permits were obtained for all authorisations falling under these rules, except for those facilities that are not in use.

The conditions enacted by the environmental authorisations include monitoring the environmental factors and compliance with the environmental legislation applicable to wind and hydro-power objectives. In order to monitor the environmental factors, the Group performs measurements of the physical and chemical quality indicators of water in the reservoirs, of industrial and wastewater, and measurements of the noise level at site boundaries. In 2023 all the required measurements have been made and the legal limits of the indicators were not exceeded. The Group expects that for 2024 the legal limits of the indicators not to be exceeded as well.

Right-of-use assets

Property, plant and equipment include right-of-use assets mainly in relation to the Company's headquarters, land of the wind park and the car fleet of RON 66,471 thousand as at 31 December 2023 (31 December 2022: RON 15,154 thousand) classified in Land, Buildings and installations and Machinery, equipment and other items. In December 2023 an addendum was signed for the Company's headquarters extending the lease for 10 years, until 17 December 2033.

Revaluation of property, plant and equipment

Property, plant and equipment, except for assets under construction and right-of-use assets, were revalued by an independent valuation expert, Appraisal & Valuation SA, at 31 December 2023 (RON 19,661,103 thousand) and 31 December 2022 (RON 18,588,177 thousand).

Measurement of fair value

The following paragraphs describe the valuation techniques used by the independent valuation expert in measuring the fair values (Level 3) for the revaluation of land, buildings and special installations, machinery, equipment and other fixed assets, as well as the significant unobservable input used.

In 2023, the revaluation increase was driven mainly by approximately 9% increase in the cost of construction materials (i.e – concrete, steel, other metals) due to the economic environment, as well as the inflation in the construction industry of approx. 13%.

In 2022, the revaluation increase was driven mainly by approximately 9% increase in the cost of construction materials (i.e – concrete, steel, other metals) due to the economic environment, as well as the inflation in the construction industry of approx. 12%.

Land

Valuation technique - Direct comparison approach

The fair value was estimated by using the market comparison approach (comparison grids) based on the price per square meter for land plots with similar characteristics (i.e. property rights, location, physical characteristics, area, best use). The estimate fair value is based on adjustments applied to unit asking prices for land situated in similar locations. For a number of locations the unit values were extrapolated to plots situated in similar areas based on location and size categories.

Significant unobservable inputs

- adjustments for liquidity (negotiation margin between -25% and -10%), surface area (between -50% and 0%).

Inter-relationship between key unobservable inputs and fair value measurement

The estimated fair value would increase (decrease) if:

- adjustments for liquidity and surface area would be smaller (larger).

Special constructions and installations

Valuation technique

- (a) Cost approach – Net reconstruction cost

For construction items where recent comparative constructions were not available in the market (include hydro-power facilities and other highly specialized items, with no such works being undertaken in the last decades in Romania), the valuation expert determined the net reconstruction cost (gross reconstruction cost, less physical, functional and external depreciation).

- *Gross reconstruction cost*

Gross reconstruction cost was determined based on cost information extracted from valuation catalogues relevant to the type of each construction (Catalogue 125 Meteorological, hydrotechnical, water supply and sewerage constructions and Catalogue 128 Hydrotechnical constructions and annex buildings for energy development, 1964 editions, republished by Matrix Rom Publishing House). These catalogues are used in the Romanian valuation practice by the licensed valuers body in all instances where there is no recent information for costs for similar constructions and acknowledged by the licensed valuers body – Romanian Association of Licensed Valuers (ANEVAR).

For specific types of constructions, the catalogues provide the cost per unit of relevant construction parameters (i.e. volume, surface, power output etc.). The valuation expert applied the cost per unit to the specific parameters of the each construction item of the Group. Since the catalogues are outdated and no other recent sources were available, the results have been indexed to the present date by using price indices corresponding to the asset type (such as hypower constructions, industrial buildings) available in the Technical Expertise Documentary Bulletin no. 165 (31 December 2022: Technical Expertise Documentary Bulletin no. 162), published by the Romanian Body of Technical Experts in October 2023 (31 December 2022: December 2022).

For constructions for which no characteristics were available (e.g. areas, volumes, lengths) GRC was derived by indexation of gross book value (GBV). GBV is the fair value estimated as at 31 December 2022. The index used was a statistical index published by the Romanian National Institute of Statistics (INSSE) for construction works, for the period October 2022-October 2023, last indexation using the October 2022 index. For those items depreciated for lower power output as at 31 December 2022, the indexation base used was the NRC derived before applying the functional and external depreciation.

- *Physical depreciation*

Physical depreciation was determined as the ratio of remaining useful life to the economic useful life of each asset applied to the gross replacement cost. Useful lives were discussed between the Group and the valuation expert and verified by the valuation expert for the main items with public information related to life duration of similar constructions, worldwide. For items where GRC was derived based on prior valuation estimates, physical depreciation was estimated by considering a wear for the period between valuations.

- *Functional and external depreciation*

Functional depreciation, specific to the net reconstruction cost approach, is usually determined by comparing the item subject to valuation to a similar asset existing in the market in terms of functionality. External depreciation is due to external factors affecting the asset (i.e. market, political, environmental factors). The valuation expert did not identify similar assets for those subject to valuation in order to determine functional depreciation. Consequently, in order to account for both functional and external depreciation, the valuation expert determined the depreciation factor of each hydro-power facility as the ratio of actual power output (based on recent production reports) to the total capacity of the asset. The lower actual output of the Group's hydro-power facilities was deemed as due to both functional and external factors.

(b) Cost approach – Net replacement cost

For general purpose construction items, the valuation expert determined the net replacement cost (i.e. the cost to replace an asset with another comparable asset available in the market), computed as gross replacement cost, less physical and external depreciation (functional depreciation is accounted for when computing the gross replacement cost – i.e. the replacement cost does not include the cost of specific functionalities that are not specific to the asset subject to valuation).

- *Gross replacement cost*

Gross replacement cost was determined based on cost information extracted from the most recent valuation catalogue (Reconstruction Costs – Replacement Costs, Industrial, Commercial and Agricultural Buildings. Special Constructions, published by IROVAL Publishing House – Evaluation Research, Bucharest, 2016) relevant to each type of construction.

For specific types of constructions and relevant construction stages (i.e. foundation, roof etc.) and functionalities (i.e. elevators, utilities), the catalogue provides the cost per unit of relevant parameters (i.e. volume, surface etc.). The valuation expert applied the cost per unit to the specific parameters of the each construction item of the Group. The results have been indexed to the present date by using price indices published by IROVAL for the same catalogues, on an annual basis, that are correlated with construction price market, per categories of constructions and installation works, and used in the valuation practice in Romania.

- *Physical depreciation*

Physical depreciation was determined as the ratio of remaining useful life to the economic useful life of each asset, applied to the gross replacement cost.

- *External depreciation*

External depreciation was applied to those general purpose construction items that are part of an operating unit for which an external depreciation due to low capacity use was identified, as described above.

Significant unobservable inputs

- gross replacement / reconstruction cost determined based on technical catalogues;
- price indices;
- adjustments for physical depreciation;
- adjustments for low capacity use (average of 20%).

Inter-relationship between key unobservable inputs and fair value measurement

The estimated fair value would increase (decrease) if:

- different judgement would be applied on determination of gross reconstruction/replacement cost; and
- physical, functional and external depreciations would be lower (higher).

Machinery, equipment and other items

Valuation technique

(a) Direct comparison approach

The direct comparison approach was used for machinery, equipment and other items for which there are observable offer prices- for similar items (vehicles, office equipment etc.). Under this approach, the price of similar assets obtained from public market sources was adjusted to account for market conditions and differences in technical characteristics between the asset subject to valuation and the similar asset.

(b) Cost approach – Net replacement cost

For machinery and equipment for which there is no active market, the valuation expert determined the net replacement cost, computed as gross replacement cost, less physical and external depreciation.

- *Gross replacement cost*

Gross replacement cost was determined as follows:

- direct method: for assets where comparable assets were identified (i.e. power transformers), gross replacement cost was derived from price information of comparable new assets in the international market (i.e. supplier price information);
- indirect method: for highly specialized assets for which no comparable asset was identified (i.e. hydro-power equipment), gross replacement cost was derived from the gross book value of the asset subject to valuation, indexed with specific price indices published by the Romanian institute of statistics (INSSE).

- *Physical depreciation*

Physical depreciation was determined as the ratio of remaining useful life to the economic useful life of each asset, applied to the gross replacement cost.

- *External depreciation*

External depreciation was applied to those highly specialized equipment that are part of an operating unit for which an external depreciation due to low capacity use was identified, as described above.

Significant unobservable inputs

- assets appraised under the direct comparison approach: price adjustments depending on the availability of trading negotiations and the current conditions of the specific market (5% - 25%), the comparability of the technical characteristics at the level of each identified comparability;
- assets appraised under the cost approach: adjustments for physical depreciation (3% - 90%, 32% on average), and external depreciation – adjustments for low capacity use (average of 20%).

Inter-relationship between key unobservable inputs and fair value measurement

The estimated fair value would increase (decrease) if:

- market price adjustments would be lower (higher);
- adjustments for physical and external depreciation applied under the cost approach would be lower (higher).

Assets under construction

As at 31 December 2023, the Group has assets under construction with a gross carrying amount of RON 4,245,198 thousand (31 December 2022: RON 4,336,865 thousand) for which it recognized accumulated impairment losses of RON 3,579,774 thousand (31 December 2022: RON 3,418,833 thousand).

The main assets under construction relate to the construction or rehabilitation of the following hydro-power projects or plants: construction of hydro- power plants – Bumbesti – Livezeni, Siriu – Surduc, Rastolita, Cornetu-Avrig, Pascani, Cerna Belareca, Cerna-Motru-Tismana, Bistra, Cosmesti-Movileni, Valea Sadului, Fagaras Hoghiz, Runcu Firiza; and rehabilitation of hydro-power plants – CHE Stejaru, CHE Slatina.

These assets under construction include mainly investments with complex functions, represented by historical investment objectives regarding hydropower development schemes with social functions (described below) which have been designed to have a secondary energy function. The primary objectives of these investment objectives are rational and safe water supply management, including:

- Limitation of flooding effects;
- Protection of population, communities and agricultural land;
- Water supply to riverain communities;
- Insuring water reserves to supply population and industry;
- Insuring flow for irrigation during periods of drought;
- Retaining solid flow in the water accumulations.

The social functions described above are specific to public authorities, which are not-for-profit entities. In fact, many of these investments belonged to the “Romanian Waters” National Agency, the governmental body concerned with regional planning and water management, in the past. Hidroelectrica SA is incorporated under Companies Law no. 31/1990 and is not a not-for-profit organization. In addition, Hidroelectrica does not benefit from public funds to complete such social investments, which, if continued to be funded, would impair shareholder value.

These “historical” hydro-power projects were mainly initiated between 1982 and 1989, following a number of Decrees of the State Council, and were financed by public funds, through the ministries involved as owners. After 1989, some of these projects were continued by the Romanian Waters National Agency, financed with public funds, before they were transferred to Hidroelectrica. The economic and energy conditions have significantly changed compared to 1980s and 1990s, mainly due to the shut down of the state centralized investment fund, and the beneficiaries of these complex works ceased funding the specific works included in the hydro-power projects, while the costs of these works remained to be incurred by Hidroelectrica.

After Hidroelectrica entered insolvency in June 2012 and in the view of the planned future listing of the Company’s shares, the legal administrators strongly prioritized the Company focus on profit and rational cash management.

In 2017 the Company contracted a specialized engineer, ISPH SA, to estimate the costs of abandonment, conservation and securing the works performed on the investments with complex functions. In 2018, based on the analysis of costs and benefits, the management decided to abandon certain investment objectives, as presented below and in Note 27.

For the investment objectives for which the decision to abandon was taken, impairment losses were recognized at the amount of their total gross carrying amount. The gross book value of abandoned investments is RON 590,890 thousand as at the end of 31 December 2023 (2022: RON 590,823 thousand). For these investment objectives the Group recognized provisions for decommissioning and site restoration (see Note 27).

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Project	Purpose	Gross carrying amount as at 31 December 2023	Accumulated impairment as at 31 December 2023	Net carrying amount as at 31 December 2023
Borca – Poiana Teiului	Galu Step	9,023	(9,023)	-
Cosmesti – Movileni	Cosmesti Step	93,207	(93,207)	-
Surduc – Siriu	Ciresu-Surduc Step	17,345	(17,345)	-
Fagaras-Hoghiz	Fagaras – Hoghiz	174,950	(174,950)	-
Runcu – Firiza	Runcu Firiza	87,807	(87,807)	-
Dambovita – Clabucet	Dambovita – Clabucet	34,762	(34,762)	-
Valea Sadului-Vadeni	Valea Sadului-Vadeni	165,209	(165,209)	-
Others		8,587	(8,587)	-
Total		590,890	(590,890)	-

Project	Purpose	Gross carrying amount as at 31 December 2022	Accumulated impairment as at 31 December 2022	Net carrying amount as at 31 December 2022
Borca – Poiana Teiului	Galu Step	9,022	(9,022)	-
Cosmesti – Movileni	Cosmesti Step	93,207	(93,207)	-
Surduc – Siriu	Ciresu-Surduc Step	17,345	(17,345)	-
Fagaras-Hoghiz	Fagaras – Hoghiz	174,950	(174,950)	-
Runcu – Firiza	Runcu Firiza	87,809	(87,809)	-
Dambovita – Clabucet	Dambovita – Clabucet	34,762	(34,762)	-
Valea Sadului-Vadeni	Valea Sadului-Vadeni	165,209	(165,209)	-
Others		8,519	(8,519)	-
Total		590,823	(590,823)	-

For 2023 and 2022 impairment losses were recognized for assets under construction, other than the abandoned assets discussed above, as follows:

Project	Gross carrying amount 31 Dec 2023	Accumulated impairment loss 31 Dec 2023	Net book value 31 Dec 2023	Impairment loss/(reversal) 2023
AHE Bumbesti-Livezeni	770,521	(451,089)	319,432	92,076
CHE Racovita	62,781	(62,781)	-	(7,775)
AHE Rastolita	697,883	(654,071)	43,812	23,031
AHE Siriu-Surduc	745,847	(699,935)	45,912	34,978
AHE Pascani	396,483	(396,483)	-	22,913
AHE Cerna-Belareca	318,265	(318,265)	-	17
AHE Cornetu-Avrig	107,225	(105,949)	1,276	281
Cerna Motru Tismana – stage II	72,943	(72,943)	-	-
Lac redresor Sebes	56,363	(56,363)	-	225
Bistra	45,010	(45,010)	-	16
Rehabilitation of Portile de Fier II	45,265	(45,265)	-	-
Others	87,244	(80,730)	6,514	(4,821)
Total	3,405,830	(2,988,884)	416,946	160,941

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Project	Gross carrying amount	Accumulated impairment loss	Net book value	Impairment loss/(reversal)
	31 Dec 2022	31 Dec 2022	31 Dec 2022	2022
AHE Bumbesti-Livezeni	770,520	(359,013)	411,507	48,201
CHE Racovita	70,557	(70,557)	-	5,065
AHE Rastolita	696,498	(631,039)	65,459	(43,217)
AHE Siriu-Surduc	743,895	(664,957)	78,938	85,053
AHE Pascani	373,570	(373,570)	-	3,596
AHE Cerna-Belareca	318,248	(318,248)	-	165
AHE Cornetu-Avrig	106,944	(105,668)	1,276	(153)
Cerna Motru Tismana – stage II	72,943	(72,943)	-	-
Lac redresor Sebes	56,138	(56,138)	-	-
Bistra	45,061	(45,061)	-	(6)
Rehabilitation of Portile de Fier II	45,265	(45,265)	-	-
Others	91,349	(85,551)	5,799	(34,833)
Total	3,390,989	(2,828,010)	562,979	63,871

Determination of recoverable amounts

The determination of the recoverable amounts of the investments under construction above was based on a series of assumptions related to the feasibility of completion of the investments and the projected cash flows.

The significant assumptions used in estimating the recoverable amount are presented below. The estimates were based both on historical data, as well as on management's assessment of future trends related to electricity prices, margins, costs to complete and climate related risk:

Estimates	Method for building the estimates	
	31 December 2023	31 December 2022
Cost to complete the projects, annual cash flows to completion and the date of commissioning	based on the contracts concluded with the suppliers for each project or estimation made by management (see below)	
Installed capacities	based on technical data for each project (see below)	
Capacity utilization rate	80% of the production capacity on average (based on Company average historical electricity production for the previous 6 years and also adjusted downwards for addressing climate risks.)	85% of the production capacity on average (based on Company average historical electricity production for the previous 5 years)
Electricity prices	Based on reports prepared by external consultants for the period 2024-2060, adjusted for certain assumptions; 2% annual price increase (long-term inflation rate) for the period 2061 – 2078	Based on reports prepared by external consultants for the period 2023 – 2035; 2% annual price increase (long-term inflation rate) for the period 2036 – 2050
PPE EBITDA margin (*)	72%	72%
Useful life	50 years	50 years
Discount rate before tax	10.2%	10.5%

()PPE EBITDA margin represents the margin used by the Group in impairment testing of assets under construction and is computed as Adjusted EBITDA as defined in Note 22 plus tax on electricity producers as a non-recurring item, changes in provisions and impairment loss on trade receivables, divided by Revenues.*

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The Group's estimates of the costs necessary to complete the projects under construction, as well as the annual production capacities to be installed per year, are as follows:

Year	Estimated costs to complete		Installed capacity per year (GW)	
	31 December 2023	31 December 2022	31 December 2023	31 December 2022
2023	-	132,321	-	-
2024	152,000	517,861	-	-
2025	566,044	608,731	91	299
2026	551,518	408,431	384	222
2027	122,000	14,585	-	20
2028	128,634	-	20	-
2029	99,030	-	45	-
Total	1,619,226	1,681,929	540	540

The Group estimated that approximately 88% of the additional generation capacity will be installed by the end of 2027.

The impairment losses recognized were mainly driven by the change in the assumptions used on future prices of electricity, as well as by the update of the work schedule until completion.

The main variations in the recoverable amount/ impairment loss in 2023 and 2022 refer mainly to the following investment projects:

- Bumbesti-Livezeni project, with a net carrying amount of RON 319,432 thousand as at 31 December 2023 (31 December 2022: RON 411,507 thousand), for which the works were suspended in 2017 due to the fact that the construction and environmental authorisations were cancelled as a result of litigation lost by the Company with non-profit organizations. The project started in 2003, while in 2005 the National Park "Defileul Jiului" was ruled as protected area; therefore the Company needs to reassess the impact on the environment and obtain new authorisations.

The impairment loss of RON 92,076 thousand in 2023 for Bumbesti-Livezeni project was driven by the decrease in forecasted electricity prices.

The impairment loss of RON 48,201 thousand in 2022 for Bumbesti-Livezeni project was driven by the increase in cost to complete by RON 231,938 thousand as a result of the new claims and litigation initiated by the constructor in 2022. (see also Note 27 (i)), offset by the increase in forecasted electricity prices.

The Group is currently in process of obtaining new construction and environmental authorisations in order to continue the works. In 2022, the authorities informed the Group that the documentation submitted does not comply with the legal requirements and needs to be revised.

In December 2022, the Government issued the Emergency Ordinance no. 175/2022 ("OUG 175/2022"), through which a number of investments projects developed by Group, including Bumbesti-Livezeni, are declared public interest projects and are considered exceptional situations under the definition of Law no. 292/2018 regarding the evaluation of certain projects' impact on environment. According to the Law no. 292/2018, in exceptional situations the relevant authority can exempt a project from the partial or full application of the requirements for obtaining the environmental authorization.

In January 2023 a new procedure was started in order to obtain the environmental authorization and new consultants were contracted during the year to complete the documentation for obtaining the environmental authorization. Although the environmental documentation needs to be revised and re-submitted to the authorities, management believes that there are no issues that would prevent the Company to obtain the authorizations and complete the project. Consequently, the recoverable value of the project was determined considering that the project will be completed in 2026.

- Siriu-Surduc project with a net carrying amount of RON 45,912 thousand as at 31 December 2023 (31 December 2022: RON 78,938 thousand), for which works were suspended due to the fact that the construction and environmental authorizations for the construction of the dam were cancelled as a result of litigation lost by the Company with non-profit organizations. The project started in 1983 and comprises 3 hydropower plants, out of which one was put in function in 1988, for another one the management decided to abandon the project and the third one is under

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construction, with the works suspended until revision of the impact on the environment and obtain new authorisations.

Impairment loss of RON 34,978 thousand in 2023 for Siriu – Surduc project was driven mainly by the climate risk assumptions used at the end of 2023.

Impairment loss of RON 85,053 thousand in 2022 for Siriu – Surduc project was driven by the increase of the estimated cost to complete by RON 163,446 thousand as result of the high increase in prices of construction materials corroborated with offers received by the Group for other refurbishment projects with the same characteristic as the above mentioned project.

Management believes that there are no issues that would prevent the Company to obtain the authorisations and complete the project. Consequently, the recoverable value of the project was determined considering that the project will be completed in 2026.

Sensitivity analysis

The sensitivity analysis below shows the effect on profit before tax, and was determined based on the reasonable changes in key assumptions at the end of the reporting periods, while other assumptions remain constant.

	Increase/ (decrease) of Profit before tax	
	100 bp increase	100 bp decrease
Discount rate before tax		
2023	(112,501)	141,271
2022	(129,295)	162,003
	Increase/ (decrease) of Profit before tax	
	500 bp increase	500 bp decrease
PPE EBITDA margin		
2023	73,476	(73,476)
2022	84,120	(84,120)
	Increase/ (decrease) of Profit before tax	
	5% increase	5% decrease
Electricity prices		
2023	52,989	(52,896)
2022	60,566	(60,566)
	Increase/ (decrease) of Profit before tax	
	500 bp increase	500 bp decrease
Capacity utilization rate		
2023	58,830	(58,830)
2022	30,589	(30,589)

22. CAPITAL AND RESERVES

(a) Share capital

	31 December 2023	31 December 2022
Nominal share capital	4,498,026	4,484,595
Inflation adjustments in accordance with IAS 29	1,028,871	1,028,871
Total	5,526,898	5,513,466

Until 31 December 2003, the share capital in nominal terms was restated in accordance with IAS 29 "Financial Reporting in Hyperinflationary Economies", the related adjustments being recognized against retained earnings.

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On 27 May 2023, a share capital increase was registered at the Trade Register of RON 13,432 thousand, representing 1,343,085 shares, out of which RON 10,753 thousand contribution in kind by the Ministry of Energy representing land and RON 2,679 thousand contribution in cash by Fondul Proprietatea.

At 31 December 2023, the authorized, subscribed share capital of the Company is divided into 449,802,567 ordinary shares (31 December 2022: 448,459,482 ordinary shares) with a nominal value of RON 10 per share. The shareholders are entitled to dividends and each share grants a voting right.

	31 December 2023		31 December 2022	
	Number of shares	%	Number of shares	%
Shareholders				
Ministry of Energy	360,094,390	80.0561%	359,019,169	80.0561%
Fondul Proprietatea	-	-	89,440,313	19.9439%
Legal persons	75,535,576	16.7931%	-	-
Individuals	14,172,601	3.1508%	-	-
Total	449,802,567	100%	448,459,482	100%

(b) Revaluation reserve

The reconciliation between opening balance and closing balance of the revaluation reserve is as follows:

	2023	2022
Balance at 1 January	11,021,335	9,612,905
Transfer of revaluation reserve to retained earnings following depreciation and disposal of property, plant and equipment, net of tax	(392,692)	(369,385)
Revaluation of property, plant and equipment	1,678,290	2,116,546
Deferred tax related to revaluation reserve	(268,317)	(338,731)
Balance at 31 December	12,038,616	11,021,335

(c) Other reserves

Other reserves include:

- legal reserve of RON 927,034 thousand (31 December 2022: RON 926,188 thousand), set-up annually at each Group company level as 5% of the profit before tax until the total legal reserve reach 20% of the paid-up nominal share capital. Legal reserves are mandatory, are deductible for income tax purposes and are not distributable.
- Other non-distributable reserves of RON 97,000 thousand at 31 December 2023 and 2022, set-up in 2006 based on Government Emergency Ordinance no. 89/2004.

(d) Dividends

The Company declared and paid dividends as follows:

	2023	2022
Dividends declared and paid	4,349,389	3,830,946
Dividend per share (RON)	9.67	8.54

Romanian companies may distribute dividends from statutory earnings only, as per separate financial statements prepared in accordance with Romanian accounting regulations.

(e) Capital management

The capital management of the Group is significantly influenced by the regulations. The distribution of dividends is governed by special regulation, including the Government Ordinance no. 64/2001, according to which, in the case of companies wholly or majority-owned by the State, minimum 50% of the accounting profit shall be distributed as dividends, unless otherwise provided by special laws.

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The Groups' policy is to maintain a strong capital base as to maintain investor, creditor and market confidence and to sustain future developments of the business. Management monitors the return on capital, as well as the level of dividends to shareholders. The net debt / (net cash and short-term investments) to ADJUSTED EBITDA should not exceed 3.

		2023	2022
Bank borrowings		393,535	484,492
Lease liabilities		66,301	15,401
Less: Cash and cash equivalents		(407,634)	(660,734)
Less : Short-term investments		(4,349,482)	(3,034,745)
Net debt /(net cash and short-term investments)	A	(4,297,280)	(3,195,586)
ADJUSTED EBITDA⁽¹⁾	B	8,252,768	6,008,630
Net debt /(net cash and short-term investments) to ADJUSTED EBITDA ratio	A/B	(0.52)	(0.53)

(1) *ADJUSTED EBITDA (Earnings before interest, tax, depreciation and amortisation) is calculated as EBITDA, defined and calculated as profit/(loss) before tax before (i) depreciation and amortization of property, plant and equipment and (ii) interest income and expense, and ADJUSTED FOR impairment/reversal of impairment of property, plant and equipment. EBITDA and ADJUSTED EBITDA are not IFRS measures and should not be treated as an alternative to IFRS measures. Moreover, ADJUSTED EBITDA is not uniformly defined. The method used to calculate ADJUSTED EBITDA by other companies may differ significantly from that used by the Group. As a consequence, the ADJUSTED EBITDA presented in this note cannot, as such, be relied upon for the purpose of comparison to EBITDA or ADJUSTED EBITDA of other companies.*

23. BORROWINGS

Description	31 December 2023	31 December 2022
BRD Groupe Societe Generale dated 4 March 2021 of RON 1,250 million - loan contracted for financing the acquisition of a Crucea Wind Farm SA and Hidroelectrica Wind Services SRL. Proceeds from loan: EUR 130,000 thousand (representing RON 635,219 thousand) Repayment: quarterly installments between 11 June 2021 and 11 March 2028. Interest is linked to EURIBOR 3 months plus a margin. Year of maturity: 2028.	393,535	483,013
Banca Transilvania - Credit line of Hidroserv subsidiary classified as non-current at 31 December 2021 and 31 December 2020 according to the reorganization plan; Repayment: quarterly installments until second quarter of 2023. Year of maturity: 2023	-	1,479
Total loans	393,535	484,492
Current portion	93,282	94,001
Non-current portion	300,253	390,491

In 2023 the Group repaid loans of RON 93,416 thousand (2022: RON 93,307 thousand).

The loan agreement with BRD Groupe Societe Generale include the following financial ratios: Debt Service Coverage Ratio – minimum 1.1 and debt rate – maximum 3.0. As at 31 December 2023 and 31 December 2022 the Group met the financial ratios mentioned. In case any of the covenants is not met, the borrower is entitled, upon written notice, to request full or partial accelerated reimbursement of the borrowing.

Reconciliation of movements of liabilities to cash flows arising from financing activity

	Bank borrowings	Lease liabilities	Total
Balance at 1 January 2023	484,492	15,401	499,893
Changes from financing cash flows			
Repayment of bank loans	(93,416)	-	(93,416)
Lease payments	-	(8,146)	(8,146)
Total changes from financing cash flows	(93,416)	(8,146)	(101,562)
The effect of changes in foreign exchange rates	2,202	-	2,202
Other changes			
<i>Liability-related</i>			
Lease modifications	-	59,046	59,046
Interest expense	14,926	524	15,450
Interest paid	(14,669)	(524)	(15,193)
Total liability-related other changes	257	59,046	59,303
Balance at 31 December 2023	393,535	66,301	459,836
	Bank borrowings	Lease liabilities	Total
Balance at 1 January 2022	577,796	12,506	590,302
Changes from financing cash flows			
Repayment of bank loans	(93,307)	-	(93,307)
Lease payments	-	(4,364)	(4,364)
Total changes from financing cash flows	(93,307)	(4,364)	(97,671)
The effect of changes in foreign exchange rates	(575)	-	(575)
Other changes			
<i>Liability-related</i>			
Lease modifications	-	7,259	7,259
Interest expense	2,708	528	3,236
Interest paid	(2,130)	(528)	(2,658)
Total liability-related other changes	578	7,259	7,837
Balance at 31 December 2022	484,492	15,401	499,893

24. TRADE PAYABLES

	31 December 2023	31 December 2022
Electricity suppliers	85,925	70,602
Electricity distribution services suppliers	119,453	45,065
Property, plant and equipment suppliers	67,096	61,785
Turbinated water supplier	106,000	79,810
Maintenance and repairs suppliers	4,277	6,415
Other suppliers	24,968	19,747
Total trade payables	407,719	283,424
Current	407,612	282,996
Non-current	107	428

The suppliers of electricity, electricity distribution and water are mainly those presented in Note 31 Related Parties.

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Other suppliers include service providers, materials and consumables providers.

The Group has guarantees received from suppliers of RON 246,293 thousand at 31 December 2023 (RON 235,775 thousand at 31 December 2022). These are good performance guarantees in the form of bank letters of guarantee, insurance policies and escrow accounts.

25. OTHER PAYABLES

	31 December 2023		31 December 2022	
	Current	Non-current	Current	Non-current
Payables to the State	82,184	-	14,223	-
Performance deposits from suppliers	9,268	8,420	12,114	5,719
Other	15,677	46	12,234	46
Total	107,129	8,466	38,571	5,765

Payables to the State represent mainly VAT payable of RON 79,774 thousand as at 31 December 2023 (31 December 2022: RON 3,098 thousand).

At 31 December 2023, for volume supplied for which invoicing delays for more than 12 months were identified, the Group self-invoiced the related VAT in value of RON 24,063 thousand in accordance with art.281, paragraph (8) of the Fiscal Code.

26. DEFERRED INCOME

	31 December 2023		31 December 2022	
	Current	Non-current	Current	Non-current
Government grants	5,706	176,780	5,685	181,517
Other	17	52	11	5
Total	5,723	176,832	5,696	181,522

Government grants represent amounts received from the State for the construction of certain investment projects.

Reconciliation between opening and closing balance of government grants:

	2023	2022
Balance at 1 January	187,202	192,866
Increase in the year	1,022	50
Released to income	(5,738)	(5,714)
Balance at 31 December	182,486	187,202

27. PROVISIONS

	31 December 2023		31 December 2022	
	Current	Non-current	Current	Non-current
Litigation and claims	163,588	-	120,354	-
Decommissioning	-	746,286	-	723,968
Tax provisions	-	90,544	-	93,121
Other provisions	1,771	-	1,406	-
Total	165,359	836,830	121,760	817,089

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	Litigation and claims	Decommissioning	Tax provisions	Other provisions	Total
Balance at 1 January 2023	120,354	723,968	93,121	1,406	938,849
Provisions recognized against property, plant and equipment	-	(3,389)	-	-	(3,389)
Provisions recognized in profit or loss	43,447	-	-	513	43,960
Provisions used	-	-	-	-	-
Provisions reversed	(213)	(4,403)	(6,410)	(148)	(11,174)
Unwinding of provisions (Note 13)	-	30,110	3,833	-	33,943
Balance at 31 December 2023	163,588	746,286	90,544	1,771	1,002,189
	Litigation and claims	Decommissioning	Tax provisions	Other provisions	Total
Balance at 1 January 2022	116,260	642,078	86,560	271	845,169
Provisions recognized against property, plant and equipment	-	(5,298)	-	-	(5,298)
Provisions recognized in profit or loss	7,359	62,558	2,945	1,135	73,997
Provisions used	(2,771)	-	-	-	(2,771)
Provisions reversed	(494)	-	-	-	(494)
Unwinding of provisions (Note 13)	-	24,630	3,616	-	28,246
Balance at 31 December 2022	120,354	723,968	93,121	1,406	938,849

(i) Provisions for litigation and claims

As at 31 December 2023 and 31 December 2022, provisions for litigations include RON 47,404 thousand relating to a litigation started in December 2022 by Hidroconstructia SA, one of the constructors used for Bumbesti-Livezeni investment project. Hidroconstructia requested RON 47,404 thousand representing works performed in 2017 and related interest and costs incurred during the period the project was in stand-by due to the annulment of the required construction and environmental authorizations. These costs include security and safety of the project during the stand-by period. Considering the probability of an unfavourable outcome, the Group recognized a provision of RON 47,404 thousand.

As at 31 December 2023 and 31 December 2022, provisions for litigations include RON 67,618 thousand relating to the litigation with the Association of Romelectro SA, Hidroconstructia SA and ISPH Project Development SA (the Association) started in 2013. The subject of the litigation is disputes over the contract signed in 2004 for the Bumbesti-Livezeni investment project. The Association requested RON 88,441 thousand representing additional works performed by the Association starting 2010 until the date of commencement of the litigation. Following several rulings and appeals in 2019 the file was sent to retrial. In 2020 the Court requested a technical expert report. Based on the past rulings, the expert report issued on 17 February 2022 and considering the probability of an unfavourable outcome the Group recognized a provision of RON 67,618 thousand.

In 2023, the Group recognized provisions for litigations of RON 40,116 thousand relating to the litigation with Benny Alex SRL. The subject of the litigation is disputes over the value of the additional works performed on the basis of the subcontracting agreement concluded with Hidroserv (the Company's subsidiary) in the amount of RON 40,116 thousand.

On 30 May 2023, the court ruled in favor of the plaintiff BENY ALEX S.R.L and the Company appealed the decision. Considering the court's decision, the Group estimated that an unfavorable outcome is probable and, accordingly, recognized a provision of RON 40,116 thousand.

(ii) Decommissioning provision

In 2018 and 2019, the management of the Company decided to abandon certain investment projects in progress (Note 21). As a result, the Company recognized decommissioning provisions against profit or loss for the present value of the works estimated to be necessary to abandon those assets. The decommissioning costs were estimated based on studies performed by an external technical expert in 2017, adjusted with inflation or estimated increase in costs in construction and transportation industry.

Main abandonment costs included in the provision are:

- cost to demolish existing constructions;
- cost to transport the waste materials to the nearest ecological deposit;
- environmental tax, in accordance with the legal requirements;
- cost to deposit the waste at an ecological deposit.

The costs were discounted using discount rates between 4.76% and 7.05% (31 December 2022: between 4.12% and 5.3%), depending on the expected period of decommissioning.

A decommissioning provision of RON 13,783 thousand is related to the wind farm. The effects of changes in assumptions underlying the decommissioning costs for the wind farm are recognized against property, plant and equipment.

(iii) Tax provisions

Tax provisions of RON 90,544 thousand at 31 December 2023 (31 December 2022: RON 93,121 thousand) represent the present value of the VAT expected to be paid at the write off of the abandoned investment projects (Note 21).

28. FINANCIAL INSTRUMENTS – Fair Values and Risk Management

(a) Accounting classifications and fair values

In accordance with IFRS 9, the Group's financial assets and liabilities are measured at amortized cost. According to the business model of the Group, financial assets and liabilities are held to collect contractual cash flows and these cash flows are solely payments of principal and interest. The Group did not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

(b) Financial risk management

Credit risk

Credit risk is the risk that the Group will incur a financial loss if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and this risk derives mainly from trade receivables, cash and cash equivalents, and other investments.

Cash and bank deposits are placed in financial institutions that are considered to have high creditworthiness.

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Exposure to credit risk

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

	31 December 2023	31 December 2022
Trade receivables	3,047,968	1,350,677
Cash and cash equivalents	407,634	660,734
Restricted cash	101,057	101,057
Investments in corporate bonds and deposits	4,702,879	3,386,083
Total	8,259,538	5,498,551

Trade receivables

The Group's exposure to credit risk is mainly influenced by the individual characteristics of each client. The Group has established a credit policy according to which each new business client is analyzed individually from the point of view of creditworthiness before the conclusion of a contract, so that the sale is made to the clients with an adequate creditworthiness. For household clients, such credit risk analysis is not performed due to the nature and volume of the customers. Impairment adjustments of trade receivables reflect the expected credit losses, calculated based on the loss rates.

The increase in trade receivables is the result of delays in the invoicing electricity supplied to end users due to the implementation of new billing and customer relationship systems for supply activity which continued also in 2023, to which are added the frequent regulatory changes with respect of supply prices to end-users and the significant increase in the number of new retail clients. These aspects resulted in material balance of unbilled revenues included in trade receivables of RON 1,229,147 thousand at 31 December 2023 (RON 1,116,046 thousand at 31 December 2022).

The following table provides information about the exposure to credit risk and expected credit loss (ECL) for trade receivables as at 31 December 2023:

	Weighted average loss rate	Gross carrying amount	Impairment loss allowance	Net trade receivables
Not past due	2.32%	1,759,281	(40,756)	1,718,525
Past due - from 0 to 3 months	24.80%	229,670	(56,960)	172,710
Past due - from 3 to 6 months	80.61%	37,614	(30,319)	7,295
Past due - from 6 months to 1 year	100.00%	12,880	(12,880)	-
Past due - more than 1 year	100.00%	16,337	(16,337)	-
Total		2,055,782	(157,252)	1,898,530
Customers analyzed individually		1,149,438	-	1,149,438
Total trade receivables		3,205,220	(157,252)	3,047,968

The following table provides information about the exposure to credit risk and expected credit loss (ECL) for trade receivables as at 31 December 2022:

	Weighted average loss rate	Gross carrying amount	Impairment loss allowance	Net trade receivables
Not past due	2.45%	1,014,908	(24,896)	990,012
Past due - from 0 to 3 months	36.40%	39,459	(14,363)	25,096
Past due - from 3 to 6 months	62.86%	13,496	(8,483)	5,013
Past due - from 6 months to 1 year	100.00%	19,036	(19,036)	-
Past due - more than 1 year	100.00%	10,706	(10,706)	-
Total		1,097,605	(77,484)	1,020,121
Customers analyzed individually		330,556	-	330,556
Total trade receivables		1,428,161	(77,484)	1,350,677

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Customers analyzed individually represent outstanding amounts from customers for which the Group believes that there is a negligible risk to collect.

Loss rates estimated for 2023 are based on the actual credit loss experienced over the past six quarters considering the evolution of the supply segment and the delays in invoicing the electricity supplied (31 December 2022: five years).

The Group has guarantees received from customers of RON 444,551 thousand at 31 December 2023 (RON 907,555 thousand at 31 December 2022). These are guarantees for payment in the form of bank letters of guarantee received in relation to electricity sales contracts. Decrease of guarantees received from customers is due to the implementation of the market for centralised acquisition mechanism of electricity. Transactions on this market are made through OPCOM as intermediary, meaning that the Group concluded one wholesale contract with OPCOM, thus the number of wholesale contracts decreased in 2023.

Liquidity risk

Liquidity risk represents the risk that the Group may have difficulties in meeting the obligations associated with financial liabilities settled by transfer of cash or another financial asset. The Group has significant cash and cash equivalents and short-term investments, therefore it does not face significant liquidity risk.

The Group monitors the level of cash inflows forecasted from collection of trade receivables, as well as the level of cash outflows forecasted for the payment of loans, trade and other payables. The Group aims to maintain a level of current bank accounts and bank deposits that exceeds the cash outflows forecasted for the payment of financial liabilities.

Exposure to liquidity risk

The following table shows the remaining contractual maturities of financial liabilities at the reporting date. The contractual cash flows are presented gross and undiscounted, and include estimated contractual interest payments.

	Contractual cash flows				
	Carrying amount	Total	< 12 months	1 - 5 Years	> 5 years
31 December 2023					
Financial liabilities					
Trade payables	407,719	407,719	407,612	107	-
Bank borrowings	393,535	430,009	107,559	322,450	-
Lease liabilities	66,301	90,167	9,164	35,779	45,224
Total	867,555	927,895	524,335	358,336	45,224
	Contractual cash flows				
	Carrying amount	Total	< 12 months	1 - 5 Years	> 5 years
31 December 2022					
Financial liabilities					
Trade payables	283,424	283,424	282,996	428	-
Bank borrowings	484,492	513,201	103,302	386,803	23,096
Lease liabilities	15,401	17,881	8,301	4,677	4,903
Total	783,317	814,506	394,599	391,908	27,999

Market risk

Market risk is the risk that changes in market prices – foreign exchange rate and interest rate – will affect the Group's profit or the value of the financial instruments held. The objective of market risk management is to control market risk exposures within acceptable parameters, while optimizing the return.

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(i) *Interest rate risk*

The Group has long-term bank borrowings with variable interest rates, which may expose the Group to interest rate risk.

	31 December 2023	31 December 2022
Fixed-rate instruments		
Financial assets		
Restricted cash	101,057	101,057
Investments in corporate bonds and deposits	4,702,879	3,386,083
Total	4,803,936	3,487,140
Financial liabilities		
Lease liabilities	(66,301)	(15,401)
Total	(66,301)	(15,401)
Variable-rate instruments		
Financial liabilities		
Bank borrowings	(393,535)	(484,492)
Total	(393,535)	(484,492)

Fair value sensitivity analysis of fixed-rate instruments

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

Cash flow sensitivity analysis of variable-rate instruments

A reasonably possible change of 50 basis points in interest rates at the reporting date would have increased (decreased) the profit before tax by the amounts shown below. This analysis assumes that all other variables, in particular currency exchange rates, remain constant.

	Increase/ (decrease) of Profit before tax	
	50 bp increase	50 bp decrease
2023		
Variable-rate instruments	(1,968)	1,968
2022		
Variable-rate instruments	(2,422)	2,422

(ii) *Currency risk*

The Group is exposed to transactional foreign currency risk to the extent that there is mismatch between the currencies in which sales, purchases, receivables and borrowings are denominated and the respective functional currencies of Group companies. The functional currency of the Group is the Romanian Leu (RON).

The currency in which these transactions are primarily denominated are RON. Certain liabilities are denominated in foreign currencies as EUR and USD. The Group's risk management policy is to primarily use the local currency. The Group does not use derivative instruments or hedging instruments.

	31 December 2023		
	- RON thousand equivalent of the currency -		
	EUR	USD	CHF
Trade receivables	221	-	-
Investments in corporate bonds and deposits	353,398	-	-
Cash and cash equivalents	27,585	203	3
Trade payables	(4,337)	(160)	-
Bank borrowings	(393,535)	-	-
Lease liabilities	(66,163)	-	-
Net statement of financial position exposure	(82,831)	43	3

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	31 December 2022		
	- RON thousand equivalent of the currency -		
	EUR	USD	CHF
Trade receivables	221	-	-
Investments in corporate bonds and deposits	351,338	-	-
Cash and cash equivalents	4,020	228	2
Trade payables	(3,971)	-	-
Bank borrowings	(483,013)	-	-
Lease liabilities	(13,585)	-	-
Net statement of financial position exposure	(144,990)	228	2

The following exchange rates have been applied:

	31 December 2023	31 December 2022
RON / EUR	4.9746	4.9474
RON / USD	4.4958	4.6346
RON / CHF	5.3666	5.0289

Sensitivity analysis

A 5% appreciation of the Romanian leu (RON) against all other foreign currencies as at 31 December would have affected the profit before tax by the amounts shown below. This analysis assumes that all other variables remain constant.

	Increase/(decrease) of Profit before tax 2023 (RON thousand)	Increase/(decrease) of Profit before tax 2022 (RON thousand)
EUR	4,141	7,250
USD	(2)	(11)
Total	4,139	7,239

A 5% depreciation of the Romanian leu (RON) against all other foreign currencies as at 31 December would have affected the profit before tax by the amounts shown below. This analysis assumes that all other variables remain constant.

	Increase/ (decrease) of Profit before tax 2023 (RON thousand)	Increase/ (decrease) of Profit before tax 2022 (RON thousand)
EUR	(4,141)	(7,250)
USD	2	11
Total	(4,139)	(7,239)

29. COMMITMENTS

29.1 Contractual commitments

The Group has the following contractual commitments:

	31 December 2023	31 December 2022
Acquisition of property, plant and equipment and intangible assets	565,361	545,184

29.2 Guarantees

The Group issued good performance guarantees of RON 32,885 thousand at 31 December 2023 (31 December 2022: RON 35,213 thousand) mainly in relation to its obligations to deliver electricity, and in relation to its payment obligations related to electricity purchase transactions on the day-ahead and intra-day markets.

30. CONTINGENCIES

30.1 Litigation, claims and tax uncertainties

The main litigations involving the Group, with a potential exposure of RON 467,804 thousand as at 31 December 2023 (31 December 2022: RON 882,864 thousand), are disclosed as contingent liabilities:

a) Litigation with Ministry of Energy

Potential exposure: RON 373,050 thousand as at 31 December 2022 (nil as at 31 December 2023)

Plaintiff: Ministry of Energy

File no. 3200/2/2018

Subject-matter: Claims arising from concession agreement no.171/2004

The Ministry of Energy claims the following:

1. enforcing the Company to consent to conclude an addendum to the concession agreement as follows:
 - a) the Ministry of Energy, as grantor, to be able to change the royalty discretionary; and
 - b) the annual royalty to be changed to an amount equal to the annual depreciation of property, plant and equipment subject to royalty as per the concession agreement.
2. The Ministry of Energy also claims RON 373,050 thousand representing additional royalties for the period 2013 – 2018 computed as described in 1b) above.

The Court appointed an expert to determine the amount payable by the Group, if any. The court also approved an expert engaged by the Group. Both experts concluded that the royalty calculated and paid by the Group for the period 2013 - 2018 was in accordance with the provisions of the concession agreement and is accurate and complete.

On 11 May 2021, the first Court rejected the claims of the Ministry of Energy as groundless. During 2022, the Ministry of Energy appealed the Court decision.

On 14 February 2024, the Court declares null the appeal filed by the Ministry of Energy, the decision is final.

b) Litigations with Tax authorities regarding past tax treatments

Potential exposure: RON 214,385 thousand as at 31 December 2023 and 2022

Plaintiff: Hidroelectrica

Subject: Annulment of the Decision on settling the preliminary tax appeal no. 406/18.12.2014 and annulment of Tax Decision no. F-MC 851/21.01.2014

The Company was subject to a general tax inspection covering the period 01.01.2006-30.06.2012 concluded with several tax decisions issued by ANAF in 2014, which imposed additional taxes of RON 214,385 thousand, which includes mainly income tax of RON 26,513 thousand and related late payment interest and penalties of RON 119,448 thousand, value added tax of RON 37,677 thousand and related late payments interest and penalties of RON 27,339 thousand. The Company filed a complaint in Court in 2015 requesting the cancellation of the tax decisions.

In 2021 the experts appointed by the Court issued their report, which concluded that ANAF is entitled to receive RON 511 thousand plus interest and penalties. ANAF objected to the experts' report. In February 2023, the independent experts submitted the updated report containing responses to the ANAF's objections. In the updated report, the experts concluded that ANAF is entitled to receive RON 987 thousand.

On 7 April 2023 the Court of Appeal pronounced the sentence through which ANAF tax decision regarding to the Company's additional payment obligations of 214,385 thousand was cancelled. The decision was appealed by ANAF, next term being 2 April 2024.

Based on the final decision of the Bucharest Court of Appeal in the Company's insolvency file according to which ANAF is deprived of the right to request payment of the tax obligations imposed by the tax decisions, and based on the experts' report which is favorable to the Group, as well as the Court of Appeal ruling from 7 April 2023, management estimates that the litigation will be ruled in the Group's favor, and consequently an outflow of resources is not probable.

c) Litigation with Tax authorities

Potential exposure: RON 63,612 thousand as at 31 December 2023 (RON 62,052 thousand as at 31 December 2022)

Plaintiff: Hidroelectrica

File no. 638/2/2024

Subject matter: Annulment of Tax Decision No. A-DAF 6890/11.05.2023

Tax for electricity producers was subject to multiple changes with respect to the method of computation during 2022. The latest change was instated through Law no. 357/2022, which was published on 16 December 2022. The Company applied the provisions of the law starting with 16 December 2022.

As previously mentioned in Note 12 D, the Company was subject to a tax control by the General Antifraud Division of ANAF on the tax for electricity producers. As per the control report on 11 April 2023, the tax authorities applied the changes introduced by the law retroactively starting 1 September 2022, and therefore computed additional tax of RON 62,052 thousand.

On 28 April 2023 the Company received the imposing decision for the amount of RON 62,052 thousand. The Group challenged the imposing decision within the procedural term, the challenge being rejected by the General Division for Solving Disputes within the Finance Ministry.

The Company argued in its Court application that successive changes of legislation regarding the calculation methodology of the tax for electricity producers can only be applicable for the future, starting with the date of publication of legislative amendments and not retroactively, as tax authorities considered.

On 7 August 2023 the Company received a decision regarding interest and penalties in the amount of RON 1,560 thousand related to the previously mentioned imposing decision. The Group challenged the decision within the procedural term. The decision will be the object of a new litigation if the challenge will be rejected.

Management estimates that the litigation will be ruled in the Group's favor, and consequently an outflow of resources is not probable.

d) Litigation with Hidroconstructia SA

Potential exposure: RON 98,762 thousand as at 31 December 2023 and 2022

Plaintiff: Hidroconstructia SA

File no. 12257/3/2022

Subject-matter: Termination of Contract no. 672/1989 regarding the Fagaras-Hoghiz investment project; claims

Hidroconstructia SA filed claims to recover RON 98,762 thousand consisting of unrealized profits as a result of the suspension by Hidroelectrica of the construction works related to the Fagaras Hoghiz investment project. Also, Hidroconstructia requested the court to enforce the termination of the underlying contract.

In January 2023, the Court ruled in favor of the Company, rejecting Hidroconstructia's claims. The decision was appealed by Hidroconstructia.

On 12 October 2023, the Court of Appeal set aside the first Court ruling and granted a new hearing on the merits. On 14 December 2023, the Court requested an expertise report, next term being 4 April 2024.

Based on the legal analysis of the Hidroconstructia claims, the management considers the statement of claims as unsubstantiated. Considering the above, management estimates that the litigation will be ruled in favor of the Group and consequently an outflow of resources is not probable.

e) Litigation with Hidroconstructia SA

Potential exposure: RON 32,832 thousand as at 31 December 2023 and 2022

Plaintiff: Hidroconstructia SA

Files no. 44443/3/2016 and 11314/3/2021

Subject-matter: Claims - the equivalent value of the costs generated by the cessation of construction works related to investment projects in progress.

Hidroconstructia SA claims the costs generated by the suspension of construction works rendered before the Company's insolvency. The Group argues that such claims have no grounds considering the insolvency process of Hidroelectrica and the fact that the claimant lost its right to claims as it failed to register the claim in the table of creditors.

In March 2018 the first Court rejected the claims of Hidroconstructia SA. This ruling was contested by Hidroconstructia SA. The Group also contested the ruling, as it provided for legal fees for Hidroelectrica.

In April 2019 the Court of appeal sent the case back to the first court for reexamination. The dispute was reopened by the first Court (file no. 11314/3/2021).

In April 2022, the Court requested an expertise report in hydrotechnical constructions and an accounting expertise report to be performed by independent experts. Currently, the expert report is being drafted, next term being 2 April 2024.

Based on the initial first Court ruling, management estimates that the litigation will be ruled in favor of the Group and consequently an outflow of resources is not probable.

f) Litigation with Hidroconstructia SA

Potential exposure: RON 28,963 thousand as at 31 December 2023 and 2022

Plaintiff: Hidroconstructia SA

File no. 31451/3/2020

Subject-matter: Claims - commercial discounts granted to the Group during 2014 – 2019 for construction works related to the Siriu-Surduc investment project

Hidroconstructia SA filed claims in the amount of RON 28,963 thousand representing discounts granted during 2014 – 2019 to the Group for construction of AHE Siriu-Surduc project, as well as indexation of the price of workings performed during the respective period.

As per contract between the parties, Hidroconstructia granted discounts to Hidroelectrica and agreed to maintain the prices flat as long as Hidroelectrica will ensure the financing of the project.

Hidroconstructia claims that Hidroelectrica failed to ensure the financing of the project and is entitled to recover the discounts granted.

In September 2022, the independent expert issued a report establishing a potential liability between RON 8,904 thousand and RON 31,158 thousand. The independent expert did not analyse if the Group failed or not to finance the project.

On 10 April 2023, the Court rejected Hidroconstructia claims. The decision was challenged by Hidroconstructia.

On 26 October 2023 the Court rejected the appeal filed by Hidroconstructia as unfounded. The decision was challenged by Hidroconstructia, no term being settled yet.

Considering that the Group does not have a liability to Hidroconstructia in respect of the works made during 2014 – 2019 for AHE Siriu – Surduc project, the management assesses that the condition to ensure the financing of the project were met by Hidroelectrica and estimates that the litigation will be ruled in favor of the Group and consequently an outflow of resources is not probable.

g) Arbitration with Romelectro S.A.

Potential exposure: RON 29,250 thousand as at 31 December 2023 and 2022

Plaintiff: Romelectro S.A.

File no. 8/2021, currently File no. 30/2022

Subject-matter: Claims arising from the construction contract related to the refurbishment of Stejaru hydroelectric power plant.

Hidroelectrica filed an arbitration request for RON 78.7 million representing penalties for delayed works and related interest, plus legal expenses in relation to the Retehnologizare Stejaru investment project.

Romelectro made its counterclaims of EUR 8,868 thousand, equivalent of RON 43,881 thousand, plus related interest, VAT and legal expenses. The claims refer mainly to costs incurred and lost profit by Romelectro due to delays in execution of the contract generated by Hidroelectrica.

During 2022, due to insolvency of Romelectro, Hidroelectrica requests for RON 78.7 million was terminated, as Hidroelectrica will be entitled to requests these amounts in the insolvency procedure.

Following the termination of Hidroelectrica request, file no. 30/2022 was constituted, containing only Romelectro claims.

During 2022, Romelectro adjusted their initial claims and requested only EUR 5,912 thousand, the equivalent of RON 29,250 thousand, plus VAT and legal expenses. The claims mainly refer to the counter value of the costs borne by Romelectro, generated by delays attributable to Hidroelectrica, such as site organization costs, personnel costs, finance costs.

In November 2022, the Arbitration Court requested a financial and accounting analysis to be performed by an independent expert. Currently, the expert report is being drafted, next arbitration term being 11 April 2024.

Based on the legal analysis of the contract between the parties and the documents related to the project, the Group argues that the delays in the execution of the project are not attributable to Hidroelectrica, but to Romelectro, which constantly proposed technical solutions that were not in conformity with the contract.

Based on the above, management estimates that the litigation will be ruled in favor of the Group and consequently an outflow of resources is not probable.

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

Potential exposure: RON 43,570 thousand as at 31 December 2022 (provisioned at December 2023)

Plaintiff: Beny Alex SRL

File no. 36646/3/2018*

Subject-matter: Claims - the value of additional works performed under the subcontracting agreement concluded with Hidroserv (Company's subsidiary).

Beny Alex SRL claims the amount of additional works performed based on the subcontracting agreement concluded with Hidroserv (the Company's subsidiary). The first Court overruled the claim on the grounds of prescription of the material right of action. In 2020 Benny Alex appealed to this ruling. The appeal was approved by the Court of judicial control, which fully cancelled the initial Court ruling and resent the case to the first Court for reexamination.

In December 2022, an independent expertise report was finalized. Based on the expert report the value of the additional works performed is RON 40,116 thousand. Hidroelectrica submitted objections to the report.

On 30 May 2023, the court ruled in favor of the plaintiff BENY ALEX S.R.L, the Company appealed the decision.

Considering the court's decision, the Group estimated that an unfavorable outcome is probable and, accordingly, recognized a provision of RON 40,116 thousand in 2023 (Note 27 (i)).

30.2 Fiscal environment

Tax audits are frequent in Romania, consisting of thorough verifications of taxpayers' accounting records. Such audits sometimes take place months or even years after the establishment of the tax liabilities. Consequently, companies may be found liable for significant taxes and fines. In addition, the tax legislation is subject to frequent changes, and the authorities often show inconsistency in the interpretation of law.

Tax returns may be subject to revision and corrections by the tax authorities, generally for a five years period after they are filed with the tax authorities.

Romanian tax authorities carried out tax audits on Hidroelectrica's income tax and value added tax until 20 June 2012, while on Hidroserv's income tax until 31 December 2014.

Management believes that adequate provisions have been recognised in the consolidated financial statements for all significant tax liabilities; however, a risk persists that tax authorities might have different views.

30.3 Decommissioning obligations

As described in Note 4 a4), the Group identified decommissioning obligations in relation to its hydro-power facilities. Management estimates that, except for the assets abandoned or switched to post-utilisation upon management decisions, and except for its wind farm, for which decommissioning provisions are recognised (see Notes 21 and 27), the occurrence of events that would require abandonment or switching to post-utilisation of other assets in the public domain or hydro-power plants owned by the Group by the end of the concession contract (30 years from 31 December 2023) is unlikely, considering the long useful life of dams, which can be significantly extended over 100 years by maintenance and improvements.

31. RELATED PARTIES

a) Ultimate controlling party

The Company's ultimate controlling party is the Romanian State, represented by the Ministry of Energy, with a shareholding of 80.0561%.

b) Transaction with key management personnel

Key management personnel include the members of the Management Board and Supervisory Board.

Management Board remuneration	2023	2022
Expenses recognized during the year		
Fixed component	3,524	2,343
Variable component accrual	-	8,201
Reversal of overaccrual of the previous year	(116)	-
Total	3,408	10,544
Payments made in the year	2023	2022
Fixed component	3,524	2,343
Variable component (for the previous year)	8,085	8,201
Total	11,609	10,544

The Management Board include 5 directors appointed for 4 years.

Remuneration of executive directors consists of a fixed monthly salary limited to six times the average monthly gross salary for the last 12 months prior to appointment published by National Institute of Statistics (INS) for the Company's activity code (CAEN) according to the classification of activities in the national economy, and a variable component calculated on the basis of the financial and non-financial performance indicators, negotiated and approved by the general meeting of shareholders. Due to the change in Management Board in 2023 and the performance indicators not being approved, there is no variable remuneration to be paid for the year 2023.

The Company accrued RON 8,201 thousand at 31 December 2022 for the variable component of the Management Board remuneration for the year 2022.

The variable component of the remuneration of the Management Board paid in 2023 for the previous year, approved by shareholders decision in 2019 was limited to 3.5 times the monthly fixed component. The maximum amount of the variable component for all the executive directors was RON 8,201 thousand. The variable component is not subject to future service conditions.

The financial and non-financial performance indicators based on which the variable remuneration was determined include:

- Financial indicators: Revenues, adjusted EBITDA rate, Gross profit, Liquidity (current ratio), Indebtedness (debt ratio); outstanding payments to the State budget;
- Operating indicators: percentage of completeness of investment plan, percentage of completeness of maintenance plan, powerplants availability;
- Services indicators: degree of realization of system services and obligations regarding supply/sale of electricity;
- Corporate governance indicators: timely preparation of the revenues and expenses budget; establishment of policies for risk management and control and implementation of the internal control system.

The Company has no contractual obligations related to pensions to its former directors.

S.P.E.E.H. HIDROELECTRICA S.A. Two-tier system Company
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023
(All amounts are in thousand RON, unless otherwise indicated)

Supervisory Board remuneration

	2023	2022
Expenses recognized during the year		
Fixed component	1,209	890
Variable component accrual	-	1,038
Reversal of overaccrual of the previous year	(154)	(148)
Total	1,055	1,780
Payments made in the year		
Fixed component	1,209	890
Variable component (for the previous year)	884	890
Total	2,093	1,780

The Supervisory Board consists of 7 members appointed for 4 years.

Remuneration of the members of the Supervisory Board was approved by shareholders decision in 2023. According to this decision, the remuneration of the Supervisory Board members consists of a monthly fixed salary, limited to two times the average monthly gross salary for the last 12 months prior to appointment published by National Institute of Statistics for the Company's activity code (CAEN) according to the classification of activities in the national economy. The variable component is limited to 12 fixed monthly salaries, calculated on the basis of the financial and non-financial performance indicators, negotiated and approved by the general meeting of shareholders. Due to the change in Supervisory Board in 2023 and the performance indicators not being approved, there is no variable remuneration to be paid for the year 2023.

The Group accrued RON 1,038 thousand at 31 December 2022 for the variable component of the Supervisory Board.

The financial and non-financial indicators based on which the variable remuneration for the members of the Supervisory Board was determined were the same as for the Management Board.

There were no loans granted to the members of Supervisory Board or Management Board in 2023 and 2022. No guarantees were granted / received to / from the members of Supervisory Board or Management Board.

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

In the normal course of business, the Group has transactions with other entities in which the State has control or significant influence, mainly related to the tax on industrial water, the purchase of electricity, transport and system services and sales of electricity, as follows:

Supplier	Purchases (without VAT)	Payables (including VAT)
	2023	31 December 2023
Administratia Nationala Apele Romane	617,640	103,242
Transelectrica (Romanian Electricity System Operator)	444,639	85,459
OPCOM (Romanian Electricity Market Operator)	3,675	274
SN Nuclearelectrica SA	398,636	-
Distributie Energie Electrica Romania	292,845	32,846
Others	23,434	2,726
Total	1,780,869	224,547

S.P.E.E.H. HIDROELECTRICA S.A. Two-tier system Company
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Supplier	Purchases (without VAT)	Payables (including VAT)
	2022	31 December 2022
Administratia Nationala Apele Romane	436,700	78,625
Transelectrica (Romanian Electricity System Operator)	452,299	70,417
OPCOM (Romanian Electricity Market Operator)	368,245	85
SN Nuclearelectrica SA	185,197	(41,256)
Distributie Energie Electrica Romania	111,807	14,902
Others	17,442	1,564
Total	1,571,690	124,337

Client	Sales (without VAT)	Receivables Gross Carrying amount (including VAT)	Impairment loss	Receivables Net Carrying amount (including VAT)
	2023	31 December 2023		
Transelectrica (Romanian Electricity System Operator)	1,275,342	296,709	-	296,709
OPCOM (Romanian Electricity Market Operator)	4,505,119	177,885	-	177,885
Rompetrol Rafinare	364,066	66,927	-	66,927
E.ON Energie Romania	86,993	7,390	-	7,390
S.N.G.N Romgaz SA	82,528	4,722	-	4,722
Raja SA	82,942	19,483	-	19,483
Engie Romania	51,477	5,231	-	5,231
SN Radiocomunicatii SA	39,559	19,770	-	19,770
Electrica Furnizare	25,627	-	-	-
Distributie Energie Electrica Romania	19,003	37	-	37
Others	314,866	206,847	(23,232)	183,615
Total	6,847,522	805,001	(23,232)	781,769

Client	Sales (without VAT)	Receivables Gross Carrying amount (including VAT)	Impairment loss	Receivables Net Carrying amount (including VAT)
	2022	31 December 2022		
Transelectrica (Romanian Electricity System Operator)	2,063,761	276,208	-	276,208
Electrica Furnizare	518,952	42,420	-	42,420
OPCOM (Romanian Electricity Market Operator)	1,233,993	2,821	-	2,821
E.ON Energie Romania	305,686	27,343	-	27,343
Engie Romania	143,877	6,539	-	6,539
Distributie Energie Electrica Romania	78,198	73	(16)	57
Romaero	3,439	7,502	(7,502)	-
Metrorex	7,753	8,024	(7,819)	205
Others	178,243	155,019	(15,671)	139,348
Total	4,533,902	525,949	(31,008)	494,941

Other customers include mainly public institutions, local authorities and public educational institutions to which the Company supplied electricity in 2023 and 2022.

S.P.E.E.H. HIDROELECTRICA S.A. Two-tier system Company
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023
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Balance

Bank	Bank account	Bank deposits	Corporate bonds	Bank account	Bank deposits	Corporate bonds
	31 December 2023			31 December 2022		
Exim Bank (Banca Romaneasca)	4,191	932,056	-	3,584	1,408,665	-
CEC Bank	30,530	1,105,539	353,397	11,818	1,019,509	351,337
Total	34,721	2,037,595	353,397	15,402	2,428,174	351,337

Transactions

Bank	Bank deposits placed	Interest income	Bank deposits placed	Interest income
	2023		2022	
Exim Bank (Banca Romaneasca)	4,500,000	77,114	2,592,800	38,029
CEC Bank	1,901,994	24,758	4,549,301	45,253
Total	6,401,994	101,873	7,142,101	83,282

32. SUBSEQUENT EVENTS

Global minimum top-up tax

Following the implementation of the Minimum Tax Directive (EU Directive no. 2022/2523 on ensuring a global minimum level of taxation for multinational enterprise groups and large-scale domestic groups in the European Union ("Pillar Two"), on 5 January 2024 the Law no. 431/2023 regarding the global minimum top-up tax for multinational groups and large scale domestic groups was published in the Romanian Official Gazette. The Law no. 431/2023 applies to large groups of companies, both national and multinational, with a consolidated turnover (at group level) of at least 750 million euros in at least two of the four years preceding the reference year. The law creates a system through which starting with financial year 2024 an additional amount of tax (a "top-up tax") should be collected each time that the effective tax rate of a national or multinational enterprises group or in a given jurisdiction is below 15%.

Under the requirements of Law no. 431/2023, the Group qualifies as a large-scale domestic group, however if the Law no. 431/2023 were to be applied for the year ended 31 December 2023, no top-up tax should have been paid by the Group as the adjusted effective tax rate is above 15%.

Acquisition of UCM Resita business lines

On 22 February 2023, the Company was declared winner of the sales procedure of business lines ABC and Calnicel platform, which are the property of UCM Resita SA.

In January 2024, the Company set-up a new subsidiary, Uzina de Construcții Mașini Hidroenergetice S.R.L., through which it will take-over the business from U.C.M. Reșița S.A.. The object of activity of the new subsidiary will be manufacturing of engines and turbines (code CAEN 2811). The Company contributed with RON 119,650 thousand to share capital of the newly formed subsidiary.

On 22 January 2024 Extraordinary shareholders meeting ("EMGS") approved the transaction and transaction documents regarding the acquisition of the business from U.C.M. Reșița S.A.

S.P.E.E.H. HIDROELECTRICA S.A. Two-tier system Company
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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(All amounts are in thousand RON, unless otherwise indicated)

The transaction was completed following the fulfillment of the conditions precedent on 11 March 2024. The total price for the transfer of ownership rights over the business is RON 68,879 thousand.

The following table summarizes the amounts of assets acquired. The Company did not acquire liabilities.

Property, plant and equipment	69,007
Book value of Net assets acquired	69,007
Consideration transferred	67,879
Preliminary gain on bargain purchase (based on information available at the date of financial statements)	1,128

Karoly BORBELY Chairman of the Management Board	Bogdan-Nicolae BADEA Member of the Management Board	Radu Ioan CONSTANTIN Member of the Management Board	Marian FETIȚA Member of the Management Board	Ianăș RĂDOI Member of the Management Board
Petronel CHIRIAC Financial Director			Gabriela VASILESCU Accounting Manager	

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



CONSOLIDATED FINANCIAL STATEMENTS
for the year ended
31 December 2023

Prepared in accordance with Order of Minister of Public Finance no. 2844/2016
and subsequent amendments

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S.P.E.E.H. HIDROELECTRICA S.A. Two-tier system Company
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2023

(All amounts are in RON, unless otherwise stated)

	Note	31 December 2023	31 December 2022
Assets			
Non-current assets			
Property, plant and equipment	22	20,392,932,670	19,486,017,063
Intangible assets		39,308,728	41,595,965
Restricted cash	18	-	101,057,471
Investments in corporate bonds	19	353,397,310	351,337,578
Other non-current assets	21	283,520,331	218,235,546
Total non-current assets		21,069,159,039	20,198,243,623
Current assets			
Inventories		70,922,587	72,432,916
Trade receivables	20	3,047,968,209	1,350,677,128
Investments in deposits	19	4,349,481,852	3,034,745,062
Cash and cash equivalents	18	407,634,372	660,734,429
Restricted cash	18	101,057,471	-
Other current assets	21	62,940,704	115,505,113
Total current assets		8,040,005,195	5,234,094,648
Total assets		29,109,164,234	25,432,338,271
Equity and liabilities			
Equity			
Share capital	23	4,498,025,670	4,484,594,820
Inflation adjustments to share capital	23	1,028,872,000	1,028,872,000
Public patrimony		45,324,243	45,324,243
Revaluation reserve	23	12,076,640,610	11,084,018,512
Other reserves	23	1,024,033,814	1,023,187,881
Retained earnings		6,393,661,171	3,966,177,397
Total equity		25,066,557,508	21,632,174,853
Liabilities			
Non-current liabilities			
Bank borrowings	24	300,252,643	390,491,214
Lease liabilities		61,255,105	7,566,923
Deferred income	27	131,507,412	136,197,367
Deferred tax liabilities	17	1,503,655,077	1,315,945,777
Employee benefits	16	128,443,399	121,840,362
Provisions	28	836,829,820	817,089,451
Trade payables	25	107,100	428,400
Other payables	26	8,465,727	5,764,544
Total non-current liabilities		2,970,516,283	2,795,324,038

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S.P.E.E.H. HIDROELECTRICA S.A. Two-tier system Company
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2023

(All amounts are in RON, unless otherwise stated)

	<u>Note</u>	<u>31 December 2023</u>	<u>31 December 2022</u>
Current liabilities			
Bank borrowings	24	93,282,098	94,000,904
Lease liabilities		5,045,866	7,834,182
Trade payables	25	407,612,242	282,995,752
Contract liabilities	11	41,719,807	84,684,492
Current tax liabilities	17	145,413,034	171,977,933
Deferred income	27	5,722,889	5,695,853
Employee benefits	16	76,313,941	71,046,892
Provisions	28	188,972,964	156,558,818
Tax for electricity producers	13D	876,904	91,370,195
Other payables	26	107,130,698	38,674,359
Total current liabilities		1,072,090,443	1,004,839,380
Total liabilities		4,042,606,726	3,800,163,418
Total equity and liabilities		29,109,164,234	25,432,338,271

The accompanying notes are an integral part of these consolidated financial statements.

Karoly BORBELY
Chairman of the
Management Board

**Bogdan-Nicolae
BADEA**
Member of the
Management Board

**Radu Ioan
CONSTANTIN**
Member of the
Management Board

Marian FETIȚA
Member of the
Management Board

Ianăș RĂDOI
Member of the
Management Board

Petronel CHIRIAC
Financial Director

Gabriela VASILESCU
Accounting Manager

S.P.E.E.H. HIDROELECTRICA S.A. Two-tier system Company
CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2023
(All amounts are in RON, unless otherwise stated)

	Not3	2023	2022
Revenue	11	12,160,183,657	9,451,954,866
Other income	12	34,780,151	66,812,582
Turbinated water	13 A	(639,205,702)	(450,963,376)
Employee benefits expenses	16	(728,445,471)	(626,048,499)
Transport and distribution of electricity	13 C	(1.207.650.147)	(498,054,587)
Electricity purchased	13 B	(456,162,844)	(697,141,984)
Green certificates expenses		(296,806,263)	(183,171,134)
Depreciation and amortization	22	(799,313,167)	(772,149,913)
Impairment loss on property, plant and equipment	22	(236,865,307)	(145,862,852)
Impairment loss on trade receivables	20	(79,918,198)	(42,626,448)
Repair, maintenance, materials and consumables		(85,392,113)	(82,337,484)
Tax for electricity producers	13 D	(225,159,036)	(671,738,811)
Other operating expenses	13 E	(239,661,120)	(337,721,308)
Operating profit		7,200,384,440	5,010,951,052
Finance income	14	319,351,714	247,196,380
Finance costs	14	(60,608,772)	(38,111,317)
Net finance result		258,742,942	209,085,063
Profit before tax		7,459,127,382	5,220,036,115
Income tax expense	17	(1,093,796,861)	(758,865,556)
Profit for the year		6,365,330,521	4,461,170,559
Earnings per share			
Basic and diluted earnings per share (RON)	15	14.17	9.95
Other comprehensive income			
Revaluation of property, plant and equipment, net of tax	22	1,409,972,246	1,777,822,246
Remeasurement of defined benefit liabilities, net of tax	16	(4,962,190)	(7,536,178)
Other comprehensive income		1,405,010,056	1,770,286,068
Total comprehensive income		7,770,340,577	6,231,456,627

The accompanying notes are an integral part of these consolidated financial statements.

Karoly BORBELY	Bogdan-Nicolae BADEA	Radu Ioan CONSTANTIN	Marian FETIȚA	Ianăș RĂDOI
Chairman of the Management Board	Member of the Management Board	Member of the Management Board	Member of the Management Board	Member of the Management Board
Petronel CHIRIAC			Gabriela VASILESCU	
Financial Director			Accounting Manager	

S.P.E.E.H. HIDROELECTRICA S.A. Two-tier system Company
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2023
(All amounts are in RON, unless otherwise specified)

	Share capital	Inflation adjustments to share capital	Share capital- not issued	Public patrimony	Revaluation reserve	Other reserves	Retained earnings	Total equity
Balance at 1 January 2022	4,484,474,670	1,028,872,000	120,150	45,324,243	9,675,586,950	962,074,418	3,035,211,627	19,231,664,058
Total comprehensive income for the year								
Profit of the year	-	-	-	-	-	-	4,461,170,559	4,461,170,559
Other comprehensive income for the year								
Revaluation of property, plant and equipment, net of tax (Note 22,23)	-	-	-	-	1,777,822,246	-	-	1,777,822,246
Remeasurement of defined benefit liabilities, net of tax	-	-	-	-	-	-	(7,536,178)	(7,536,178)
Total other comprehensive income for the year	-	-	-	-	1,777,822,246	-	(7,536,178)	1,770,286,068
Total comprehensive income for the year	-	-	-	-	1,777,822,246	-	4,453,634,381	6,231,456,627
Transactions with owners of the Company								
Contributions and distributions								
Dividends (Note 23)	-	-	-	-	-	-	(3,830,945,832)	(3,830,945,832)
Issuance of ordinary shares (Note 23)	120,150	-	(120,150)	-	-	-	-	-
Total transactions with owners of the Company	120,150	-	(120,150)	-	-	-	(3,830,945,832)	(3,830,945,832)
Other changes in shareholders' equity								
Set up of legal reserves	-	-	-	-	-	61,113,463	(61,113,463)	-
Transfer of revaluation reserve to retained earnings due to depreciation and disposals of property, plant and equipment (Note 23)	-	-	-	-	(369,390,684)	-	369,390,684	-
Balance at 31 December 2022	4,484,594,820	1,028,872,000	-	45,324,243	11,084,018,512	1,023,187,881	3,966,177,397	21,632,174,853

(continued on page 5)

S.P.E.E.H. HIDROELECTRICA S.A. Two-tier system Company
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2023
(All amounts are in RON, unless otherwise specified)

	Share capital	Inflation adjustments to share capital	Public patrimony	Revaluation reserve	Other reserves	Retained earnings	Total equity
Balance at 1 January 2023	4,484,594,820	1,028,872,000	45,324,243	11,084,018,512	1,023,187,881	3,966,177,397	21,632,174,853
Total comprehensive income for the year							
Profit of the year	-	-	-	-	-	6,365,330,521	6,365,330,521
Other comprehensive income for the year							
Revaluation of property, plant and equipment, net of tax (Note 22,23)	-	-	-	1,409,972,246	-	-	1,409,972,246
Remeasurement of defined benefit liabilities, net of tax	-	-	-	-	-	(4,962,190)	(4,962,190)
Total other comprehensive income for the year	-	-	-	1,409,972,246	-	(4,962,190)	1,405,010,056
Total comprehensive income for the year	-	-	-	1,409,972,246	-	6,360,368,331	7,770,340,577
Transactions with owners of the Company							
Contributions and distributions							
Dividends (Note 23)	-	-	-	-	-	(4,349,388,772)	(4,349,388,772)
Issuance of ordinary shares (Note 23)	13,430,850	-	-	-	-	-	13,430,850
Total transactions with owners of the Company	13,430,850	-	-	-	-	(4,349,388,772)	(4,335,957,922)
Other changes in shareholders' equity							
Set up of legal reserves	-	-	-	-	845,933	(845,933)	-
Transfer of revaluation reserve to retained earnings due to depreciation and disposals of property, plant and equipment	-	-	-	(417,350,148)	-	417,350,148	-
Balance at 31 December 2023	4,498,025,670	1,028,872,000	45,324,243	12,076,640,610	1,024,033,814	6,393,661,171	25,066,557,508

The accompanying notes are an integral part of these consolidated financial statements.

Karoly BORBELY
Chairman of the Management Board

Bogdan-Nicolae BADEA
Member of the Management Board

Radu Ioan CONSTANTIN
Member of the Management Board

Marian FETIȚA
Member of the Management Board

Ianăș RĂDOI
Member of the Management Board

Petronel CHIRIAC
Financial Director

Gabriela VASILESCU
Accounting Manager

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

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2023

(All amounts are in RON, unless otherwise stated)

	Note	<u>2023</u>	<u>2022</u>
Cash flow from operating activities:			
Profit for the year		6,365,330,521	4,461,170,559
<i>Adjustments for:</i>			
Depreciation	22	795,718,810	768,350,490
Amortisation		3,594,357	3,799,423
Impairment loss on property, plant and equipment, net	22	236,865,307	145,862,852
Impairment loss on trade receivables, net	20	79,918,198	42,626,448
Write-down of inventories		4,626,331	638,464
Loss on disposal of property, plant and equipment	13 E	5,278,348	2,051,461
Net foreign exchange loss		141,802	574,195
Interest income	14	(302,517,905)	(243,707,648)
Interest expense	14	26,036,976	10,239,485
Income tax expense	17	1,093,796,861	758,865,556
		<u>8,308,789,606</u>	<u>5,950,471,285</u>
<i>Changes in:</i>			
Trade receivables		(1,777,209,279)	(732,266,275)
Inventories		(3,116,002)	(7,766,728)
Restricted cash		-	(90,800,000)
Other assets		11,718,767	(16,572,687)
Trade payables		119,832,414	91,040,674
Deferred income		(4,662,919)	(5,676,437)
Employee benefits		(4,623,556)	313,228
Provisions		55,543,691	190,632,241
Other payables		(66,483,597)	(214,568,857)
Cash generated from operating activities		<u>6,639,789,125</u>	<u>5,164,806,444</u>
Interest paid		(15,193,345)	(2,657,978)
Income tax paid		(1,200,024,727)	(928,246,798)
Net cash from operating activities		<u>5,424,571,053</u>	<u>4,233,901,668</u>
Cash flow from investing activities:			
Payments for acquisition of property, plant and equipment		(189,407,760)	(167,586,837)
Payments for acquisition of intangible assets		(1,272,858)	(1,239,936)
Proceeds from the sale of property, plant and equipment		-	203,099
Payments for acquisition of corporate bonds		-	(351,265,400)
Payments for deposits held for investment purposes		(9,145,000,000)	(8,575,000,000)
Proceeds from deposits held for investment purposes		7,825,000,000	7,898,000,000
Proceeds from maturity of government bonds		-	235,410,000
Interest received		281,282,240	212,038,562
Net cash flow used in investing activity		<u>(1,229,398,378)</u>	<u>(749,440,512)</u>

(continued on page 7)

S.P.E.E.H. HIDROELECTRICA S.A. managed in a two-tier system

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2023

(All amounts are in RON, unless otherwise stated)

	Note	2023	2022
Cash flow from financing activities:			
Proceeds from issue of shares	23	2,678,640	-
Repayment of borrowings	24	(93,416,269)	(93,306,693)
Lease payments	24	(8,146,331)	(4,364,426)
Dividends paid	23	(4,349,388,772)	(3,830,945,832)
Net cash used in financing activities		(4,448,272,732)	(3,928,616,951)
Net increase/(decrease) in cash and cash equivalents		(253,100,057)	(444,155,795)
Cash and cash equivalents at 1 January	18	660,734,429	1,104,890,224
Cash and cash equivalents at 31 December	18	407,634,372	660,734,429

The accompanying notes are an integral part of these consolidated financial statements.

Karoly BORBELY Chairman of the Management Board	Bogdan-Nicolae BADEA Member of the Management Board	Radu Ioan CONSTANTIN Member of the Management Board	Marian FETIȚA Member of the Management Board	Ianăș RĂDOI Member of the Management Board
Petronel CHIRIAC Financial Director			Gabriela VASILESCU Accounting Manager	

1. REPORTING ENTITY AND GENERAL INFORMATION

(a) General information about the Group

Societatea de Producere a Energiei Electrice in Hidrocentrale Hidroelectrica S.A. (“the Company” or “Hidroelectrica”) is a joint stock company, domiciled in Romania. The Company’s registered office is 15-17 Ion Mihalache Blvd., Tower Center Building, 10-15 floors, Sector 1, Bucharest. The Company is registered at National Trade Register Officer with no. J40/7426/2000 and has unique registration code 13267213.

These consolidated financial statements comprise the Company and its subsidiaries (together referred as the “Group”).

The Group’s main lines of business are power generation (hydro and wind) and electricity supply to end consumers.

As of 31 December 2023, the Romanian State through the Ministry of Energy owns 360,094,390 shares, representing 80.0561% of the share capital and of the total voting rights. The rest of the shares are traded on the Bucharest Stock Exchange as follows: 75,535,576 shares, representing 16.7931% of the share capital are owned by legal persons and 14,172,601 shares representing 3.1508% of the share capital by individuals.

The Company is governed by a two-tier system comprising the Supervisory Board and the Management Board.

Initial public offering (“IPO”)

Between 23 June and 4 July 2023, the Company went through an initial public offer on Bucharest Stock Exchange. The allocation of the shares was carried out on 5 July 2023, the total offer included the entire holding of Fondul Proprietatea, namely 89,708,177 shares, representing 19.9439% of the Company's share capital.

The first trading day of Hidroelectrica shares at the Bucharest Stock Exchange was 12 July 2023.

List of subsidiaries

As of 31 December 2023 and 31 December 2022 Hidroelectrica has the following subsidiaries:

Subsidiary	Activity	Registered Office	% participation at 31 December 2023	% participation at 31 December 2022
Hidroserv S.A. (company in insolvency)	Services (maintenance, repairs, construction)	Bucharest, Romania	100%	100%

Hidroserv S.A. entered the insolvency proceedings in October 2016. In 2020, a reorganization plan of the subsidiary was approved by the Assembly of Creditors and confirmed by the insolvency judge. Hidroserv is expected to exit the insolvency procedure during 2024.

All revenues are generated in Romania.

(b) Regulatory environment

The activity in the energy sector is regulated by the National Energy Regulatory Authority ("ANRE").

The main responsibilities of ANRE include: licensing the entities operating in the energy sector, issuance of regulations applicable to the electricity market, approval of regulated prices and tariffs and issuance of methodologies used to set regulated prices and tariffs.

(c) Main operations of the Group

Electricity generation and system services

The Group generates electricity by operating 187 hydropower plants and micro-hydropower plants, including five pumping stations, (the main generation capacities being Portile de Fier I and Portile de Fier II, which represent approximately 40% of the total electricity generated) and 36 wind turbines of 3 MW each.

The electricity generated is sold both wholesale and retail (supply to end consumers).

On 1 January 2023 a centralized electricity acquisition mechanism was implemented by the Government through which the electricity producers shall sell the available (not contracted as of November 2022) quantity of electricity to the market operator, OPCOM, at a fixed price of RON 450 per MWh. OPCOM will re-sale the electricity to electricity suppliers and certain large consumers (such as electricity distribution operators) at the same price of RON 450 per Mwh. This price fixing mechanism is applicable between 1 January 2023 and 31 March 2025.

Hidroelectrica S.A. also provides system services to the national electricity system operator, Transelectrica. The system services involve making an agreed power generation capacity available to Transelectrica within a certain period of time, so that to allow the system operator to achieve permanent balancing of the electricity system.

Electricity supply to end users

The electricity market to end users in Romania is liberalized and all consumers are free to choose their electricity supplier from which they can purchase electricity at negotiated prices.

The Group supplies electricity at negotiated tariffs to both industrial consumers and household consumers. The supply tariff include, in addition to the electricity price, the electricity transmission and distribution costs (see accounting policy 7 c)), the contribution to high efficiency co-generation power support scheme, and the cost of green certificates (see *Green certificates* section).

Starting 1 November 2021, due to the significant increase in energy prices on the international and national markets and the impact thereof on Romanian consumers, the Government implemented consumer support schemes, as follows:

- capping the electricity supply tariffs for household (until 31 March 2025) and non-household consumers (until 31 January 2022 for certain types of non-household consumers, and for 1 February 2022 – 31 March 2025 for all non-household consumers); and receiving a subsidy from the State to compensate for the impact of capping mechanism; The impact of this mechanism on the Group's financial performance in 2023 was a reduction of revenue due to capped prices by RON 1,672 million (2022: reduction of revenue of RON 551 million).

On 7 July 2023, Law 206 approving GEO 153/2022 was published and brought a series of changes with impact on the revenues obtained from the Supply activity, respectively on the method of computing the invoiced price to the final consumer, for the consumers for which the electricity consumed is purchased by the Company. The impact of these changes on the Group's financial performance in 2023 implied a reduction of revenue by RON 61 million as a consequence of the legal obligation to sell at a price lower than the contractual price.

Green certificates ("GC")

As a producer of electricity from renewable sources (hydroelectric power in refurbished micro-hydropower plants with an installed capacity of no more than 10 MW and with a service life of at least 15 years from the date of commissioning, and wind power), the Group receives green certificates through the green certificates support scheme.

In 2023 the Group received between 2.86 and 3 green certificates for each MWh generated by the eligible micro-hydropower plants (7 micro-hydropower plants in January 2023 and 6 micro-hydropower plants starting February 2023; 2022: between 2.64 and 3 green certificates for each MWh generated by 8 micro-hydropower plants) and 0.75 green certificates for each MWh generated by the wind farm in 2023 and 2022. During 2023, the Group generated from its own production portfolio a number of 33,093 GC from hydropower plants and 251,242 GC from wind power plant (2022: 86,319 GC from hydropower plants and 224,156 GC from wind power plant).

The green certificates can be sold on the spot and forward market. The selling price must fall between the minimum and maximum values set by law:

- (a) a minimum trading value of EUR 29.4/GC and
- (b) a maximum trading value of EUR 35/GC.

The Group's wind power subsidiary sold green certificates in 2022 at the minimum price on all markets, as a result of the excess GC offered for sale compared to the suppliers' purchasing obligations.

As an electricity supplier, the Group is required to purchase a number of green certificates computed by multiplying the annual mandatory purchase quota of green certificates by the quantity (in MWh) of electricity supplied to end users. ANRE establishes the annual mandatory level of purchase obligations (quotas) of green certificates. Applicable annual quota for 2023 is 0.4946974 green certificate per Mwh (2022: 0.5014313 green certificate per Mwh).

Tax on electricity producers

Starting November 2021 the Government introduced a new tax for electricity producers. The tax is computed as 80% (for the period 1 November 2021 to 31 August 2022) and 100% (for the period 1 September 2022 to 31 March 2025) of net monthly average selling price in excess of RON 450 per Mwh.

Net monthly average selling price is computed based on monthly revenue of the generation segment, which includes the wholesale of electricity produced and the value of electricity transferred within the same entity from producer portfolio (generation segment) to supplier portfolio (supplier segment), less monthly cost of electricity purchased, market administration fees and trading fees. Electricity production costs are not included in the monthly expenses.

2. BASIS OF ACCOUNTING

These consolidated financial statements were prepared in accordance with the Order of Minister of Public Finance no.2844/2016 and subsequent amendments („OMFP 2844/2016”). According to OMFP 2844/2016 the International Financial Reporting Standards ("IFRS") represent standards adopted based on the procedure as per European Commission Regulation no. 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of international accounting standards (IFRS as adopted by European Union). OMFP no. 2844/2016 includes also additional provisions versus IFRS-EU, the Group identified as provisions applicable to its financial statements the matters described below.

The consolidated financial statements were authorized for issue by the Company’s Management Board on 25.03.2024 and by the Supervisory Board on 27.03.2024.

The Group also issues an original version of these consolidated financial statements prepared in accordance with OMFP 2844/2016 in Romanian language approved at the same date with these financial statements.

The Group also prepared consolidated financial statements in accordance with International Financial Reporting Standards, IFRS-EU, approved at the same date as these consolidated financial statements.

Main differences between IFRS-EU and OMFP no. 2844/2016, that affects this set of financial statements refer to:

- Fee paid for the connection of the power generation capacities to the electricity grid is presented as “Property, plant and equipment” in the IFRS-EU financial statements while in the OMFP no. 2844/2016 financial statements is presented as “Intangible assets”;
- Impact of restatement of statutory share capital in nominal terms according to IAS 29 “Financial Reporting in Hyperinflationary Economies” is presented as part of “Share Capital” in the IFRS-EU financial statements while in the OMFP no. 2844/2016 financial statements is presented as an equity item separate from share capital, namely “Inflation adjustments in accordance with IAS 29”;
- Cash contribution received from State for construction of public domain assets (ie certain type of assets such as dams which will be transferred to the State at the end of its economic life) is presented as deferred income in the IFRS-EU financial statements, while in the OMFP no. 2844/2016 financial statements is presented as public patrimony;
- Accruals for employee bonuses are presented as employee benefits liabilities in the IFRS-EU financial statements, while in the OMFP no. 2844/2016 financial statements are presented as provisions.

These consolidated financial statements have been prepared on a going concern basis. Details of the Group’s accounting policies are included in Note 7.

3. MONEDA FUNCȚIONALĂ ȘI MONEDA DE PREZENTARE

These consolidated financial statements are presented in Romanian Lei (RON), which is the Group’s functional currency. All amounts are presented in RON, unless otherwise indicated.

4. COMPARATIVES

These consolidated financial statements prepared at 31 December 2023 show comparability with the previous financial year consolidated financial statements.

5. USE OF JUDGEMENTS AND ESTIMATES

In preparing these consolidated financial statements, management has made judgements and estimates that affect the application of the Group's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively.

a) Judgements

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognized in the financial statements is presented below:

a1) Concession agreement

In November 1998 Law no. 213/1998 was issued regulating the statute of the public domain. This law provides that the ownership right over the public domain assets belongs to the State or local authorities, which can lease the assets that are in public property. In accordance with the provisions of Law no. 213/1998 and Law no. 219/1998, the Ministry of Economy and Commerce (currently the Ministry of Energy) has leased to the Company the hydropower facilities (dams, piers, locks, water storage reservoirs) and the land on which they are located. Thus, in December 2004, the concession contract no. 171/27.12.2004 was concluded between the Ministry of Economy and Commerce (currently the Ministry of Energy) (grantor) and Company (operator) for the hydropower assets in the public patrimony existing as at 31 December 2003.

The main terms of the concession contract and its subsequent amendments are the following:

- The State, through the Ministry of Economy and Commerce (currently the Ministry of Energy), holds the ownership right over the public assets that are the subject matter of the contract;
- The Company has the right to use these assets for a period of 49 years from the signoff date (the period may be extended in accordance with the provisions of the concessions law, by half of the original period, by mutual agreement of the parties), for the purpose of operation, refurbishment, modernization, rehabilitation, as well as construction of new hydro-power facilities according to the investment programs;
- The Company pays an annual royalty of 1/1000 of the annual revenues from power generation and system services generated in hydro-power facilities;
- Upon termination of the contract, certain assets that were used by the operator in carrying out the concession will be returned to the grantor, as explained below;
- The Company has the obligation to use the assets in accordance with the provisions of the concession contract and the operating license.

The concession contract provides for the following types of assets:

- Assets to be returned – assets of public domain that belong to the grantor and that are returned to the grantor in full right, free of charge and free of any encumbrances, upon termination of the concession contract. Assets to be returned are assets of public domain such as dams, piers, locks, that are subject to the concession/lease, as well as those resulting from investments/improvements to these assets made by the Company during the concession contract period. The Company depreciates these assets over the lower of the concession contract remaining period and the useful life of those assets.
- Takeover assets – assets that belong to the operator and are used by the operator during the concession period and which are similar in nature to assets of public domain above (land improvements and constructions, technical installations and machinery), over which, upon termination of the concession

contract, the grantor has an option to take over those assets in exchange for a payment equal to the “present book value” on the takeover date. In Company’s interpretation, the “present book value” is the net book value at the date of the takeover, and given that the Company uses the revaluation model, this value will be the revalued amount at that date. These assets are depreciated over their estimated useful life.

- Own assets – assets that, upon termination of the concession contract, remain the property of the operator. Own assets are assets (constructions, technological installations, machinery and equipment, measuring and control devices; vehicles; furniture, office equipment, protective equipment and other tangible assets) that belong to the operator and are used by the operator during the concession period, except for the takeover assets. These assets are depreciated over their estimated useful life.

In assessing the application of IFRIC 12 “Service concession arrangements”, the Group considered the following criteria of the public-private service concession arrangements in the analysis of the concession contract:

- a) The grantor controls or regulates what services the operator must provide within the infrastructure, to whom it must provide them and at what price; and
- b) The grantor controls – by ownership, beneficial entitlement or otherwise – any significant residual interest in the infrastructure at the end of the term of the arrangement.

The Group concluded that it is not within the scope of IFRIC 12 because it does not meet criterium a) above, the grantor does not regulate to whom the operator must provide the service and at what price. The Group considered that the price fixing mechanism introduced by the Government starting 1 January 2023 does not affect this conclusion as this mechanism is temporary and applied only to part of the production.

The Group recognises the royalty of the concession contract in Other operating expenses.

a2) Leasing and refurbishing of assets to be returned

In assessing the application of IFRS 16 “Leases” to the concession contract presented above, the Group considered the following criteria to determine whether this contract contains a lease:

- a) the lessee has the right to obtain in essence all the economic benefits using the identified asset;
- b) the lessee has the right to direct the use of the identified asset.

The Group concluded that both criteria are met and, consequently, the concession contract contains a lease as the Ministry of Energy transferred the right to control the use of the assets of the public domain (assets to be returned) to the Group in exchange for a royalty. According to IFRS 16, the Group measured the carrying amount of the right-of-use asset and the amount of lease liability related to this contract as nil, because the future lease payments are variable and depending on Company’s revenue, the royalty being calculated as a percentage of revenues.

In respect of refurbishments made to the assets to be returned, the Group concluded that they are improvements of a leased asset for which the Group is the “accounting owner”, in the sense that these improvements serve the Group’s interest, as lessee, to use the leased assets. Consequently, the Group recognized improvements of assets to be returned as property, plant and equipment. The Group depreciates these assets over the lower of the concession contract remaining period and the useful life of those assets.

The Group believes that the following facts indicate that the Group is the “accounting owner” of improvements made:

- a) The Ministry of Energy, as a lessor, does not reimburse the Company, as lessee, for the cost of the improvements made. Consequently, the improvements are fully funded from the Group’s sources, and the Group is responsible to incur the costs;
- b) The Group has no obligation to make improvements of the assets to be returned. The decisions regarding refurbishment of the assets to be returned are made by the Group depending on its needs to use these assets and are unique to the Group’s intended use of the leased assets;
- c) The Group is permitted to alter the leasehold improvements without the consent of the lessor or without compensating the lessor;
- d) Improvements are made on the risk and responsibility of the Group (the Group bears the risk of overruns) and are not available to the grantor until the termination of the concession contract.

a3) Cash-generating units (“CGU”)

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

The Group concluded that the assets relating to hydro-power plants except for the ones mentioned below represent a single cash-generating unit, mainly based on the following considerations:

- the Company has a single hydro-power generation license which covers all power plants as a whole;
- the license stipulates the Company’s obligation to maintain the availability of its production capacities as a whole;
- the decision to produce electricity in a hydro-power plant is made based on the technical operating conditions of the other hydro-power plants;
- the balancing of the electricity contracted and produced is made at the Company’s level and not at individual plants;
- the contracts are concluded based on the total estimated electricity to be produced in a specific period in all of the Company’s hydro-power plants, and the price is set for the entire production.

Also, the Group concluded that the wind park is a separate single CGU and that each investment objective related to hydro-power assets with complex/multiple functions represent separate cash-generating units.

a4) Decommissioning obligations

Order of the Ministry of Water and Environment no. 119 of 11 February 2002 on approval of the Procedure of passage into conservation, post-utilisation or abandonment of dams provides the procedures for post-utilisation and abandonment of dams (including levees, hydro-power plants and locks) that must be carried out by the holders of dams under certain conditions provided by law. The Company has no legal or contractual obligations to disassemble and restore the site, other than those arising from Order no. 119, which are presented in the paragraphs below.

Dam holders are defined by GEO no. 244 of 28 November 2000 (republished) on the safety of the dams as legal persons of any title, who have in their possession, ownership and/or administration a dam.

Post-utilisation refers to the dams that have reached their normal operating life span and can be used for purposes other than those for which they were originally constructed for. Post-utilisation requires the implementation of a set of measures and works that will ensure the new functionality of the dam to protect

the population and the environment in safe conditions. The necessary measures and works are carried out through the care of both the holder or administrator of the dam, and the post-user.

The post-utilisation of the dams is proposed by the holders of the dams and is approved by order of the minister that exercises control, coordination or authority over the entity that holds the dam, based on the endorsement of the Ministry of Water and Environment.

After the performance of the works required by the post-utilisation project, the hand over reception protocol between the former holder and the post-user is performed.

Abandonment refers to completed or unfinished dams, with or without the normal life span exceeded, which can no longer be kept in operation or post-utilisation due to technical impossibility or very high costs and which, at the same time, represent a potential danger for the population and the environment. Abandonment requires the implementation of a set of measures and works for the decommissioning of the dam, the ecological reconstruction of the area and enabling adequate liquid and solid flows, including the maximum water flow in the dammed section. The necessary measures and works are carried out with the care of the holder or the administrator of the dam and must ensure the flow conditions existing prior to the construction of the dam.

The triggering events of dam abandonment operations include:

- the request of the holders of the dams, when they find that the necessary performance requirements according to the law cannot be met, the dams presenting an unacceptable associated risk;
- the disposition of the control bodies, following expertises that show that the dams present an unacceptable associated risk, constituting a real danger for the population and the environment;
- accidents, when the conclusions of the expert report specifically indicate the abandonment due to the very high cost of the necessary repairs, as well as not meeting the performance requirements and the safety criteria, etc.

The reception of the decommissioning and ecological reconstruction works is carried out by representatives of the holder of the dam and of the central or local public administration, who take over the respective area, by concluding a handover protocol.

The Romanian State, represented by the Ministry of Economy and Commerce, currently the Ministry of Energy, holds the ownership right over the hydropower developments (dams, levees, locks, storage lakes) and the land on which they are located that belong to the public domain and which are the subject of the concession contract mentioned above. The Group has the right to use these assets for a period of 49 years (remaining 30 years as of 31 December 2023).

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

The Group considers that, in accordance with the applicable legal provisions and practices, abandonment occurs in extreme situations, when the dams become an unacceptable risk impacting the environment and the population. Given that these constructions have complex functions in addition to power generation, including flood protection, water supply, irrigation etc., post-utilisation is the usual way in which these constructions will be transferred to central or local public administration, after they can no longer be used for power generation purposes.

The necessary works for post-utilisation are established by technical documentation prepared on the basis of an assessment of the safety status of the dam at that time, carried out by experts certified by the ministries and certified/endorsed by the Ministry of Water and Environment.

Moreover, the abandonment works are carried out on the basis of a special documentation prepared with the water authority approval, the environmental protection agreement, and the endorsement of the local and central public administration. These documentations and endorsements will establish the activities necessary for abandonment.

The works and costs of transition into post-utilisation or abandonment are subject to significant uncertainties caused by the fact that the rate of degradation and the life span of a dam vary significantly from one case to another (some could reach more than 100 years), as well as by the complexity and variety of works that may be necessary for transition into post-use or abandonment, depending on the specific factual status of each dam at the time of entering post-utilisation or abandonment, on the cost sharing between the holder and the post-user, as well as by the very remote time period from present to the moment when the abandonment works would be performed, if any. Also, there are significant uncertainties related to the evolution of the degree of degradation and to the determination of the actual life span of a dam, which are dependent on natural disasters (floods, landslides, earthquakes, etc.) and on the reliability of the construction.

In addition, the Group estimates that, by the end of the concession contract (the remaining period of 30 years as of 31 December 2023), the occurrence of situations requiring post-utilisation or abandonment of public domain assets or its own assets – levees, hydro-power plants and locks (other than those in progress assets described in Note 21) is unlikely, considering the long life of the dams, which can be significantly extended over 100 years by maintenance and improvements.

Consequently, the Group recognizes decommissioning provisions only when management has taken the decision to abandon an asset or switch to post-utilisation or has no realistic alternative but to do so during the concession period. The provisions are recognized based on the costs resulting from the technical documentation prepared by specialists employed by the Group.

a5) Electricity sale-purchase contracts

Under IFRS 9 “Financial Instruments”, a contract to buy or sell a non-financial item (including electricity) may be classified and recognized as a financial instrument. According to paragraphs 2.4 and 2.6 of IFRS 9, if the contracts to buy or sell non-financial items can be settled net in cash or in another financial instrument, or by exchanging financial instruments, including if the underlying commodity is readily convertible into cash, they are in the scope of IFRS 9. The standard provides an exemption from applying IFRS 9 for the contracts that are entered into and continue to be held for the purpose of the receipt or delivery a non-financial item in accordance with the entity’s expected purchase, sale or usage requirements (“own-use exemption”).

The electricity is a commodity readily convertible into cash and therefore management has conducted an analysis in order to determine if own use exemption applies to its contracts.

The main considerations are:

- the Group is an electricity producer and its only intention and purpose is to sell all the electricity produced;
- the forward sell contracts are concluded with the sole intention of delivering the electricity produced; the Group does not act as an electricity broker/dealer;
- the buy-sell transactions on the spot markets (day-ahead, intra-day and balancing markets) are entered into only for meeting the Group’s own balancing necessity and responsibility;
- in 2020 the Group started to be active in the electricity supply sector (selling electricity to end users), acting also as a service provider (including customer service); and
- the Group has used limited forward purchase electricity contracts and their purpose was to cover the needs for the contractual commitments for deliveries to final end consumers.

The Group concluded that own use exemption applies in all its electricity sale and purchase contracts in 2023 and 2022 and therefore are not in scope of IFRS 9.

a6) Tax for electricity producers

Starting November 2021 the Government introduced a new tax for electricity producers. The tax is computed as 80% (for the period 1 November 2021 to 31 August 2022) and 100% (for the period 1 September 2022 to 31 March 2025) of net monthly average selling price in excess of RON 450 per Mwh.

Net monthly average selling price is computed based on monthly revenue of the generation segment, which includes the wholesale of electricity produced and the value of electricity transferred within the same entity from producer portfolio (generation segment) to supplier portfolio (supplier segment), less monthly cost of electricity purchased, transaction fees, such as market administration fees and trading fees. Electricity production costs are not included in the monthly expenses.

The Group analysed the nature of the tax in order to assess whether it falls under IAS 12 *Income tax* or IFRIC 21 *Levies*, main considerations being:

- the tax is revenue driven, as the main cost incurred by the producers, electricity production cost, is not considered in the net monthly revenue taxed;
- the costs deducted in the calculation (cost of electricity purchased and transaction fees) are marginal to revenue, as the Group has limited acquisitions of electricity as part of the electricity generation activity, and those are only for the purpose of balancing the production to the contractual commitments for sale of electricity on the wholesale market;
- the threshold of RON 450 per MWh for tax computation is not linked to producers' costs, but rather reflects a sales price cap.

The Group concluded that the tax for electricity producers is a levy falling under the provisions of IFRIC 21 *Levies*, and not income tax.

b) Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties at the reporting date that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year is included in the following notes:

- Note 22 – assumptions related to the revaluation of property, plant and equipment;
- Note 22 – assumptions related to determination of recoverable amount of assets under construction;
- Note 7 h) and i) – estimates of useful lives of property, plant and equipment and intangible assets;
- Note 13 D – estimates in relation to electricity transfer price between production and supply activity used in calculation of tax for electricity producers;
- Notes 28 and 32 – recognition and measurement of provisions and contingent liabilities;
- Notes 7 l), 20 and 29 b) – determination of expected credit losses for trade receivables;
- Note 16 – assessment of obligations resulting from defined benefit plans and other long-term employee benefits: the main actuarial assumptions;
- Note 28 – estimates related to decommissioning provisions

Measurement of fair values

A number of the Group's accounting policies and disclosures require the measurement of fair values, for financial assets and liabilities, and non-financial assets (property, plant and equipment).

When measuring the fair value of an asset or liability, the Group uses observable market data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices);
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability fall into different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

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

Further information about the assumptions made in measuring fair values is included in the following notes:

- Note 22: property, plant and equipment;
- Note 29: financial instruments.

Climate-related risks

Hidroelectrica is exposed to climate-related risks, which can impact water resource availability, a key factor in hydropower generation. These include variability in precipitation, with the potential for altered river flows impacting water availability for energy production. The increased incidence of extreme weather events—such as the drought experienced in 2022 that led to a significant decrease in hydro production—demonstrates the tangible effects of these risks. Nevertheless, the company has historically observed that during droughts, electricity prices have increased, which may benefit the company through increased profit margins rather than through volumes sold.

To address climate-related risks, Hidroelectrica is emphasizing the diversification of its energy portfolio, particularly focusing on expanding into renewable energy sources. The company plans to acquire solar parks and additional wind farms, aiming for an additional 500 MW of installed capacity in the next years. This shift towards solar and wind energy is strategically significant, especially given the inverse correlation between solar power generation and water levels for hydropower. The adoption of solar power, therefore, offers an offset during periods of low water availability, underlining the importance of a versatile and resilient energy mix in response to the challenges posed by climate variability.

The financial implications of climate-related risks include the valuation of Hidroelectrica's property, plant and equipment, related to water resources and hydropower facilities that can be affected by a lower volume of power generation estimated during projected useful life associated with climate change compared with the initial technical and financial performance indicators of such projects.

6. BASIS OF MEASUREMENT

The consolidated financial statements have been prepared on the historical cost basis except for land, buildings, equipment and other items of property, plant and equipment, which are measured using revaluation model.

7. MATERIAL ACCOUNTING POLICIES

The Group has consistently applied the following accounting policies to all periods presented in these consolidated financial statements.

(a) Basis of consolidation

(i) Business combinations

The Group accounts for business combinations using the acquisition method when the acquired set of activities and assets meets the definition of a business and control is transferred to the Group (see 7 (a) (ii)). In determining whether a particular set of activities and assets is a business, the Group assesses whether the set of assets and activities acquired includes, at a minimum, an input and substantive process and whether the acquired set has the ability to produce outputs.

The Group has an option to apply a 'concentration test' that permits a simplified assessment of whether an acquired set of activities and assets is not a business. The optional concentration test is met if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets.

The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognized in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognized in profit or loss.

Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, other contingent consideration is remeasured at fair value at each reporting date and subsequent changes in the fair value of the contingent consideration are recognized in profit or loss.

(ii) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group 'controls' an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

(iii) Non-controlling interests ("NCI")

NCI are measured initially at their proportionate share of the acquiree's identifiable net assets at the date of acquisition.

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

(iv) Loss of control

When the Group loses control over a subsidiary, it derecognizes the assets and liabilities of the subsidiary, and any related NCI and other components of equity. Any resulting gain or loss is recognized in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

(v) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealized gains or losses (except for foreign currency transactions gains or losses), are eliminated.

(b) Foreign currency transactions

Transactions in foreign currencies are translated into the functional currency of Group companies at the exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rate at the reporting date. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the exchange rate when the fair value was determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated at the exchange rate at the date of the transaction. Foreign currency differences are generally recognized in profit or loss and presented within finance costs.

(c) Revenue from contracts with customers

Revenue is measured based on the consideration specified in a contract with a customer. The Group recognises revenue when it transfers control over a good or service to a customer.

The following table provides information about the nature and timing of the satisfaction of performance obligations in contracts with customers, including significant payment terms, and the related revenue recognition policies.

	Nature and satisfaction of contractual obligations	Revenue recognition
Wholesale of electricity	<p>The Group sells the majority of electricity produced on forward contracts with electricity suppliers and traders, on the spot market (day-ahead market) to the market operator (OPCOM) and on the balancing market to the system operator (Transelectrica).</p> <p>Invoices are issued at the end of the month or at the beginning of the following month for the electricity delivered in the current month.</p> <p>The payment term is 30 days from invoice date.</p>	<p>Revenue is recognized over time, because the customer simultaneously receives the benefits provided by the performance of the Group as the Group delivers electricity; generation and use of electricity are simultaneous because electricity is not stored.</p> <p>Advance payments collected from customers for future electricity sales are recognized as contract liabilities.</p>

Electricity supply to end users (retail sales of electricity)

The performance obligation is represented by delivery of electricity to the customer's location, which includes transmission and distribution, performed via third party assets.

Customers obtain control of electricity as electricity is consumed. Revenue is recognized based on the volumes communicated to the Group by the distribution operators, which are based on automated or manual meter readings performed by the distribution operators, self-readings reported by the consumers, or based on estimates of electricity delivered for which readings were not yet performed for the interval between the date of last reading and the end of period.

Invoices are usually issued on a monthly basis, in the month following consumption. However, in 2022 and 2023, the Group incurred significant delays in invoicing final consumers, due to the implementation of new billing and customer relationship systems, which continued also in 2023 for supply activity and significant increase in the number of new customers.

The payment term is 45 days from invoice date.

Revenue is recognized over time, because the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group delivers electricity.

Electricity supply revenue include transmission and distribution tariffs, which are invoiced by the Group to end users. The transmission and distribution services are provided by the transmission operator and the distribution operators, and the related costs are billed by the transmission operator and the distribution operators to the Group.

The Group assessed whether it is a principal or an agent in relation to transmission and distribution services passed through to the customer and it concluded that it acts as a principal. The considerations supporting this conclusion include: the Group has a single performance obligation, i.e. delivery of electricity to end user location, which includes transmission and distribution; electricity consumption happens instantaneously as the electricity is generated at the Group's plants and delivered through the transmission and distribution grids to the end user's location.

System services

System services consist of Group making available an agreed generation capacity to the system operator, Transelectrica, for a certain period of time. This capacity is used by Transelectrica in the process of balancing the electricity system.

Invoices for system services are issued on a monthly basis, at the beginning of each month for the services provided in the previous month.

The payment term is 30 days from invoice date.

As the Group makes available generation capacity measured in MWh and not specific assets, the Group concluded that the contract does not contain a lease and therefore is in scope of IFRS 15.

Revenue is recognized over time, because the customer simultaneously receives and consumes the benefits provided by the Groups's performance as the services are performed.

The fee received for system services depends on the hourly capacities made available (ie number of hours for which

the capacity multiplied by the capacity) and the hourly tariffs.

Both the hourly capacities and the hourly tariffs are established based on the results of daily auctions organized by the system operator.

If, during the interval the capacity is made available, the system operator orders the Group to produce electricity using the capacity made available, the electricity produced is sold on the balancing market at the price established on the respective market (see *Wholesale of electricity* section above).

Sales of green certificates

The Group sells on the spot market part of the green certificates granted through the support scheme to its wind farm for its green production. The customers obtains control of green certificates when the transaction is registered by the market operator in its electronic registry.

The invoices are issued on transaction date. The payment term is 30 days from invoice date.

Revenue is recognised at a point in time, i.e. when the control over green certificates is transferred.

(d) Employee benefits

(i) Short-term employee benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(ii) Defined contribution plans

Obligations for contributions to defined contribution plans are expensed as the related service is provided. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

(iii) Defined benefit plans

The Group's net obligation in respect of defined benefit plans is calculated separately for each plan by estimating the amount of future benefits that employees have earned in the current and prior periods, discounting that amount. There are no plan assets.

The defined benefit plans include cash benefits on retirement and benefits in kind consisting of free electricity granted to employees after retirement.

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

Remeasurements of the defined benefit liability, which comprise actuarial gains and losses, are recognised immediately in other comprehensive income (“OCI”). The Group determines the net interest expense (income) on the net defined benefit liability for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability, taking into account any changes in the net defined benefit liability during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognized in profit or loss.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognised immediately in profit or loss. The Group recognises gains and losses on the settlement of a defined benefit plan when the settlement occurs.

(iv) Other long-term employee benefits

The Group’s net obligation in respect of long-term employee benefits is the amount of future benefit that the employees have earned in return for their service in the current period and prior periods. That benefit is discounted to determine its present value. Remeasurements are recognized in profit or loss in the period in which they arise.

Other long term employee benefits include cash benefits paid to employees at the moment when they achieve certain seniority milestones.

(v) Termination benefits

Termination benefits are expensed at the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognises costs for a restructuring. If benefits are not expected to be settled wholly within 12 months of the reporting date, then they are discounted.

(e) Operating profit

Operating profit is the result generated from the continuing principal revenue-producing activities of the Group as well as other income and expenses related to operating activities. Operating profit excludes finance result and income taxes.

(f) Finance income and finance costs

The Group's finance income and finance costs include:

- interest income;
- interest expense;
- the foreign currency gain or loss on financial assets and financial liabilities;
- impairment losses (and reversals) recognised on financial assets (other than trade receivables);
- unwinding of non-current provisions.

Interest income or expense is recognised using the effective interest method.

The ‘effective interest rate’ is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- the gross carrying amount of the financial asset; or
- the amortised cost of the financial liability.

In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability. However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

(g) Income tax

Income tax expense comprises current and deferred tax. It is recognized in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in OCI.

The Group has determined that interest and penalties related to income taxes, including uncertain tax treatments, do not meet the definition of income taxes, and therefore accounted for them under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.

(i) Current tax

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to tax payable or receivable in respect of previous years. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any. It is measured using tax rates enacted or substantively enacted at the reporting date.

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

(ii) Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for:

- temporary differences that occur on the initial recognition of assets and liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries, associates and joint arrangements to the extent that the Group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Future taxable profits are determined based on the reversal of relevant taxable temporary differences. If the amount of taxable temporary differences is insufficient to recognise a deferred tax asset in full, then future taxable profits, adjusted for reversals of existing temporary differences, are considered, based on the business plans for individual subsidiaries in the Group. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized; such reductions are reversed when the probability of future taxable profits improves.

The measurement of deferred tax reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

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

(h) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are initially recognised at cost, which includes capitalized borrowing costs.

If significant parts of an item of property, plant and equipment have different useful lives, then they are accounted for as separate items (major components) of property, plant and equipment.

Any gain or loss on disposal of an item of property, plant and equipment is recognised in profit or loss.

After initial recognition:

- land, buildings, equipment and other items of property, plant and equipment are measured at revalued amount; and
- assets in progress are measured at cost less any accumulated impairment losses.

Revaluations are made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using the fair value at the end of the reporting period.

When an item of property, plant and equipment is revalued, the accumulated depreciation is eliminated from the gross book value, and the net amount is adjusted to the revalued amount of the asset.

If an asset's carrying amount is increased as a result of a revaluation, the increase is recognised and accumulated in equity under revaluation reserve. However, the increase is recognised in profit or loss to the extent that it reverses a revaluation decrease of the same amount of the same asset previously recognised in profit or loss.

If an asset's carrying amount is decreased as a result of a revaluation, the decrease is recognised in profit or loss. However, the decrease is recognized in equity in revaluation reserve if there is any credit balance existing in the revaluation reserve in respect of that asset.

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

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

(ii) Subsequent expenditure

Subsequent expenditure is capitalized only if it is probable that the future economic benefits associated with the expenditure will flow to the Group.

(iii) Depreciation

Depreciation is calculated using the straight-line method over the assets estimated useful lives, and is recognized in profit or loss. Land and assets under construction are not depreciated.

The estimated useful lives of property, plant and equipment for current and comparative periods are as follows:

Category	Useful life (years)
Buildings and special installations	65-97
Buildings and special installations representing assets to be returned, according to the concession contract (see Note 5 a1))	The lesser of useful economic life and remaining period of the concession contract
Technological equipment	25-47
Measurement and control devices	15-23
Vehicles	16-24
Fixture and fittings	12

Depreciation methods and useful lives are reviewed at each reporting date and adjusted if appropriate.

(i) Intangible assets

(i) Recognition and measurement

Intangible assets that are acquired by the Group and have finite useful lives are measured at cost less accumulated amortisation and any accumulated impairment losses. Intangible assets include mainly software and licenses.

(ii) Subsequent expenditure

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognized in profit or loss as incurred.

(iii) Amortisation

Amortisation is calculated to write off the cost of intangible assets less their estimated residual values using the straight-line method over their estimated useful lives, and is generally recognized in profit or loss.

The estimated useful lives of software and licenses for current and comparative periods are 3-5 years.

Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

(j) Green certificates

The Group recognizes the green certificates granted under the support scheme for renewable energy generators at cost (which is 0) at the time of obtaining the right to receive the grant (when electricity is generated).

The Group recognizes green certificates purchased at cost.

The Group, as an electricity supplier, is required by law to purchase a number of green certificates (see Note 1 c)), whose cost is subsequently charged to the end users based on the quantities of electricity consumed. In order to meet the legal annual purchase obligation (annual target or quota), the Group uses both green certificates granted under the support scheme and green certificates purchased.

Green certificates purchased to meet the purchase obligation (quota) are recognized in profit or loss when acquired. Green certificates purchased in excess of the mandatory quota at the end of the reporting period are recognized in the consolidated statement of financial position. If the mandatory quota is not met at the end of the reporting period, then the Group recognized a liability in the consolidated statement of financial position.

The cost of green certificates recharged to end users is recognized in profit or loss as part of Revenue from contracts with customers.

(k) Financial instruments

(i) Recognition and initial measurement

Trade receivables are initially recognized when they are originated. All other financial assets and financial liabilities are initially recognized when the Group becomes a party to the contractual provisions of the instrument.

Cash and cash equivalents include cash balances, demand deposits and deposits with maturity of up to three months from the date of origination that have an insignificant exposure to the risk of change in fair value, and are used by the Group to manage short-term commitments.

A financial asset (unless it is a trade receivable without a significant financing component) or a financial liability is initially measured at fair value plus or minus transaction costs that are directly attributable to its acquisition

or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

(ii) Classification and subsequent measurement

Financial assets

On initial recognition, a financial asset is classified into one of the business models: held to collect, held to collect and sell or other.

Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is classified as held to collect and measured at amortized cost if it meets both of the following conditions:

- it is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All financial assets of the Group are classified as held to collect.

Financial assets – Subsequent measurement and gains and losses

Financial assets at amortized cost are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.

Financial liabilities – Classification, subsequent measurement and gains or losses

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

(iii) Derecognition

Financial assets

The Group derecognizes a financial asset when:

- the contractual rights to the cash flows from the financial asset expire; or
- it transfers the rights to receive the contractual cash flows in a transaction in which either:
 - substantially all of the risks and rewards of ownership of the financial asset are transferred; or
 - the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

Financial liabilities

The Group derecognizes a financial liability when its contractual obligations are discharged or cancelled, or expire. The Group also derecognizes a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognized at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognized in profit or loss.

(iv) Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously.

(I) Impairment

(i) Non-derivative financial assets

The Group recognizes a loss allowance for expected credit losses (“ECLs”) on financial assets measured at amortised cost and contract assets.

The Group measures loss allowances at an amount equal to lifetime ECLs (Note 29).

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group’s historical experience and informed credit assessments, that includes forward-looking information.

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 90 days past due.

The Group considers a financial asset to be in default when:

- the debtor is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or
- the financial asset is more than 180 days past due.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

Measurement of ECLs

ECLs are probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive).

Credit-impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortised cost are credit-impaired. A financial asset is ‘credit-impaired’ when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the debtor;
- a breach of contract such as a default or being more than 180 days past due;
- the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise; or
- it is probable that the debtor will enter bankruptcy or other financial reorganisation.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

Write-off

The gross carrying amount of a financial asset is written off when the Group has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof.

(ii) Non-financial assets

At each reporting date, the Group reviews the carrying amounts of its non-financial assets (other than inventories, contract assets and deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs, according to the judgement described in Note 5 a3).

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs of disposal. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognized if the carrying amount of an asset or CGU exceeds its recoverable amount.

Impairment losses are recognized in profit or loss, except for the property, plant and equipment measured at revalued amount, in which case the impairment loss is recognized in other comprehensive income and decreases the revaluation reserve within equity to the extent that it reverses a previous revaluation surplus related to the same asset.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

A reversal of an impairment loss other than on revalued assets is recognized in profit or loss. A reversal of an impairment loss on a revalued asset is recognized in profit or loss to the extent that it reverses an impairment loss on the same asset that was previously recognized as an expense in profit or loss.

(m) Share capital

The Group recognized changes in share capital in accordance with the applicable legislation and after approval of the General Meeting of Shareholders and registration in the Trade Register.

Until 31 December 2003, the statutory share capital in nominal terms was restated according to IAS 29 "*Financial Reporting in Hyperinflationary Economies*" with a corresponding adjustment to retained earnings.

Ordinary shares

Incremental costs directly attributable to the issue of ordinary shares are recognized as a deduction from equity. Income tax relating to transaction costs of an equity transaction is accounted for in accordance with IAS 12 (see 7 (g)).

(n) Public patrimony

Public patrimony represents the value of assets belonging to the *public domain*, that have been financed from state budgetary sources (public funds). The part of the value of these assets funded from budgetary sources is initially recognized as deferred income, and then, at the time of work acceptance and commissioning of the assets, the value is transferred to Public Patrimony assimilated to equity accounts. According to Government Decision 1705/2006, these assets will be transferred to the balance sheet of the institutions from whose sources they were financed, after the end of their economic life, based on an official act adopted for this purpose.

According to OMFP no. 2844/2016, entities that have not completed the legal procedures for the transfer of such public patrimony assets, meanwhile report them separately in equity, in accounts assimilated to capital.

(o) Dividends

Dividends are recognized as a deduction from equity in the period in which their distribution is approved and recognized as a liability to the extent it is unpaid at the reporting date. Dividends are disclosed in the notes to financial statements when their distribution is proposed after the reporting date and before the date of the issuance of the financial statements.

(p) Provisions

A provision is recognized if, as a result of a past event, the Group has a current, legal or constructive obligation, which can be reliably estimated and it is likely that an outflow of resources incorporating economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as finance cost.

Decommissioning

A decommissioning provision in respect of abandoned or switched to post-utilization hydro-power assets, and the related expenses are recognized when management has taken the decision to abandon an asset or switch an asset to post-utilisation or the Group has not a realistic alternative except to abandon or move to post-utilization an asset before the end of the concession period (see Note 5 (a4)).

Subsequent to initial measurement, the obligation is measured at the end of each reporting period to reflect the time value of money and any changes in the estimated future cash flows underlying the obligation. The increase in the provision due to time value of money is recognized as finance costs, while the changes in estimated future cash flow is recognized as operating expense.

The Group recognizes a decommissioning provision against property, plant and equipment in respect of decommissioning of the wind turbines. The obligation is measured at the end of each reporting period to reflect the time value of money and any changes in the estimated future cash flows underlying the obligation. The change in the provision due to time value of money is recognized as finance costs, while the changes in estimated future cash flow is recognized against property, plant and equipment.

(q) Contingent assets and liabilities

A contingent liability is:

- a) a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group; or
- b) a present obligation that arose from past events but is not recognized because:
 - i. it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or
 - ii. the amount of the obligation cannot be measured with sufficient reliability.

Contingent liabilities are not recognized in the financial statements, but disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group.

A contingent asset is not recognized in the financial statements, unless it is virtually certain. Contingent assets are only disclosed when an inflow of economic benefits is considered probable.

(r) Tax uncertainties

The Group applies IFRIC 23 *Uncertainties over income tax treatment* to account for uncertainties related to income tax.

An 'uncertain tax treatment' is an income tax treatment for which there is uncertainty over whether the relevant tax authority will accept it under tax law. Whether an uncertain tax treatment is present depends both on the specific position taken by the Group and on the applicable tax law. Therefore, uncertain tax treatments often occur when the applicable tax law is unclear or is not consistently understood.

If there is uncertainty about an income tax treatment, then the Group considers whether it is probable (more likely than not) that a tax authority will accept the Group's tax treatment included or planned to be included in its tax filing.

The Group reflects uncertainty about a tax treatment in measuring its current and deferred taxes as follows.

Tax authority is likely to accept the Group's tax treatment: If the Group concludes that it is probable that the tax authority will accept its tax treatment, then it measures current and deferred taxes consistently with the tax treatment used or planned to be used in its income tax filing.

Tax authority is unlikely to accept the Group's tax treatment: If the Group concludes that it is not probable that the tax authority will accept its tax treatment, then it reflects the effect of that tax uncertainty in determining the related taxable profit (or tax loss), tax bases, unused tax losses, unused tax credits and tax rates. To do so, the Group uses either the most likely amount or the expected value method - whichever better predicts the resolution of the uncertainty.

Uncertainties related to taxes that are not income taxes (e.g. value added tax or taxes in scope of IFRSC 21 *Levies*) are recognized and measured in accordance with IAS 37 *Provisions, contingent liabilities and contingent assets*, unless they are dealt with specifically in another standard (e.g. IAS 19 *Employee Benefits* for social security taxes).

Uncertainties surrounding the amount to be recognized as a provision are dealt with by various means according to the circumstances. Where the provision being measured involves a large population of items, the obligation is estimated by weighting all possible outcomes by their associated probabilities. The name for this statistical method of estimation is 'expected value'. The provision will therefore be different depending on whether the probability of a loss of a given amount is. Where there is a continuous range of possible outcomes, and each point in that range is as likely as any other, the mid-point of the range is used.

Where a single obligation is being measured, the individual most likely outcome may be the best estimate of the liability. However, even in such a case, the Group considers other possible outcomes. Where other possible outcomes are either mostly higher or mostly lower than the most likely outcome, the best estimate will be a higher or lower amount.

(s) Leases

At inception of a contract, the Group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

As a lessee

At commencement or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices.

The Group recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Group by the end of the lease term or the cost of the right-of-use asset reflects that the Group will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if this rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

The Group determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed lease payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, if the Group changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group presents right-of-use assets in Property, plant and equipment in the consolidated statement of financial position.

Short-term leases and leases of low-value assets

The Group has elected not to recognize right-of-use assets and lease liabilities for short-term leases (lease term of 12 months or less) and leases of low-value assets (less than USD 5,000 equivalent). The Group recognises the lease payments associated with these leases as an expenses on a straight-line basis over the lease term.

(t) Government grants

Government grants related to assets are initially recognised as deferred income at fair value if there is reasonable assurance that they will be received and the Group will comply with the conditions associated with the grant. Grants related to the acquisition of assets are recognised in profit or loss as other income on a systematic basis over the useful life of the asset.

Grants that compensate the Group for expenses incurred are recognised in profit or loss as other income on a systematic basis in the periods in which the expenses are recognised, unless the conditions for receiving the grant are met after the related expenses have been recognised. In this case, the grant is recognised when it becomes receivable.

For green certificates grants refer to Note 7 (j).

(u) Segment reporting

Segment results that are reported to the Company's Management Board and Supervisory Board include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

(v) Subsequent events

Events occurring after the reporting dates until the date these financial statements were authorized for issue, which provide additional information about conditions prevailing at the reporting date (adjusting events) are reflected in these financial statements. Events occurring after the reporting dates until the date these financial statements were authorized for issue, which provide information on events that occurred after the reporting dates (non-adjusting events), when material, are disclosed in the notes to the financial statements.

(w) Fair value measurement

'Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

A number of the Group's accounting policies and disclosures require the measurement of fair values, for financial assets and liabilities, and non-financial assets (see Note 5 (b)).

When one is available, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as 'active' if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

8. CHANGE IN ACCOUNTING POLICY

Except as described above, the accounting policies applied in these consolidated financial statements are the same as those applied in the Group's consolidated financial statements as at and for the year ended 31 December 2022.

Deferred tax related to assets and liabilities arising from a single transaction

The Group has adopted Deferred Tax related to Assets and Liabilities arising from a Single Transaction – Amendments to IAS 12 from 1 January 2023. The amendments narrow the scope of the initial recognition exemption to exclude transactions that give rise to equal and offsetting temporary differences – e.g. leases and decommissioning liabilities. For leases, and decommissioning liabilities, an entity is required to recognize the associated deferred tax assets and liabilities from the beginning of the earliest comparative period presented, with any cumulative effect recognized as an adjustment to retained earnings or other components of equity at that date. For all other transactions, an entity applies the amendments to transactions that occur after the beginning of the earliest period presented.

The Group previously accounted for deferred tax on leases applying the “integrally linked” approach, resulting in a similar outcome to the amendments, except that the deferred tax asset or liability was recognized on a net basis. Following the amendments, the Group has recognized a separate deferred tax asset in relation to its lease liability and a deferred tax liability in relation to its right-of-use assets. However, there was no impact on the statement of financial position because the balances qualify for offset under paragraph 74 of IAS 12. There was also no impact on the opening retained earnings as at 1 January 2022 as a result of the change. The key impact for the Group relates to disclosures of the deferred tax assets and liabilities recognized.

9. STANDARDS ISSUED BUT NOT YET EFFECTIVE

The following amended standards are effective for annual periods beginning after 1 January 2023 and earlier application is permitted. The Group has not early adopted any of these amended standards and does not expect that they will have a significant impact on the Group’s consolidated financial statements when become effective.

- Classification of Liabilities as Current or Non-Current (Amendments to IAS 1);
- Non-current Liabilities with Covenants (Amendments to IAS 1);
- Supplier Finance Arrangements (Amendments to IAS 7 and IFRS 7);
- Lease Liability in a Sale and Leaseback (Amendments to IFRS 16);
- Lack of exchangeability (Amendments to IAS 21).

10. OPERATING SEGMENTS

A. Basis for segmentation

The Group has identified two reporting segments based on the operating licenses owned – production of electricity and supply of electricity.

The following summary describes the operations of each reportable segment:

Reportable segment	Operations
Electricity generation	Production of electricity through the operation of hydropower plants, micro-hydropower plants and wind turbines, rendering of system services to the system operator (meaning making available an agreed generation capacity for the balancing needs of the energy system). Electricity produced is sold mainly to electricity suppliers and entities that trade electricity on the wholesale electricity market, as well as supplied to final consumers through the electricity supply segment.
Electricity supply	Supply of electricity to non-households and households final consumers. Electricity supplied to end consumers is mainly generated by the electricity generation segment, and where there is a gap, this is covered through spot or forward electricity purchases.

Management Board of the Company reviews management reports of each segment. Segment profit before tax is used to measure performance because management believes that such information is one of the most relevant in evaluating the results of the segments.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

(All amounts are in RON, unless otherwise indicated)

B. Information about operating segments

Year ended 31 December 2023	Electricity generation	Electricity supply	Total for reportable segments	Inter-segment eliminations	Consolidated total
External revenues	7,224,607,661	4,935,575,996	12,160,183,657	-	12,160,183,657
Inter-segment revenue	1,373,505,561	-	1,373,505,561	(1,373,505,561)	-
Segment revenue	8,598,113,222	4,935,575,996	13,533,689,218	(1,373,505,561)	12,160,183,657
Segment profit before tax	5,879,788,314	1,579,339,068	7,459,127,382	-	7,459,127,382
Net finance income/(cost)	258,740,902	2,040	258,742,942	-	258,742,942
Amortization and depreciation	(799,241,630)	(71,537)	(799,313,167)	-	(799,313,167)
Impairment loss on property, plant and equipment	(236,865,307)	-	(236,865,307)	-	(236,865,307)
Electricity purchased	(12,002,792)	(1,723,826,405)	(1,735,829,197)	1,279,666,353	(456,162,844)
Green certificates expenses	-	(390,645,471)	(390,645,471)	93,839,208	(296,806,263)
Employee benefits expenses	(712,678,730)	(15,766,741)	(728,445,471)	-	(728,445,471)
Turbinated water	(639,205,702)	-	(639,205,702)	-	(639,205,702)
Tax for electricity producers	(225,159,036)	-	(225,159,036)	-	(225,159,036)
Transport and distribution of electricity	(80,783,593)	(1,126,866,554)	(1,207,650,147)	-	(1,207,650,147)
Other expenses	(304,428,803)	(100,542,628)	(404,971,431)	-	(404,971,431)

Year ended 31 December 2022	Electricity generation	Electricity supply	Total for reportable segments	Inter- segment eliminations	Consolidated total
External revenues	7,302,972,273	2,148,982,593	9,451,954,866	-	9,451,954,866
Inter-segment revenue	854,256,236	-	854,256,236	(854,256,236)	-
Segment revenue	8,157,228,509	2,148,982,593	10,306,211,102	(854,256,236)	9,451,954,866
Segment profit before tax	4,713,866,176	506,169,939	5,220,036,115	-	5,220,036,115
Net finance income/(cost)	204,718,160	4,366,903	209,085,063	-	209,085,063
Amortization and depreciation	(772,102,665)	(47,248)	(772,149,913)	-	(772,149,913)
Impairment loss on property, plant and equipment	(145,862,177)	(675)	(145,862,852)	-	(145,862,852)
Electricity purchased	(582,178,123)	(937,715,070)	(1,519,893,193)	822,751,209	(697,141,984)
Green certificates expenses	(34,781,137)	(179,895,024)	(214,676,161)	31,505,027	(183,171,134)
Employee benefits expenses	(617,522,384)	(8,526,115)	(626,048,499)	-	(626,048,499)
Turbinated water	(450,963,376)	-	(450,963,376)	-	(450,963,376)
Tax for electricity producers	(671,738,811)	-	(671,738,811)	-	(671,738,811)
Transport and distribution of electricity	(43,291,346)	(454,763,241)	(498,054,587)	-	(498,054,587)
Other expenses	(394,777,552)	(67,907,688)	(462,685,240)	-	(462,685,240)

Other expenses include the following captions from consolidated statement of profit or loss: Repair, maintenance, materials and consumables, Impairment loss on trade receivables and Other operating expenses.

Electricity generation segment includes also system services and production of electricity for system balancing which are billed to the system operator, Transelectrica SA (see details in Note 11).

Inter-segment revenue includes the value of electricity produced and transferred within the same entity from producer portfolio (generation segment) to supplier portfolio (supplier segment) of RON 1,279,832,298 (2022: RON 714,078,972). Inter-segment revenue is calculated based on a methodology approved by Management Board in 2021. The methodology used for computing transfer price between segments is based on the average electricity production cost in the last 12 months ending 2 months prior the calculation month, plus an internal margin.

All revenues are generated in Romania.

Total segment assets and total segment liabilities are not included in the management reports reviewed by the Management Board.

11. REVENUE

A. Revenue from contracts with customers

The Group generates revenue from:

	2023	2022
Wholesale of electricity	6,889,602,826	6,960,752,588
Electricity supplied to final consumers (retail sales)	4,935,575,996	2,148,982,593
System services	333,856,585	316,532,321
Sales of green certificates	-	24,632,237
Maintenance services	1,148,250	1,055,127
Total	12,160,183,657	9,451,954,866

Revenue from electricity supplied to final consumers reflect the value of volume supplied, including imbalances, which are based on automated or manual meter readings performed by the distribution operators, self-readings reported by the consumers, or based on volume estimated by distribution operators if readings are not available.

The majority of the Group's supply revenue in the year ended 31 December 2023 represent sales to non-household consumers (approx. 75% of volume, 85% in 2022), for which readings are performed at the end of each month, data sent by the distribution operators. Also, approximately 63% (35% in 2022) of the volume supplied to household consumers is determined based on meter readings at the end of the period, and the rest is based on estimates of the consumption. Group assesses that the risk of revenue adjustment subsequent to period end that could result from the difference between the meter readings and the estimated volumes would have a limited impact on the financial statements.

In 2023, the Group produced 17,639 GWh (2022: 13,544 GWh) and sold 19,338 GWh (2022: 14,544 GWh). From total quantity sold, 6,239 GWh were supplied to end users in 2023 (3,676 GWh in 2022).

The Group has contracts with customers for periods up to 12 months.

Individual clients who represent more than 10% of the Group's revenues are as follows:

- Transelectrica SA, the electricity system operator - system services and production of electricity for system balancing (latter included in Sale of electricity produced) – RON 1,275,342,188 in 2023 (10%) and RON 2,063,761,429 in 2022 (22%);
- OPCOM SA, the market operator – sale of electricity produced on the spot market of RON 4,505,118,629 in 2023 (37%) and RON 1,233,993,237 in 2022 (13%).

Timing of revenue recognition:

	2023	2022
Revenue recognised over time	12,159,035,407	9,426,267,502
Revenue recognized at a point in time	1,148,250	25,687,364
Total	12,160,183,657	9,451,954,866

B. Contract liabilities

As at 31 December 2023, the Group has contract liabilities of RON 41,719,807 (31 December 2022: RON 84,684,492). These represent advance payments from customers for future contractual obligations for electricity delivery and supply.

Contract liabilities as at 31 December 2022 of RON 84,684,492 were recognized as revenues during 2023 (2022: RON 93,330,569).

12. OTHER INCOME

	2023	2022
Grant income	5,756,561	5,714,088
Compensations, fines and penalties from suppliers	1,319,089	47,145,636
Other income	27,704,501	13,952,858
Total	34,780,151	66,812,582

13. OPERATING EXPENSES

A. Turbined water

Turbined water represents the water used by the hydropower plants in order to generate electricity. According to the Romanian legislation, a fee per cubic meter of water used is established annually by the National Agency for Water Administration. Starting 12 June 2023 the fee for turbined water was set at 37 RON/MWh produced. Until 12 June 2023, the fee was RON 1.40 per thousand cubic meters (2022: RON 1.23 per thousand cubic meters).

B. Electricity purchased

The Group purchases electricity in order to fulfill the deficit between the electricity contracted for sales and the actual electricity produced or in order to cover the electricity needs of the supply segment.

In 2023 the Group purchased 1,699 GWh (2022: 1,000 GWh) for RON 456,162,844 (2022: RON 697,141,984). Decrease in value of electricity purchases as compared to 2022 is due to the decrease in the average acquisition price in 2023.

C. Transport and distribution of electricity

	2023	2022
Injection of electricity produced in the national system	64,564,651	30,868,176
Distribution of electricity supplied	932,463,811	342,984,593
Transport of electricity supplied	210,621,685	124,201,818
Total	1,207,650,147	498,054,587

Tariffs for transport and distribution of electricity are regulated. Increase in transport and distribution costs in 2023 is determined by increase in quantity of electricity supplied and increase in the regulated tariffs with approximately 15% starting 1 April 2023.

D. Tax for electricity producers

Starting November 2021 the Government introduced a new tax for electricity producers. The tax is computed as 80% (for the period 1 November 2021 to 31 August 2022) and 100% (for the period 1 September 2022 to 31 March 2025) of net monthly average selling price in excess of RON 450 per MWh.

The net monthly average selling price is computed based on monthly revenue of the generation segment less monthly cost of electricity purchased, market administration fees and trading fees. Electricity production costs are not included in the monthly expenses.

The monthly revenue of the generation segment includes, according to the legislation, the wholesale of electricity produced and/or purchased and the value of electricity transferred within the same entity from producer portfolio (generation segment) to supplier portfolio (supplier segment). As the legislation does not define and does not include provisions on how the transfer value from producer portfolio to supplier portfolio should be computed, the Company has used its internal methodology for calculation of the transfer price between its licensed activities (generation and supply), which was approved by the Management Board on 8 June 2021, before the issuance of the legislation regarding the tax for electricity producers. This methodology is based on the average electricity production cost in the last 12 months ending 2 months prior the calculation month, plus an internal margin. This methodology may differ from the methodologies used by other companies taking into consideration that there is no regulation that stipulates a certain definition or method of calculation.

The tax computed by the Group for 2023 is RON 225,159,036 (2022: RON 671,738,811). As at 31 December 2023 the outstanding amount payable is RON 876,904 (31 December 2022: RON 91,370,195).

Romanian tax authorities, through the General Antifraud Fiscal Division, performed controls at the Group on the tax for electricity producers. The authorities did not make any changes to the method of computing the tax or to the method of computing the transfer price between the production and supply portfolios, but had a different point of view regarding the date from which Law 357/2023 was applied by the Company. Also, the authorities mentioned in the report that the provisions of the Fiscal Code regarding transfer pricing does not apply in respect of the transfer price of the electricity between the portfolios/ segments, since these provisions regulate the transactions between related parties and not the transactions performed within the same entity.

Law 357/2023 was published by the authorities on 16 December 2022 and modified the method of computing net monthly revenue, by limiting the revenues in scope only to electricity produced and sold or transferred between segments and the costs in scope only to the balancing costs capped to 5% of the revenue from electricity produced and transfer value of electricity transferred between segments. The text of the law mentions that the provisions of the law are applicable starting with 1 September 2022, however the Company applied the law starting with the publication date, 16 December 2022.

As per control report issued on 11 April 2023, the tax authorities applied the law retroactively from 1 September 2022, and therefore computed additional tax of RON 62,052,115. The Group paid the additional tax, the amount being presented in other non-current assets as Hidroelectrica challenged the decision, estimating that the asset resulted from the payment will be realized in a period longer than one year. Further analysis on the retroactive application of the law is presented in Note 31 c).

E. Other operating expenses

	2023	2022
Movement in provisions, net	21,600,588	165,157,263
Local taxes	51,212,182	60,839,135
Security	24,413,704	20,638,887
Sponsorship	6,135,133	1,930,287
Professional services	14,438,468	10,927,962
Services related to abandoned constructions	9,250,707	7,646,546
ANRE contribution	9,593,226	6,496,001
Compensations and penalties	3,899,255	4,935,982
Loss on disposal of property, plant and equipment	5,278,348	2,051,461
Other expenses	93,839,509	57,097,784
Total	239,661,120	337,721,308

F. Auditors remuneration

Remuneration of the statutory auditor, KPMG Audit SRL, for the audit services for the years 2023 and 2022, as well as the fees charged for non-audit services, are as follows:

	2023 (EUR)	2022 (EUR)
Contractual fee for the audits of the separate and consolidated financial statements prepared in accordance with OMFP no. 2844/2016 and of the consolidated financial statements prepared in accordance with IFRS-EU	212,462	214,225
Total audit fees	212,462	214,225
Fees for non-audit services fees	260,000	-
Total fees	472,462	214,225

Non-audit services include reviews of interim condensed consolidated financial statements, limited assurance on the information included in the current reports issued by the Company in accordance with the requirements of Law no. 24/2017, and FSA Regulation no. 5/2018, comfort letters provided by the statutory auditor in an IPO. These services are not prohibited by the article no. 5(1) of European Union Regulation no. 537/2014.

Other firms within KPMG network did not provide any services to the Company or its subsidiaries.

14. FINANCE RESULT

	2023	2022
Interest income	302,517,905	243,707,648
Other finance income	16,833,809	3,488,732
Finance income	319,351,714	247,196,380
Interest expense	(26,036,976)	(10,239,485)
Unwinding of non-current provisions	(33,943,103)	(28,245,988)
Gain or (loss) from foreign exchange differences	(628,685)	936,125
Other finance expenses	(8)	(561,969)
Finance expenses	(60,608,772)	(38,111,317)
Net finance result	258,742,942	209,085,063

15. EARNINGS PER SHARE

The calculation of earnings per share has been based on the following profit attributable to ordinary shareholders and weighted-average number of ordinary shares outstanding.

	2023	2022
<i>Profit attributable to the owners of the Company</i>		
Profit for the year attributable to the owners of the Company	6,365,330,521	4,461,170,559
Profit attributable to ordinary shareholders	6,365,330,521	4,461,170,559
<i>Weighted average number of ordinary shares (basic and diluted)</i>		
Issued ordinary shares at 1 January	448,459,482	448,459,482
Effect of shares issued in May 2023	783,466	-
Weighted average number of ordinary shares at 31 December	449,242,948	448,459,482
Earnings per share (basic and diluted) RON/share	14.17	9.95

16. EMPLOYEE BENEFITS

	31 December 2023	31 December 2022
Defined benefit plans	98,154,192	90,273,789
Other long-term employee benefits	44,162,937	47,178,152
Salaries payable	28,233,538	27,132,169
Social security contributions	21,637,189	18,279,698
Tax on salaries	3,905,146	3,257,472
Other	8,664,338	6,765,974
Total	204,757,340	192,887,254
- Current	76,313,941	71,046,892
- Non-current	128,443,399	121,840,362

Current portion of employee benefits is as follows:

	31 December 2023	31 December 2022
Defined benefit plans	9,587,445	9,873,172
Other long-term employee benefits	5,127,110	6,336,350
Salaries payable	28,233,538	27,132,169
Social security contributions	21,637,189	18,279,698
Tax on salaries	3,905,146	3,257,472
Other	7,823,513	6,168,031
Total	76,313,941	71,046,892

Post-employment benefits (defined benefit plans)

In accordance with the Collective Labour Agreements, the Group provides cash benefits to employees at retirement depending on the years of service in the Company and Hidroserv, as follows:

Retirement benefits

Years of service	Number of monthly gross base salary	
	31 December 2023	31 December 2022
Up to 10 years	1	1
Between 10 and 25 years	3	3
More than 25 years	6	6

Benefits in kind

Also, in accordance with Collective Labour Agreements, the Group provides benefits in kind consisting of free electricity (within the limit of 1,200 kWh annually) to employees retired from the Company and from Hidroserv subsidiary subject to meeting certain conditions (at least 15 cumulative years of seniority in the Company, Hidroserv or other companies operating in the electricity sector or at least 10 consecutive years of service in such companies before retirement). In the event of the retired person's death, the surviving spouse has the right to receive the same benefit until the time of their remarriage or death.

Until 27 June 2022, the Group provided benefits in kind consisting of free electricity (within the limit of 1,200 kWh annually) to employees retired from the predecessors entities of Hidroelectrica SA in accordance with the Government Decision no. 1041/2003. On 27 June 2022, the High Court of Cassation and Justice of Romania cancelled the Government Decision no. 1041/2003, following a request made by another Romanian energy sector entity. As a result, as at 31 December 2023 and 31 December 2022, the Group does not have the obligation to provide benefits in kind to employees retired from the predecessors entities.

Other long-term employee benefits

In accordance with the Collective Labour Agreements, the Group provides cash benefits to the Company's and Hidroserv's employees depending on seniority in the companies, as follows:

Seniority	Number of monthly gross base salary	
	31 December 2023	31 December 2023
20 years	1	1
25 Years	2	2
30 years	3	3
35 years	4	4
40 years	5	5
45 years	6	6

(i) Movement in the defined benefit liability and other long-term employee benefits

The following tables show the reconciliation between the opening and closing balance for the defined benefit liability and other long-term employee benefits and their components. There are no benefit plan assets.

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Defined benefit liabilities	2023	2022
Balance at 1 January	90,273,789	90,758,611
<i>Included in profit or loss</i>		
Current service cost	4,305,361	316,270
Past service cost	-	(5,067,900)
Interest cost	7,183,884	4,004,752
Benefits paid	(9,516,211)	(8,709,584)
<i>Included in other comprehensive income</i>		
Actuarial losses/(gains)	5,907,369	8,971,640
Balance at 31 December	98,154,192	90,273,789
Other long-term employee benefits	2023	2022
Balance at 1 January	47,178,152	39,764,928
<i>Included in profit or loss</i>		
Current service cost	2,183,198	5,328,166
Interest cost	3,402,389	2,191,945
Actuarial losses/(gains)	(1,099,475)	5,902,586
Benefits paid	(7,501,327)	(6,009,473)
Balance at 31 December	44,162,937	47,178,152

ii) Actuarial assumptions

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

(a) Macroeconomic assumptions:

the inflation rate used as at 31 December 2023 and 2022 is based on the forecast of the National Bank of Romania ("NBR") for the inflation for RON, as follows:

Year	Valuation date 31 December 2023	Valuation date 31 December 2022
2023	n/a	12.4%
2024	5.3%	7.5%
2025	3.3%	4.2%
2026-2032	2.5%	4.2%
2033+	2.5%	2.3%

- discount rate used was obtained from the interest rates for RON published by the European Insurance and Occupational Pensions Authority (EIOPA) as follows:

Year	Valuation date 31 December 2023	Valuation date 31 December 2022
2023	n/a	7.091%
2024	5.995%	7.246%
2025	6.022%	7.437%
2026	6.049%	7.638%
2027+	6.073%-4.077% (average 4.847%)	7.835%-3.631% (average 5.622%)

- increase in electricity price per kWh in line with the inflation rate. The electricity price used in the actuarial calculation is RON 0.810/kWh as at 31 December 2023 (31 December 2022: RON 0.747/kWh);
- mortality rate used on is the rate published by the National Institute of Statistics for the last 10 years as of the valuation date.
- taxes and social contributions are those in force at the reporting dates.

(b) *Group specific assumptions:*

- growth rate of gross salaries used as at 31 December 2023 is a rate equal to the inflation rate in the following years (31 December 2022: 9.6% for 2023 and a rate equal to the inflation rate in the following years);
- employee' turnover rate used as at 31 December 2023 is based on annual averages of employee' turnover for the last 7 years differentiated by age and gender (31 December 2022: last 6 years averages). The weighted average employee' turnover rate used as at 31 December 2023 is 1.40% (31 December 2022: 1.56%).

(iii) *Sensitivity analysis*

The significant actuarial assumptions used for the determination of the defined benefits and other long-term employee benefits obligations are discount rate, expected salary increase and employee turnover. The sensitivity analysis below shows the effect on employee benefit liabilities – increase/(decrease), and was determined based on the reasonable changes in the respective assumptions at the end of the reporting periods, while other assumptions remain constant.

	31 December 2023		31 December 2022	
	Increase	Decrease	Increase	Decrease
Discount rate (100 bp)	(10,939,017)	12,825,221	(9,546,172)	11,015,642
Employee turnover ratio (100 bp)	(7,484,641)	4,751,288	(7,002,584)	4,275,864
Annual salary increase rate (100 bp)	6,449,079	(5,787,706)	6,065,914	(5,500,182)

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

Employee benefits expense

	2023	2022
Average number of employees	4,564	4,491
Number of employees at 31 December	4,723	4,621

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	2023	2022
Salaries and other remuneration	670,174,193	590,254,830
Social security contributions	27,769,755	15,197,322
Meal tickets	30,501,523	20,596,347
Total	728,445,471	626,048,499

17. INCOME TAX

In the determination of the current and deferred tax the Company takes into account the impact of uncertain tax positions (see Note 31). This assessment relies on estimates and assumptions and may involve a series of judgments about future events.

The Group considers that the accounting records for income tax due are appropriate for all open tax years, based on assessment made by management taking into account various factors, including the interpretation of tax legislation and previous experience. New information may become available that causes the Group to change its judgement regarding the adequacy of the existing tax liabilities; such changes to tax liabilities will have impact in tax expense in the period that such determination is made (Note 31).

(a) Amounts recognized to profit or loss

	2023	2022
Current tax expense	1,173,459,828	976,923,878
Deferred tax benefit	(79,662,967)	(218,058,322)
Total	1,093,796,861	758,865,556

(b) Amounts recognized in OCI

	2023			2022		
	Before tax	Tax (expense)/ benefit	Net	Before tax	Tax (expense)/ benefit	Net

Items that will not be reclassified to profit or loss

Revaluation of property, plant and equipment	1,678,289,692	(268,317,446)	1,409,972,246	2,116,549,252	(338,727,006)	1,777,822,246
Remeasurement of defined benefit liability	(5,907,369)	945,179	(4,962,190)	(8,971,640)	1,435,462	(7,536,178)
	1,672,382,323	(267,372,267)	1,405,010,056	2,107,577,612	(337,291,544)	1,770,286,068

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(c) Reconciliation of effective tax rate

		2023		2022
Profit before tax		7,459,127,382		5,220,036,115
Tax using the Company's domestic tax rate	16%	1,193,460,381	16%	835,205,778
Tax effect of:				
- Non-deductible expenses	0.1%	4,081,514	0.1%	3,279,249
- Tax-exempt income	(0.1%)	(4,797,491)	(0.3%)	(15,511,295)
- Tax incentives	(1.6%)	(118,279,069)	(0.5%)	(26,968,340)
- Deduction of legal reserves	(0.0%)	(143,292)	(0.1%)	(7,389,901)
- Distribution of previously tax deducted revaluation reserves	0.3%	19,474,818	2.4%	127,861,037
- Temporary differences not recognised previously	-	-	(3%)	(157,610,971)
Income tax		14.7%	14.6%	758,865,556

In 2023 and 2022, tax incentives refer to reinvested profit tax facility, positive tax incentive, increase in equity tax incentive and sponsorships granted. The main increase is due to the increase in equity tax incentive.

According to the Fiscal Code, certain revaluation reserves are subject to income tax at their distribution as dividends, if the revaluation reserves were previously tax deducted.

(d) Movement in deferred tax balances

	Net balance at 1 January 2023	Recognized in profit or loss	Reconized in OCI	Net balance at 31 December 2023	Deferred tax assets	Deferred tax liabilities
Property, plant and equipment and intangible assets	1,512,840,223	(39,634,692)	268,317,446	1,741,522,977	-	1,741,522,977
Provisions	(141,378,352)	(9,205,053)	-	(150,583,405)	(150,583,405)	-
Employee benefits	(21,992,311)	166,750	(945,179)	(22,770,740)	(22,770,740)	-
Leasing liabilities	-	(14,094,736)	-	(14,094,736)	(14,094,736)	-
Trade receivables	(23,258,944)	(20,254,651)	-	(43,513,595)	(43,513,595)	-
Inventories	(5,748,792)	(741,932)	-	(6,490,724)	(6,490,724)	-
Tax loss carried forward	(4,516,047)	4,101,347	-	(414,700)	(414,700)	-
Total deferred tax liabilities (assets) before set-off	1,315,945,777	(79,662,967)	267,372,267	1,503,655,077	(237,867,900)	1,741,522,977
Set-off tax					237,867,900	(237,867,900)
Net deferred tax liabilities (assets)					-	1,503,655,077

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	Net balance at 1 January 2022	Recognized in profit or loss	Reconized in OCI	Net balance at 31 December 2022	Deferred tax assets	Deferred tax liabilities
Property, plant and equipment and intangible assets	1,370,510,479	(196,397,262)	338,727,006	1,512,840,223	-	1,512,840,223
Provisions	(106,390,935)	(34,987,417)	-	(141,378,352)	(141,378,352)	-
Employee benefits	(20,883,767)	326,918	(1,435,462)	(21,992,311)	(21,992,311)	-
Trade receivables	(18,025,642)	(5,233,302)	-	(23,258,944)	(23,258,944)	-
Inventories	(5,647,152)	(101,640)	-	(5,748,792)	(5,748,792)	-
Green certificates	5,564,982	(5,564,982)	-	-	-	-
Tax loss carried forward	(28,415,410)	23,899,363	-	(4,516,047)	(4,516,047)	-
Total deferred tax liabilities (assets) before set-off	1,196,712,555	(218,058,322)	337,291,544	1,315,945,777	(196,894,446)	1,512,840,223
Set-off tax					196,894,446	(196,894,446)
Net deferred tax liabilities (assets)					-	1,315,945,777

(e) Potential consequences on income tax

The Group may have potential consequences on corporate income tax that may result from the payment to shareholders of dividends from revaluation reserves transferred to retained earnings which, according to tax law, are taxed at the time of change of destination, to the extent they were previously tax deducted. Thus, the distribution of dividends from such reserves will generate additional income tax. The Company has such reserves transferred in retained earnings at 31 December 2023, which following the distribution would generate additional income tax for the Group of RON 10,435,097 (31 December 2022: RON 21,499,328).

The potential tax effect of revaluation reserves taxable at change in destination/distribution (at 16% tax rate) that were not yet transferred to retained earnings, amount to RON 363,332,251 at 31 December 2023 (RON 371,760,881 at 31 December 2022).

18. CASH AND CASH EQUIVALENTS AND RESTRICTED CASH

Cash and cash equivalents

	31 December 2023	31 December 2022
Bank accounts	384,484,459	647,941,334
Bank deposits with a maturity below 3 months	23,000,000	12,500,000
Petty cash	149,913	125,431
Cash equivalents	-	167,664
Total	407,634,372	660,734,429

Restricted cash

As at 31 December 2023, restricted cash represents a collateral deposit of RON 101,057,471 at Banca Comerciala Romana for issuance of bank guarantee. The maturity of the collateral is 30 April 2024; during the period until maturity the Group does not have access to this deposit.

19. INVESTMENTS IN DEPOSITS AND BONDS

	31 December 2023		31 December 2022	
	Current	Non-current	Current	Non-current
Bank deposits with maturity less than 1 year held for investment purposes	4,349,481,852	-	3,034,745,062	-
Corporate bonds with a maturity more than 1 year	-	353,397,310	-	351,337,578
TOTAL	4,349,481,852	353,397,310	3,034,745,062	351,337,578

Bank deposits are short-term deposits with maturity between 3 to 12 months held for investment purposes rather than for short term cash commitments. The average interest rate on term deposits was 6.96% per year in 2023 (2022: 6.61% per year).

In 2022 the Group acquired from CEC Bank corporate bonds denominated in euro with maturity on 30 December 2025. The balance as at 31 December 2023 represents principal of RON 353,196,600 and related interest of RON 200,710 (31 December 2022: principal of RON 351,265,400 and related interest of RON 72,178). The corporate bonds annual yield is 7.5%.

20. TRADE RECEIVABLES

	31 December 2023	31 December 2022
Trade receivables – generation segment (wholesale)	601,844,801	549,565,265
Trade receivables – supply segment (retail)	2,684,192,429	959,412,230
Impairment allowance	(238,069,021)	(158,300,367)
Total	3,047,968,209	1,350,677,128

The unbilled revenues included in trade receivables amounts to RON 1,229,147,427 gross at 31 December 2023, representing 37% of total gross trade receivables (RON 1,116,046,031 at 31 December 2022, representing 74% of total gross trade receivables), out of which RON 1,046,861,380 gross relate to supply segment (RON 767,611,526 as at 31 December 2022). In 2022 the Group started the implementation of new billing and customer relationship systems, which continued also in 2023, which together with the frequent regulatory changes with respect of supply prices to end-users and the significant increase in the number of retail clients of the Group conducted to delays in the billing process of the Group and a significant balance of unbilled revenues at 31 December 2023 and 31 December 2022.

Of the invoiced receivables balance at 31 December 2023, RON 522,940,087 represent payment rescheduled receivables.

The movement of impairment loss for trade receivables is as follows:

	2023	2022
Balance at 1 January	158,300,367	113,731,076
Impairment loss recognized	93,413,317	60,564,295
Impairment loss reversed	(13,644,663)	(15,995,004)
Balance at 31 December	238,069,021	158,300,367

Trade receivables ageing analysis is disclosed in Note 29. Trade receivables due from related parties are disclosed in Note 32.

21. OTHER ASSETS

	31 December 2023		31 December 2022	
	Current	Non-current	Current	Non-current
Payments made in connection with uncertain tax treatments	-	277,997,540	-	214,385,212
Income tax assets	-	19,214,124	-	19,214,124
Impairment loss income tax assets	-	(19,214,124)	-	(19,214,124)
Prepayments	37,965,192	-	60,640,771	-
Value added tax receivable	725,540	-	41,648,054	-
Other assets	33,940,770	5,522,791	22,607,608	3,850,334
Impairment loss on other assets	(9,690,798)	-	(9,391,320)	-
Total	62,940,704	283,520,331	115,505,113	218,235,546

The movement of impairment losses for other receivables is as follows:

	2023	2022
Balance at 1 January	28,605,444	30,263,638
Impairment loss recognized	316,152	149,223
Impairment loss reversed	(16,674)	(1,807,417)
Balance at 31 December	28,904,922	28,605,444

Payments made in connection with uncertain tax treatments

RON 214,385,212 represents amounts paid by the Group as a result of the forced execution by ANAF in 2016 of the bank guarantee issued by ING Bank in favor of the Company for guaranteeing the amounts resulting from a Tax Inspection concluded by ANAF in 2014. The Company initiated lawsuits against ING Bank and ANAF in order to recover this amount executed. Litigation details are presented in Note 31.

According to the General Antifraud Fiscal Division report from 11 April 2023 and related imposing decision, the fiscal authorities applied the Law 357/2022 regarding the tax for electricity producers retrospectively from 1 September 2022 and computed additional tax of RON 62,052,115 (see Note 13 D). On 7 August 2023, the Company received a decision regarding interest and penalties in the amount of RON 1,560,213 related to the previously mentioned imposing decision. In 2023, the Group paid both the additional tax imposed and the related interest and penalties, the amount being recorded as other non-current assets as Hidroelectrica challenged in Court these decisions, estimating that the assets represented by the payment will be recovered within a period longer than one year. The analysis regarding the retrospective application of the law is presented in Note 31 c).

The Group recognized these payments as an asset based on IFRIC 23 *Uncertainty over Income Tax Treatments* because they will either be refunded if the Company is successful in the litigations related to the liability or they will be used to pay the liability in case of loss of the dispute.

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22. PROPERTY, PLANT AND EQUIPMENT

	Land and land improvements	Buildings and special constructions and installations	Machinery, equipment and other items	Assets under construction	TOTAL
GROSS CARRYING AMOUNT					
Balance at 1 January 2022	631,984,294	13,495,522,920	2,965,879,539	4,281,245,244	21,374,631,997
Additions	1,479,412	1,055,751	337,524	184,240,352	187,113,039
Transfers from assets under construction	-	55,770,883	63,247,225	(119,018,108)	-
Disposals	(35,487)	(246,036)	(423,594)	(9,599,571)	(10,304,688)
Revaluation recorded in other comprehensive income, net	(27,269,430)	1,812,850,545	330,968,139	-	2,116,549,254
Revaluation recorded in profit or loss, net	(9,006,966)	24,071,071	24,903,774	-	39,967,879
Accumulated depreciation eliminated against gross carrying amount at revaluation	-	(334,770,775)	(441,176,470)	-	(775,947,245)
Balance at 31 December 2022	597,151,823	15,054,254,359	2,943,736,137	4,336,867,917	22,932,010,236
Balance at 1 January 2023	597,151,823	15,054,254,359	2,943,736,137	4,336,867,917	22,932,010,236
Additions	17,906,170	58,752,368	1,026,844	193,462,128	271,147,510
Transfers from assets under construction	467,038	167,470,417	111,210,181	(279,147,636)	-
Disposals	-	(127,583)	(545,149)	(5,981,626)	(6,654,358)
Revaluation recorded in other comprehensive income, net	(19,350,735)	1,430,946,035	266,694,392	-	1,678,289,692
Revaluation recorded in profit or loss, net	(71,223,902)	(2,025,577)	(6,098,364)	-	(79,347,843)
Accumulated depreciation eliminated against gross carrying amount at revaluation	-	(364,893,548)	(427,888,039)	-	(792,781,587)
Balance at 31 December 2023	524,950,394	16,344,376,471	2,888,136,002	4,245,200,783	24,002,663,650
ACCUMULATED DEPRECIATION					
Balance at 1 January 2022	338,618	20,790,617	13,718,599	-	34,847,834
Depreciation charge	520,095	331,941,088	435,889,652	-	768,350,835
Accumulated depreciation of disposals	-	(78,604)	(81,501)	-	(160,105)
Accumulated depreciation eliminated against gross carrying amount at revaluation	-	(334,770,775)	(441,176,470)	-	(775,947,245)
Balance at 31 December 2022	858,713	17,882,326	8,350,280	-	27,091,319
Balance at 1 January 2023	858,713	17,882,326	8,350,280	-	27,091,319
Depreciation charge	569,277	369,167,495	425,982,041	-	795,718,813
Accumulated depreciation of disposals	-	(20,039)	(120,280)	-	(140,319)
Accumulated depreciation eliminated against gross carrying amount at revaluation	-	(364,893,548)	(427,888,039)	-	(792,781,587)
Balance at 31 December 2023	1.427.990	22.136.234	6.324.002	-	29.888.226
ACCUMULATED IMPAIRMENT LOSSES					
Balance at 1 January 2022	-	-	-	3,241,853,902	3,241,853,902
Impairment loss	-	605	27,435	255,956,473	255,984,513
Reversal of impairment loss	-	(605)	(27,435)	(78,908,521)	(78,936,561)

	Land and land improvements	Buildings and special constructions and installations	Machinery, equipment and other items	Assets under construction	TOTAL
Balance at 31 December 2022	-	-	-	3,418,901,854	3,418,901,854
Balance at 1 January 2023	-	-	-	3,418,901,854	3,418,901,854
Impairment loss	-	4,827	3,967	175,505,083	175,513,877
Reversal of impairment loss	-	(4,827)	(3,967)	(14,564,183)	(14,572,977)
Balance at 31 December 2023	-	-	-	3,579,842,754	3,579,842,754
NET CARRYING AMOUNT					
Balance at 1 January 2022	631,645,676	13,474,732,303	2,952,160,940	1,039,391,342	18,097,930,261
Balance at 31 December 2022	596,293,110	15,036,372,033	2,935,385,857	917,966,063	19,486,017,063
Balance at 31 December 2023	523,522,404	16,322,240,237	2,881,812,000	665,358,029	20,392,932,670

Property, plant and equipment in use

The Group's property, plant and equipment include mainly special constructions, namely hydro-power plants, energy pumping stations, micro hydro-power plants, floodgates, as well as hydro-aggregates, equipment and installations and wind turbines. The Group operates 187 hydro-power plants with an installed capacity of 6,372.172 MW, out of which 5 pumping stations with an installed capacity of 91.5 MW, and 36 wind turbines with an installed capacity of 108 MW.

According to applicable legislation, the Group has to obtain environmental authorizations in order to operate. Starting 2021 the Group has obtained permanent authorizations, however there is an obligation to apply for annual permits from the Environmental Protection Agencies and Romanian Water Agency. In 2022 and 2023 annual permits were obtained for all authorisations falling under these rules, except for those facilities that are not in use.

The conditions enacted by the environmental authorisations include monitoring the environmental factors and compliance with the environmental legislation applicable to wind and hydro-power objectives. In order to monitor the environmental factors, the Group performs measurements of the physical and chemical quality indicators of water in the reservoirs, of industrial and wastewater, and measurements of the noise level at site boundaries. In 2023 all the required measurements have been made and the legal limits of the indicators were not exceeded. The Group expects that for 2024 the legal limits of the indicators not to be exceeded as well.

Right-of-use assets

Property, plant and equipment include right-of-use assets mainly in relation to the Company's headquarters, land of the wind park and the car fleet of RON 66,471,477 as at 31 December 2023 (31 December 2022: RON 15,153,967) classified in Land, Buildings and installations and Machinery, equipment and other items. In December 2023 an addendum was signed for the Company's headquarters extending the lease for 10 years, until 17 December 2033.

Revaluation of property, plant and equipment

Property, plant and equipment, except for assets under construction and right-of-use assets, were revalued by an independent valuation expert, Appraisal & Valuation SA, at 31 December 2023 (RON 19,661,103,166) and 31 December 2022 (RON 18,588,177,033).

Measurement of fair value

The following paragraphs describe the valuation techniques used by the independent valuation expert in measuring the fair values (Level 3) for the revaluation of land, buildings and special installations, machinery, equipment and other fixed assets, as well as the significant unobservable input used.

In 2023, the revaluation increase was driven mainly by approximately 9% increase in the cost of construction materials (i.e – concrete, steel, other metals) due to the economic environment, as well as the inflation in the construction industry of approx. 13%.

In 2022, the revaluation increase was driven mainly by approximately 9% increase in the cost of construction materials (i.e – concrete, steel, other metals) due to the economic environment, as well as the inflation in the construction industry of approx. 12%.

Land

Valuation technique - Direct comparison approach

The fair value was estimated by using the market comparison approach (comparison grids) based on the price per square meter for land plots with similar characteristics (i.e. property rights, location, physical characteristics, area, best use). The estimate fair value is based on adjustments applied to unit asking prices for land situated in similar locations. For a number of locations the unit values were extrapolated to plots situated in similar areas based on location and size categories.

Significant unobservable inputs

- adjustments for liquidity (negotiation margin between -25% and -10%), surface area (between -50% and 0%).

Inter-relationship between key unobservable inputs and fair value measurement

The estimated fair value would increase (decrease) if:

- adjustments for liquidity and surface area would be smaller (larger).

Special constructions and installations

Valuation technique

- (a) Cost approach – Net reconstruction cost

For construction items where recent comparative constructions were not available in the market (include hydro-power facilities and other highly specialized items, with no such works being undertaken in the last decades in Romania), the valuation expert determined the net reconstruction cost (gross reconstruction cost, less physical, functional and external depreciation).

- *Gross reconstruction cost*

Gross reconstruction cost was determined based on cost information extracted from valuation catalogues relevant to the type of each construction (Catalogue 125 Meteorological, hydrotechnical, water supply and sewerage constructions and Catalogue 128 Hydrotechnical constructions and annex buildings for energy development, 1964 editions, republished by Matrix Rom Publishing House). These catalogues are used in the Romanian valuation practice by the licensed valuers body in all instances where there is no recent information

for costs for similar constructions and acknowledged by the licensed valuers body – Romanian Association of Licensed Valuers (ANEVAR).

For specific types of constructions, the catalogues provide the cost per unit of relevant construction parameters (i.e. volume, surface, power output etc.). The valuation expert applied the cost per unit to the specific parameters of the each construction item of the Group. Since the catalogues are outdated and no other recent sources were available, the results have been indexed to the present date by using price indices corresponding to the asset type (such as hypower constructions, industrial buildings) available in the Technical Expertise Documentary Bulletin no. 165 (31 December 2022: Technical Expertise Documentary Bulletin no. 162) , published by the Romanian Body of Technical Experts in October 2023 (31 December 2022: December 2022).

For constructions for which no characteristics were available (e.g. areas, volumes, lengths) GRC was derived by indexation of gross book value (GBV). GBV is the fair value estimated as at 31 December 2022. The index used was a statistical index published by the Romanian National Institute of Statistics (INSSE) for construction works, for the period October 2022- October 2023, last indexation using the October 2022 index. For those items depreciated for lower power output as at 31 December 2022, the indexation base used was the NRC derived before applying the functional and external depreciation.

- *Physical depreciation*

Physical depreciation was determined as the ratio of remaining useful life to the economic useful life of each asset applied to the gross replacement cost. Useful lives were discussed between the Group and the valuation expert and verified by the valuation expert for the main items with public information related to life duration of similar constructions, worldwide.

For items where GRC was derived based on prior valuation estimates, physical depreciation was estimated by considering a wear for the period between valuations.

- *Functional and external depreciation*

Functional depreciation, specific to the net reconstruction cost approach, is usually determined by comparing the item subject to valuation to a similar asset existing in the market in terms of functionality. External depreciation is due to external factors affecting the asset (i.e. market, political, environmental factors). The valuation expert did not identify similar assets for those subject to valuation in order to determine functional depreciation. Consequently, in order to account for both functional and external depreciation, the valuation expert determined the depreciation factor of each hydro-power facility as the ratio of actual power output (based on recent production reports) to the total capacity of the asset. The lower actual output of the Group's hydro-power facilities was deemed as due to both functional and external factors.

(b) Cost approach – Net replacement cost

For general purpose construction items, the valuation expert determined the net replacement cost (i.e. the cost to replace an asset with another comparable asset available in the market), computed as gross replacement cost, less physical and external depreciation (functional depreciation is accounted for when computing the gross replacement cost – i.e. the replacement cost does not include the cost of specific functionalities that are not specific to the asset subject to valuation).

- *Gross replacement cost*

Gross replacement cost was determined based on cost information extracted from the most recent valuation catalogue (Reconstruction Costs – Replacement Costs, Industrial, Commercial and Agricultural Buildings. Special

Constructions, published by IROVAL Publishing House – Evaluation Research, Bucharest, 2016) relevant to each type of construction.

For specific types of constructions and relevant construction stages (i.e. foundation, roof etc.) and functionalities (i.e. elevators, utilities), the catalogue provides the cost per unit of relevant parameters (i.e. volume, surface etc.). The valuation expert applied the cost per unit to the specific parameters of the each construction item of the Group. The results have been indexed to the present date by using price indices published by IROVAL for the same catalogues, on an annual basis, that are correlated with construction price market, per categories of constructions and installation works, and used in the valuation practice in Romania.

- *Physical depreciation*

Physical depreciation was determined as the ratio of remaining useful life to the economic useful life of each asset, applied to the gross replacement cost.

- *External depreciation*

External depreciation was applied to those general purpose construction items that are part of an operating unit for which an external depreciation due to low capacity use was identified, as described above.

Significant unobservable inputs

- gross replacement / reconstruction cost determined based on technical catalogues;
- price indices;
- adjustments for physical depreciation;
- adjustments for low capacity use (average of 20%).

Inter-relationship between key unobservable inputs and fair value measurement

The estimated fair value would increase (decrease) if:

- different judgement would be applied on determination of gross reconstruction/replacement cost; and
- physical, functional and external depreciations would be lower (higher).

Machinery, equipment and other items

Valuation technique

(a) Direct comparison approach

The direct comparison approach was used for machinery, equipment and other items for which there are observable offer prices- for similar items (vehicles, office equipment etc.). Under this approach, the price of similar assets obtained from public market sources was adjusted to account for market conditions and differences in technical characteristics between the asset subject to valuation and the similar asset.

(b) Cost approach – Net replacement cost

For machinery and equipment for which there is no active market, the valuation expert determined the net replacement cost, computed as gross replacement cost, less physical and external depreciation.

- *Gross replacement cost*

Gross replacement cost was determined as follows:

- direct method: for assets where comparable assets were identified (i.e. power transformers), gross replacement cost was derived from price information of comparable new assets in the international market (i.e. supplier price information);
- indirect method: for highly specialized assets for which no comparable asset was identified (i.e. hydro-power equipment), gross replacement cost was derived from the gross book value of the asset subject to valuation, indexed with specific price indices published by the Romanian institute of statistics (INSSE).

- *Physical depreciation*

Physical depreciation was determined as the ratio of remaining useful life to the economic useful life of each asset, applied to the gross replacement cost.

- *External depreciation*

External depreciation was applied to those highly specialized equipment that are part of an operating unit for which an external depreciation due to low capacity use was identified, as described above.

Significant unobservable inputs

- assets appraised under the direct comparison approach: price adjustments depending on the availability of trading negotiations and the current conditions of the specific market (5% - 25%), the comparability of the technical characteristics at the level of each identified comparability;
- assets appraised under the cost approach: adjustments for physical depreciation (3% - 90%, 32% on average), and external depreciation – adjustments for low capacity use (average of 20%).

Inter-relationship between key unobservable inputs and fair value measurement

The estimated fair value would increase (decrease) if:

- market price adjustments would be lower (higher);
- adjustments for physical and external depreciation applied under the cost approach would be lower (higher).

Assets under construction

As at 31 December 2023, the Group has assets under construction with a gross carrying amount of RON 4,245,200,783 (31 December 2022: RON 4,336,867,917) for which it recognized accumulated impairment losses of RON 3,579,842,754 (31 December 2022: RON 3,418,901,854).

The main assets under construction relate to the construction or rehabilitation of the following hydro-power projects or plants: construction of hydro- power plants – Bumbesti – Livezeni, Siriu – Surduc, Rastolita, Cornetu-Avrig, Pascani, Cerna Belareca, Cerna-Motru-Tismana, Bistra, Cosmesti-Movileni, Valea Sadului, Fagaras Hoghiz, Runcu Firiza; and rehabilitation of hydro-power plants – CHE Stejaru, CHE Slatina.

These assets under construction include mainly investments with complex functions, represented by historical investment objectives regarding hydropower development schemes with social functions (described below) which have been designed to have a secondary energy function. The primary objectives of these investment objectives are rational and safe water supply management, including:

- Limitation of flooding effects;
- Protection of population, communities and agricultural land;

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- Water supply to riverain communities;
- Insuring water reserves to supply population and industry;
- Insuring flow for irrigation during periods of drought;
- Retaining solid flow in the water accumulations.

The social functions described above are specific to public authorities, which are not-for-profit entities. In fact, many of these investments belonged to the “Romanian Waters” National Agency, the governmental body concerned with regional planning and water management, in the past. Hidroelectrica SA is incorporated under Companies Law no. 31/1990 and is not a not-for-profit organization. In addition, Hidroelectrica does not benefit from public funds to complete such social investments, which, if continued to be funded, would impair shareholder value.

These “historical” hydro-power projects were mainly initiated between 1982 and 1989, following a number of Decrees of the State Council, and were financed by public funds, through the ministries involved as owners. After 1989, some of these projects were continued by the Romanian Waters National Agency, financed with public funds, before they were transferred to Hidroelectrica. The economic and energy conditions have significantly changed compared to 1980s and 1990s, mainly due to the shut down of the state centralized investment fund, and the beneficiaries of these complex works ceased funding the specific works included in the hydro-power projects, while the costs of these works remained to be incurred by Hidroelectrica.

After Hidroelectrica entered insolvency in June 2012 and in the view of the planned future listing of the Company’s shares, the legal administrators strongly prioritized the Company focus on profit and rational cash management.

In 2017 the Company contracted a specialized engineer, ISPH SA, to estimate the costs of abandonment, conservation and securing the works performed on the investments with complex functions. In 2018, based on the analysis of costs and benefits, the management decided to abandon certain investment objectives, as presented below and in Note 28.

For the investment objectives for which the decision to abandon was taken, impairment losses were recognized at the amount of their total gross carrying amount. The gross book value of abandoned investments is RON 590,889,477 as at the end of 31 December 2023 (2022: RON 590,889,888). For these investment objectives the Group recognized provisions for decommissioning and site restoration (see Note 28).

Project	Purpose	Gross carrying amount as at 31 December 2023	Accumulated impairment as at 31 December 2023	Net carrying amount as at 31 December 2023
Borca-Poiana Teiului	Galus Step	9,022,718	(9,022,718)	-
Cosmești-Movileni	Cosmesti Step	93,206,729	(93,206,729)	-
AHE Surduc - Siriu	Ciresu-Surduc Step	17,345,275	(17,345,275)	-
Fagaras-Hoghiz	Fagaras – Hoghiz	174,949,578	(174,949,578)	-
Runcu-Firiza	Runcu Firiza	87,807,430	(87,807,430)	-
Dambovita-Clabucet	Dambovita – Clabucet	34,761,669	(34,761,669)	-
Valea Sadului-Vadeni	Valea Sadului-Vadeni	165,209,205	(165,209,205)	-
Others		8,586,873	(8,586,873)	-
Total		590,889,477	(590,889,477)	-

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Project	Purpose	Gross carrying amount as at 31 December 2022	Accumulated impairment as at 31 December 2022	Net carrying amount as at 31 December 2022
Borca-Poiana Teiului	Galu Step	9,023,129	(9,023,129)	-
Cosmești-Movileni	Cosmesti Step	93,206,729	(93,206,729)	-
AHE Surduc - Siriu	Ciresu-Surduc Step	17,345,275	(17,345,275)	-
Fagaras-Hoghiz	Fagaras – Hoghiz	174,949,578	(174,949,578)	-
Runcu-Firiza	Runcu Firiza	87,807,430	(87,807,430)	-
Dambovita-Clabucet	Dambovita – Clabucet	34,761,669	(34,761,669)	-
Valea Sadului-Vadeni	Valea Sadului-Vadeni	165,209,205	(165,209,205)	-
Others		8,586,873	(8,586,873)	-
Total		590,889,888	(590,889,888)	-

For 2023 and 2022 impairment losses were recognized for assets under construction, other than the abandoned assets discussed above, as follows:

Project	Gross carrying amount 31 Dec 2023	Accumulated impairment loss 31 Dec 2023	Net book value 31 Dec 2023	Impairment loss/(reversal) 2023
AHE Bumbesti-Livezeni	770,521,007	(451,088,950)	319,432,057	92,075,795
CHE Racovita	62,781,188	(62,781,188)	-	(7,775,357)
AHE Rastolita	697,882,711	(654,070,752)	43,811,959	23,031,276
AHE Siriu-Surduc	745,847,074	(699,935,179)	45,911,895	34,978,078
AHE Pascani	396,482,625	(396,482,625)	-	22,912,761
AHE Cerna-Belareca	318,265,165	(318,265,165)	-	16,940
AHE Cornetu-Avrig	107,225,230	(105,949,624)	1,275,606	280,719
Cerna Motru Tismana - stage II	72,942,551	(72,942,551)	-	-
Lac redresor Sebes	56,363,185	(56,363,185)	-	225,000
Bistra	45,009,766	(45,009,766)	-	16,152
Rehabilitation of Portile de Fier II	45,265,051	(45,265,051)	-	-
Others	87,244,278	(80,799,241)	6,445,037	(4,820,464)
Total	3,405,829,831	(2,988,953,277)	416,876,554	160,940,900

Project	Gross carrying amount 31 Dec 2022	Accumulated impairment loss 31 Dec 2022	Net book value 31 Dec 2022	Impairment loss/(reversal) 2022
AHE Bumbesti-Livezeni	770,520,008	(359,013,155)	411,506,853	48,200,711
CHE Racovita	70,556,545	(70,556,545)	-	5,064,554
AHE Rastolita	696,498,062	(631,039,476)	65,458,586	(43,216,648)
AHE Siriu-Surduc	743,933,018	(664,957,101)	78,975,917	207,047,062
AHE Pascani	373,569,864	(373,569,864)	-	3,595,544
AHE Cerna-Belareca	318,248,225	(318,248,225)	-	165,228
AHE Cornetu-Avrig	106,944,511	(105,668,905)	1,275,606	197,059
Cerna Motru Tismana - stage II	72,942,551	(72,942,551)	-	-
Lac redresor Sebes	56,138,185	(56,138,185)	-	-
Bistra	44,993,614	(44,993,614)	-	(281,356)
Rehabilitation of Portile de Fier II	45,265,051	(45,265,051)	-	-
Others	91,348,763	(85,619,294)	5,729,469	(33,912,754)
Total	3,390,958,397	(2,828,011,966)	562,946,431	186,859,400

Determination of recoverable amounts

The determination of the recoverable amounts of the investments under construction above was based on a series of assumptions related to the feasibility of completion of the investments and the projected cash flows.

The significant assumptions used in estimating the recoverable amount are presented below. The estimates were based both on historical data, as well as on management's assessment of future trends related to electricity prices, margins, costs to complete and climate related risk:

Estimates	Method for building the estimates	
	31 December 2023	31 December 2022
Cost to complete the projects, annual cash flows to completion and the date of commissioning	based on the contracts concluded with the suppliers for each project or estimation made by management (see below)	
Installed capacities	based on technical data for each project (see below)	
Capacity utilization rate	80% of the production capacity on average (based on Company average historical electricity production for the previous 6 years and also adjusted downwards for addressing climate risks.)	85% of the production capacity on average (based on Company average historical electricity production for the previous 5 years)
Electricity prices	Based on reports prepared by external consultants for the period 2024-2060, adjusted for certain assumptions; 2% annual price increase (long-term inflation rate) for the period 2061 – 2078	Based on reports prepared by external consultants for the period 2023 – 2035; 2% annual price increase (long-term inflation rate) for the period 2036 – 2050
PPE EBITDA margin (*)	72%	72%
Useful life	50 years	50 years
Discount rate before tax	10.2%	10.5%

(*)PPE EBITDA margin represents the margin used by the Group in impairment testing of assets under construction and is computed as Adjusted EBITDA as defined in Note 23 plus tax on electricity producers as a non-recurring item, changes in provisions and impairment loss on trade receivables, divided by Revenues.

The Group's estimates of the costs necessary to complete the projects under construction, as well as the annual production capacities to be installed per year, are as follows:

Year	Estimated costs to complete		Installed capacity per year (GW)	
	31 December 2023	31 December 2022	31 December 2023	
2023	-	132,321,000	-	-
2024	152,000,000	517,861,000	-	-
2025	566,043,706	608,730,810	91	299
2026	551,517,682	408,430,580	384	222
2027	122,000,000	14,585,000	-	20
2028	128,634,128	-	20	-
2029	99,030,011	-	45	-
Total	1,619,225,527	1,681,928,390	540	540

The Group estimated that approximately 88% of the additional generation capacity will be installed by the end of 2027.

The impairment losses recognized were mainly driven by the change in the assumptions used on future prices of electricity, as well as by the update of the work schedule until completion.

The main variations in the recoverable amount/ impairment loss in 2023 and 2022 refer mainly to the following investment projects:

- Bumbesti-Livezeni project, with a net carrying amount of RON 319,432,057 as at 31 December 2023 (31 December 2022: RON 411,506,853), for which the works were suspended in 2017 due to the fact that the construction and environmental authorisations were cancelled as a result of litigation lost by the Company with non-profit organizations. The project started in 2003, while in 2005 the National Park "Defileul Jiului" was ruled as protected area; therefore the Company needs to reassess the impact on the environment and obtain new authorisations.

The impairment loss of RON 92,075,795 in 2023 for Bumbesti-Livezeni project was driven by the decrease in forecasted electricity prices.

The impairment loss of RON 48,200,711 in 2022 for Bumbesti-Livezeni project was driven by the increase in cost to complete by RON 231,938,000 as a result of the new claims and litigation initiated by the constructor in 2022. (see also Note 28 (i)), offset by the increase in forecasted electricity prices.

The Group is currently in process of obtaining new construction and environmental authorisations in order to continue the works. In 2022, the authorities informed the Group that the documentation submitted does not comply with the legal requirements and needs to be revised.

In December 2022, the Government issued the Emergency Ordinance no. 175/2022 ("OUG 175/2022"), through which a number of investments projects developed by Group, including Bumbesti-Livezeni, are declared public interest projects and are considered exceptional situations under the definition of Law no. 292/2018 regarding the evaluation of certain projects' impact on environment. According to the Law no. 292/2018, in exceptional situations the relevant authority can exempt a project from the partial or full application of the requirements for obtaining the environmental authorization.

In January 2023 a new procedure was started in order to obtain the environmental authorization and new consultants were contracted during the year to complete the documentation for obtaining the environmental authorization. Although the environmental documentation needs to be revised and re-submitted to the authorities, management believes that there are no issues that would prevent the Company to obtain the authorizations and complete the project. Consequently, the recoverable value of the project was determined considering that the project will be completed in 2026.

- Siriu-Surduc project with a net carrying amount of RON 45,911,896 as at 31 December 2023 (31 December 2022: RON 78,975,917), for which works were suspended due to the fact that the construction and environmental authorizations for the construction of the dam were cancelled as a result of litigation lost by the Company with non-profit organizations. The project started in 1983 and comprises 3 hydropower plants, out of which one was put in function in 1988, for another one the management decided to abandon the project and the third one is under construction, with the works suspended until revision of the impact on the environment and obtain new authorisations.

Impairment loss of RON 34,978,078 in 2023 for Siriu – Surduc project was driven mainly by the climate risk assumptions used at the end of 2023.

Impairment loss of RON 207,047,062 in 2022 for Siriu – Surduc project was driven by the increase of the estimated cost to complete by RON 284,557,000 as result of the high increase in prices of construction materials corroborated with offers received by the Group for other refurbishment projects with the same carateristic as the above mentioned project.

Management believes that there are no issues that would prevent the Company to obtain the authorisations and complete the project. Consequently, the recoverable value of the project was determined considering that the project will be completed in 2026.

Sensitivity analysis

The sensitivity analysis below shows the effect on profit before tax, and was determined based on the reasonable changes in key assumptions at the end of the reporting periods, while other assumptions remain constant.

	Increase/ (decrease) of Profit before tax	
	100 bp increase	100 bp decrease
Discount rate before tax		
2023	(112,500,717)	141,270,853
2022	(129,294,714)	162,003,177
	Increase/ (decrease) of Profit before tax	
	500 bp increase	500 bp decrease
PPE EBITDA margin		
2023	73,475,742	(73,475,742)
2022	84,119,849	(84,119,849)
	Increase/ (decrease) of Profit before tax	
	5% increase	5% decrease
Electricity prices		
2023	52,989,471	(52,895,941)
2022	60,566,292	(60,566,292)
	Increase/ (decrease) of Profit before tax	
	500 bp increase	500 bp decrease
Capacity utilization rate		
2023	58,830,242	(58,830,242)
2022	30,588,699	(30,588,699)

23. CAPITAL AND RESERVES

(a) Share capital

	31 December 2023	31 December 2022
Nominal share capital	4,498,025,670	4,484,594,820
Inflation adjustments in accordance with IAS 29	1,028,872,000	1,028,872,000
Total	5,526,897,670	5,513,466,820

Until 31 December 2003, the share capital in nominal terms was restated in accordance with IAS 29 "Financial Reporting in Hyperinflationary Economies", the related adjustments being recognized against retained earnings.

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On 27 May 2023, a share capital increase was registered at the Trade Register of RON 13,430,850, representing 1,343,085 shares, out of which RON 10,752,210 contribution in kind by the Ministry of Energy representing land and RON 2,678,640 contribution in cash by Fondul Proprietatea.

At 31 December 2023, the authorized, subscribed share capital of the Company is divided into 449,802,567 ordinary shares (31 December 2022: 448,459,482 ordinary shares) with a nominal value of RON 10 per share. The shareholders are entitled to dividends and each share grants a voting right.

Shareholders	31 December 2023		31 December 2022	
	Number of shares	%	Number of shares	%
Ministry of Energy	360,094,390	80.0561%	359,019,169	80.0561%
Fondul Proprietatea	-	-	89,440,313	19.9439%
Legal persons	75,535,576	16.7931%	-	-
Individuals	14,172,601	3.1508%	-	-
Total	449,802,567	100%	448,459,482	100%

(b) Revaluation reserve

The reconciliation between opening balance and closing balance of the revaluation reserve is as follows:

	2023	2022
Balance at 1 January	11,084,018,512	9,675,586,950
Transfer of revaluation reserve to retained earnings following depreciation and disposal of property, plant and equipment, net of tax	(417,350,148)	(369,390,684)
Revaluation of property, plant and equipment	1,678,289,692	2,116,549,252
Deferred tax related to revaluation reserve	(268,317,446)	(338,727,006)
Balance at 31 December	12,076,640,610	11,084,018,512

(c) Other reserves

Other reserves include:

- legal reserve of RON 927,033,814 (31 December 2022: RON 926,187,881), set-up annually at each Group company level as 5% of the profit before tax until the total legal reserve reach 20% of the paid-up nominal share capital. Legal reserves are mandatory, are deductible for income tax purposes and are not distributable.
- Other non-distributable reserves of RON 97,000,000 at 31 December 2023 and 2022, set-up in 2006 based on Government Emergency Ordinance no. 89/2004.

(d) Dividends

The Company declared and paid dividends as follows:

	2023	2022
Dividends declared and paid	4,349,388,772	3,830,945,832
Dividend per share	9.67	8.54

Romanian companies may distribute dividends from statutory earnings only, as per separate financial statements prepared in accordance with Romanian accounting regulations.

(e) Capital management

The capital management of the Group is significantly influenced by the regulations. The distribution of dividends is governed by special regulation, including the Government Ordinance no. 64/2001, according to which, in the case of companies wholly or majority-owned by the State, minimum 50% of the accounting profit shall be distributed as dividends, unless otherwise provided by special laws.

The Groups' policy is to maintain a strong capital base as to maintain investor, creditor and market confidence and to sustain future developments of the business. Management monitors the return on capital, as well as the level of dividends to shareholders. The net debt / (net cash and short-term investments) to ADJUSTED EBITDA should not exceed 3.

		2023	2022
Bank borrowings		393,534,741	484,492,118
Lease liabilities		66,300,971	15,401,105
Less: Cash and cash equivalents		(407,634,372)	(660,734,429)
Less : Short-term investments		(4,349,481,852)	(3,034,745,062)
Net debt /(net cash and short-term investments)	A	(4,297,280,512)	(3,195,586,268)
ADJUSTED EBITDA⁽¹⁾	B	8,252,768,030	5,932,826,705
Net debt /(net cash and short-term investments) to ADJUSTED EBITDA ratio	A/B	(0,52)	(0,54)

(1) ADJUSTED EBITDA (Earnings before interest, tax, depreciation and amortisation) is calculated as EBITDA, defined and calculated as profit/(loss) before tax before (i) depreciation and amortization of property, plant and equipment and (ii) interest income and expense, and ADJUSTED FOR impairment/reversal of impairment of property, plant and equipment. EBITDA and ADJUSTED EBITDA are not IFRS measures and should not be treated as an alternative to IFRS measures. Moreover, ADJUSTED EBITDA is not uniformly defined. The method used to calculate ADJUSTED EBITDA by other companies may differ significantly from that used by the Group. As a consequence, the ADJUSTED EBITDA presented in this note cannot, as such, be relied upon for the purpose of comparison to EBITDA or ADJUSTED EBITDA of other companies.

24. BORROWINGS

Description	31 December 2023	31 December 2022
BRD Groupe Societe Generale dated 4 March 2021 of RON 1,250 million - loan contracted for financing the acquisition of a Crucea Wind Farm SA and Hidroelectrica Wind Services SRL. Proceeds from loan: EUR 130,000,000 (representing RON 635,219,000) Repayment: quarterly installments between 11 June 2021 and 11 March 2028. Interest is linked to EURIBOR 3 months plus a margin. Year of maturity: 2028.	393,534,741	483,013,242
Banca Transilvania - Credit line of Hidroserv subsidiary classified as non-current at 31 December 2021 and 31 December 2020 according to the reorganization plan; Repayment: quarterly installments until second quarter of 2023. Year of maturity: 2023	-	1,478,876
Total loans	393,534,741	484,492,118
Current portion	93,282,098	94,000,904
Non-current portion	300,252,643	390,491,214

In 2023 the Group repaid loans of RON 93,416,269 (2022: RON 93,306,693).

25. TRADE PAYABLES

	31 December 2023	31 December 2022
Electricity suppliers	85,925,327	70,602,235
Electricity distribution services suppliers	119,452,919	45,065,330
Property, plant and equipment suppliers	67,095,995	61,785,291
Turbinated water supplier	105,999,560	79,810,370
Maintenance and repairs suppliers	4,276,647	6,414,933
Other suppliers	24,968,894	19,745,993
Total trade payables	407,719,342	283,424,152
Current	407,612,242	282,995,752
Non-current	107,100	428,400

The suppliers of electricity, electricity distribution and water are mainly those presented in Note 32 Related Parties.

Other suppliers include service providers, materials and consumables providers.

The Group has guarantees received from suppliers of RON 246,293,269 at 31 December 2023 (RON 235,774,981 at 31 December 2022). These are good performance guarantees in the form of bank letters of guarantee, insurance policies and escrow accounts.

26. OTHER PAYABLES

	31 December 2023		31 December 2022	
	Current	Non-current	Current	Non-current
Payables to the State	82,184,023		13,993,842	-
Performance deposits from suppliers	9,268,160	8,420,185	12,114,022	5,719,164
Other	15,678,515	45,542	12,566,495	45,380
Total	107,130,698	8,465,727	38,674,359	5,764,544

Payables to the State represent mainly VAT payable of RON 79,774,262 as at 31 December 2023 (31 December 2022: RON 3,097,550).

At 31 December 2023, for volume supplied for which invoicing delays for more than 12 months were identified, the Group self-invoiced the related VAT in value of RON 24,062,906 in accordance with art.281, paragraph (8) of the Fiscal Code.

27. DEFERRED INCOME

	31 December 2023		31 December 2022	
	Current	Non-current	Current	Non-current
Government grants	5,705,613	131,456,049	5,678,808	136,137,588
Other	17,276	51,363	17,045	59,779
Total	5,722,889	131,507,412	5,695,853	136,197,367

Government grants represent amounts received from the State for the construction of certain investment projects.

Reconciliation between opening and closing balance of government grants:

	2023	2022
Balance at 1 January	141,816,396	147,453,569
Increase in the year	1,082,856	42,676
Released to income	(5,737,590)	(5,679,849)
Balance at 31 December	137,161,662	141,816,396

28. PROVISIONS

	31 December 2023		31 December 2022	
	Current	Non-current	Current	Non-current
Litigation and claims	163,587,549	-	120,354,492	-
Decommissioning	-	746,285,396	-	723,968,467
Tax provisions	-	90,544,424	-	93,120,984
Other provisions	25,385,415	-	36,204,326	-
Total	188,972,964	836,829,820	156,558,818	817,089,451

	Litigation and claims	Decommissioning	Tax provisions	Other provisions	Total
Balance at 1 January 2023	120,354,492	723,968,467	93,120,984	36,204,326	973,648,269
Provisions recognized against property, plant and equipment	-	(3,389,176)	-	-	(3,389,176)
Provisions recognized in profit or loss	43,446,555	-	-	24,127,651	67,574,206
Provisions used	-	-	-	(34,253,701)	(34,253,701)
Provisions reversed	(213,498)	(4,403,599)	(6,409,959)	(692,861)	(11,719,917)
Unwinding of provisions (Note 14)	-	30,109,704	3,833,399	-	33,943,103
Balance at 31 December 2023	163,587,549	746,285,396	90,544,424	25,385,415	1,025,802,784

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	Litigation and claims	Decommissioning	Tax provisions	Other provisions	Total
Balance at 1 January 2022	75,446,608	577,750,934	92,810,037	42,305,664	788,313,243
Provisions recognized against property, plant and equipment	-	(5,297,215)	-	-	(5,297,215)
Provisions recognized in profit or loss	48,173,065	127,083,727	-	35,359,265	210,616,057
Provisions used	(2,771,010)	-	-	(37,203,840)	(39,974,850)
Provisions reversed	(494,171)	(46,700)	(3,457,320)	(4,256,763)	(8,254,954)
Unwinding of provisions (Note 14)	-	24,477,721	3,768,267	-	28,245,988
Balance at 31 December 2022	120,354,492	723,968,467	93,120,984	36,204,326	973,648,269

(i) Provisions for litigation and claims

As at 31 December 2023 and 31 December 2022, provisions for litigations include RON 47,403,996 relating to a litigation started in December 2022 by Hidroconstructia SA, one of the constructors used for Bumbesti-Livezeni investment project. Hidroconstructia requested RON 47,403,996 representing works performed in 2017 and related interest and costs incurred during the period the project was in stand-by due to the annulment of the required construction and environmental authorizations. These costs include security and safety of the project during the stand-by period. Considering the probability of an unfavourable outcome, the Group recognized a provision of RON 47,403,996.

As at 31 December 2023 and 31 December 2022, provisions for litigations include RON 67,618,460 relating to the litigation with the Association of Romelectro SA, Hidroconstructia SA and ISPH Project Development SA (the Association) started in 2013. The subject of the litigation is disputes over the contract signed in 2004 for the Bumbesti-Livezeni investment project. The Association requested RON 88,441,000 representing additional works performed by the Association starting 2010 until the date of commencement of the litigation. Following several rulings and appeals in 2019 the file was sent to retrial. In 2020 the Court requested a technical expert report. Based on the past rulings, the expert report issued on 17 February 2022 and considering the probability of an unfavourable outcome the Group recognized a provision of RON 67,618,460.

In 2023, the Group recognized provisions for litigations of RON 40,115,550 relating to the litigation with Benny Alex SRL. The subject of the litigation is disputes over the value of the additional works performed on the basis of the subcontracting agreement concluded with Hidroserv (the Company's subsidiary) in the amount of RON 40,115,550. On 30 May 2023, the court ruled in favor of the plaintiff BENY ALEX S.R.L and the Company appealed the decision. Considering the court's decision, the Group estimated that an unfavorable outcome is probable and, accordingly, recognized a provision of RON 40,115,550.

(ii) Decommissioning provision

In 2018 and 2019, the management of the Company decided to abandon certain investment projects in progress (Note 22). As a result, the Company recognized decommissioning provisions against profit or loss for the present value of the works estimated to be necessary to abandon those assets. The decommissioning costs were estimated based on studies performed by an external technical expert in 2017, adjusted with inflation or estimated increase in costs in construction and transportation industry.

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Main abandonment costs included in the provision are:

- cost to demolish existing constructions;
- cost to transport the waste materials to the nearest ecological deposit;
- environmental tax, in accordance with the legal requirements;
- cost to deposit the waste at an ecological deposit.

The costs were discounted using discount rates between 4.76% and 7.05% (31 December 2022: between 4.12% and 5.3%), depending on the expected period of decommissioning.

A decommissioning provision of RON 13,782,706 is related to the wind farm. The effects of changes in assumptions underlying the decommissioning costs for the wind farm are recognized against property, plant and equipment.

(iii) Tax provisions

Tax provisions of RON 90,544,424 at 31 December 2023 (31 December 2022: RON 93,120,984) represent the present value of the VAT expected to be paid at the write off of the abandoned investment projects (Note 22).

(iv) Other provisions

	Employee profit sharing	Variable component remuneration for Management and Supervisory Board	Others	Total
Balance at 1 January 2023	20,358,492	14,440,000	1,405,834	36,204,326
Provisions recognized in profit or loss	23,614,403	-	513,248	24,127,651
Provisions used	(20,358,492)	(13,895,209)	-	(34,253,701)
Provisions reversed	-	(544,791)	(148,070)	(692,861)
Balance at 31 December 2023	23,614,403	-	1,771,012	25,385,415
	Employee profit sharing	Variable component remuneration for Management and Supervisory Board	Others	Total
Balance at 1 January 2022	18,427,200	13,789,580	10,088,884	42,305,664
Provisions recognized in profit or loss	20,358,492	14,440,000	560,773	35,359,265
Provisions used	(18,427,200)	(12,681,435)	(6,095,205)	(37,203,840)
Provisions reversed	-	(1,108,145)	(3,148,618)	(4,256,763)
Balance at 31 December 2022	20,358,492	14,440,000	1,405,834	36,204,326

29. FINANCIAL INSTRUMENTS – FAIR VALUES AND RISK MANAGEMENT

(a) Accounting classifications and fair values

In accordance with IFRS 9, the Group's financial assets and liabilities are measured at amortized cost. According to the business model of the Group, financial assets and liabilities are held to collect contractual cash flows and these cash flows are solely payments of principal and interest. The Group did not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

(b) Financial risk management

Credit risk

Credit risk is the risk that the Group will incur a financial loss if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and this risk derives mainly from trade receivables, cash and cash equivalents, and other investments.

Cash and bank deposits are placed in financial institutions that are considered to have high creditworthiness.

Exposure to credit risk

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

	31 December 2023	31 December 2022
Trade receivables	3,047,968,209	1,350,677,128
Cash and cash equivalents	407,634,372	660,734,429
Restricted cash	101,057,471	101,057,471
Investments in corporate bonds and deposits	4,702,879,162	3,386,082,640
Total	8,259,539,214	5,498,551,668

Trade receivables

The Group's exposure to credit risk is mainly influenced by the individual characteristics of each client. The Group has established a credit policy according to which each new business client is analyzed individually from the point of view of creditworthiness before the conclusion of a contract, so that the sale is made to the clients with an adequate creditworthiness. For household clients, such credit risk analysis is not performed due to the nature and volume of the customers. Impairment adjustments of trade receivables reflect the expected credit losses, calculated based on the loss rates.

The increase in trade receivables is the result of delays in the invoicing electricity supplied to end users due to the implementation of new billing and customer relationship systems for supply activity which continued also in 2023, to which are added the frequent regulatory changes with respect of supply prices to end-users and the significant increase in the number of new retail clients. These aspects resulted in material balance of unbilled revenues included in trade receivables of RON 1,229,147,427 at 31 December 2023 (RON 1,116,046,031 at 31 December 2022).

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The following table provides information about the exposure to credit risk and expected credit loss (ECL) for trade receivables as at 31 December 2023:

	Weighted average loss rate	Gross carrying amount	Impairment loss allowance	Net trade receivables
Not past due	2.32%	1,759,281,137	(40,756,007)	1,718,525,130
Past due - from 0 to 3 months	24.80%	229,670,133	(56,960,401)	172,709,732
Past due - from 3 to 6 months	80.61%	37,613,579	(30,318,717)	7,294,862
Past due - from 6 months to 1 year	100.00%	12,880,451	(12,880,451)	-
Past due - more than 1 year	100.00%	97,153,445	(97,153,445)	-
Total		2,136,598,745	(238,069,021)	1,898,529,724
Customers analyzed individually		1,149,438,485	-	1,149,438,485
Total trade receivables		3,286,037,230	(238,069,021)	3,047,968,209

The following table provides information about the exposure to credit risk and expected credit loss (ECL) for trade receivables as at 31 December 2022:

	Weighted average loss rate	Gross carrying amount	Impairment loss allowance	Net trade receivables
Not past due	2.56%	1,016,054,091	(26,050,829)	990,003,262
Past due - from 0 to 3 months	36.40%	39,458,627	(14,363,403)	25,095,224
Past due - from 3 to 6 months	62.78%	13,496,500	(8,473,667)	5,022,833
Past due - from 6 months to 1 year	100.00%	19,035,777	(19,035,777)	-
Past due - more than 1 year	100.00%	90,376,691	(90,376,691)	-
Total		1,178,421,686	(158,300,367)	1,020,121,319
Customers analyzed individually		330,555,809	-	330,555,809
Total trade receivables		1,508,977,495	(158,300,367)	1,350,677,128

Customers analyzed individually represent outstanding amounts from customers for which the Group believes that there is a negligible risk to collect.

Loss rates estimated for 2023 are based on the actual credit loss experienced over the past six quarters considering the evolution of the supply segment and the delays in invoicing the electricity supplied (31 December 2022: five years).

The Group has guarantees received from customers of RON 444,550,561 at 31 December 2023 (RON 907,555,320 at 31 December 2022). These are guarantees for payment in the form of bank letters of guarantee received in relation to electricity sales contracts. The decrease of guarantees received from customers is due to the implementation of the market for centralised acquisition mechanism of electricity. Transactions on this market are made through OPCOM as intermediary, meaning that the Group concluded one wholesale contract with OPCOM, thus the number of wholesale contracts decreased in 2023.

Liquidity risk

Liquidity risk represents the risk that the Group may have difficulties in meeting the obligations associated with financial liabilities settled by transfer of cash or another financial asset. The Group has significant cash and cash equivalents and short-term investments, therefore it does not face significant liquidity risk.

The Group monitors the level of cash inflows forecasted from collection of trade receivables, as well as the level of cash outflows forecasted for the payment of loans, trade and other payables. The Group aims to maintain a level of current bank accounts and bank deposits that exceeds the cash outflows forecasted for the payment of financial liabilities.

Exposure to liquidity risk

The following table shows the remaining contractual maturities of financial liabilities at the reporting date. The contractual cash flows are presented gross and undiscounted, and include estimated contractual interest payments.

	Contractual cash flows				
	Carrying amount	Total	< 12 months	1 - 5 Years	> 5 years
31 December 2023					
Financial liabilities					
Trade payables	407,719,342	407,719,342	407,612,242	107,100	-
Bank borrowings	393,534,741	430,008,791	107,558,925	322,449,866	-
Lease liabilities	66,300,971	90,166,814	9,163,219	35,779,365	45,224,230
Total	867,555,054	927,894,947	524,334,386	358,336,331	45,224,230

	Contractual cash flows				
	Carrying amount	Total	< 12 months	1 - 5 Years	> 5 years
31 December 2022					
Financial liabilities					
Trade payables	283,424,152	283,424,152	282,995,752	428,400	-
Bank borrowings	484,492,118	513,201,029	103,301,991	386,802,560	23,096,478
Lease liabilities	15,401,105	17,882,907	8,301,354	4,677,236	4,904,317
Total	783,317,375	814,508,088	394,599,097	391,908,196	28,000,795

Market risk

Market risk is the risk that changes in market prices – foreign exchange rate and interest rate – will affect the Group's profit or the value of the financial instruments held. The objective of market risk management is to control market risk exposures within acceptable parameters, while optimizing the return.

(i) *Interest rate risk*

The Group has long-term bank borrowings with variable interest rates, which may expose the Group to interest rate risk.

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	31 December 2023	31 December 2022
Fixed-rate instruments		
<i>Financial assets</i>		
Restricted cash	101,057,471	101,057,471
Investments in corporate bonds and deposits	4,702,879,162	3,386,082,640
Total	4,803,936,633	3,487,140,111
<i>Financial liabilities</i>		
Lease liabilities	(66,300,971)	(15,401,105)
Total	(66,300,971)	(15,401,105)
Variable-rate instruments		
<i>Financial liabilities</i>		
Bank borrowings	(393,534,741)	(484,492,118)
Total	(393,534,741)	(484,492,118)

Fair value sensitivity analysis of fixed-rate instruments

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

Cash flow sensitivity analysis of variable-rate instruments

A reasonably possible change of 50 basis points in interest rates at the reporting date would have increased (decreased) the profit before tax by the amounts shown below. This analysis assumes that all other variables, in particular currency exchange rates, remain constant.

	Increase/ (decrease) of	
	Profit before tax	
	50 bp increase	50 bp decrease
2023		
Variable-rate instruments	(1,967,674)	1,967,674
2022		
Variable-rate instruments	(2,422,461)	2,422,461

(ii) Currency risk

The Group is exposed to transactional foreign currency risk to the extent that there is mismatch between the currencies in which sales, purchases, receivables and borrowings are denominated and the respective functional currencies of Group companies. The functional currency of the Group is the Romanian Leu (RON).

The currency in which these transactions are primarily denominated are RON. Certain liabilities are denominated in foreign currencies as EUR and USD. The Group's risk management policy is to primarily use the local currency. The Group does not use derivative instruments or hedging instruments.

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	31 December 2023		
	- RON equivalent of the currency-		
	EUR	USD	CHF
Trade receivables	221,340	-	-
Investments in corporate bonds and deposits	353,397,310	-	-
Cash and cash equivalents	27,585,161	203,308	2,553
Trade payables	(4,336,627)	(160,093)	-
Bank borrowings	(393,534,741)		-
Lease liabilities	(66,162,956)		-
Net statement of financial position exposure	(82,830,513)	43,215	2,553

	31 December 2022		
	- RON equivalent of the currency -		
	EUR	USD	CHF
Trade receivables	221,340	-	-
Investments in corporate bonds and deposits	351,337,578	-	-
Cash and cash equivalents	4,020,191	227,954	2,392
Trade payables	(3,970,908)	-	-
Bank borrowings	(483,013,242)	-	-
Lease liabilities	(13,585,357)	-	-
Net statement of financial position exposure	(144,990,398)	227,954	2,392

The following exchange rates have been applied:

	31 December 2023	31 December 2022
RON / EUR	4.9746	4.9474
RON / USD	4.4958	4.6346
RON / CHF	5.3666	5.0289

Sensitivity analysis

A 5% appreciation of the Romanian leu (RON) against all other foreign currencies as at 31 December would have affected the profit before tax by the amounts shown below. This analysis assumes that all other variables remain constant.

	Increase/(decrease) of Profit before tax 2023 (RON)	Increase/(decrease) of Profit before tax 2022 (RON)
EUR	4,141,526	7,249,520
USD	(2,161)	(11,398)
CHF	(128)	(120)
Total	4,139,237	7,238,002

A 5% depreciation of the Romanian leu (RON) against all other foreign currencies as at 31 December would have affected the profit before tax by the amounts shown below. This analysis assumes that all other variables remain constant.

	Increase/(decrease) of Profit before tax 2023 (RON)	Increase/(decrease) of Profit before tax 2022 (RON)
EUR	(4.141.526)	(7.249.520)
USD	2.161	11.398
CHF	128	120
Total	(4.139.237)	(7.238.002)

30. COMMITMENTS

30.1 Contractual commitments

The Group has the following contractual commitments:

	31 December 2023	31 December 2022
Acquisition of property, plant and equipment and intangible assets	565,361,076	545,183,945

30.2 Guarantees

The Group issued good performance guarantees of RON 32,884,753 at 31 December 2023 (31 December 2022: RON 35,213,329) mainly in relation to its obligations to deliver electricity, and in relation to its payment obligations related to electricity purchase transactions on the day-ahead and intra-day markets.

31. CONTINGENCIES

31.1 Litigation, claims and tax uncertainties

The main litigations involving the Group, with a potential exposure of RON 467,804,503 as at 31 December 2023 (31 December 2022: RON 882,864,241), are disclosed as contingent liabilities:

a) Litigation with Ministry of Energy

Potential exposure: RON 373,049,729 as at 31 December 2022 (nil as at 31 December 2023)

Plaintiff: Ministry of Energy

File no. 3200/2/2018

Subject-matter: Claims arising from concession agreement no.171/2004

The Ministry of Energy claims the following:

1. enforcing the Company to consent to conclude an addendum to the concession agreement as follows:
 - a) the Ministry of Energy, as grantor, to be able to change the royalty discretionary; and
 - b) the annual royalty to be changed to an amount equal to the annual depreciation of property, plant and equipment subject to royalty as per the concession agreement.
2. The Ministry of Energy also claims RON 373,049,729 representing additional royalties for the period 2013 – 2018 computed as described in 1b) above.

The Court appointed an expert to determine the amount payable by the Group, if any. The court also approved an expert engaged by the Group. Both experts concluded that the royalty calculated and paid by the Group for the period 2013 - 2018 was in accordance with the provisions of the concession agreement and is accurate and complete.

On 11 May 2021, the first Court rejected the claims of the Ministry of Energy as groundless. During 2022, the Ministry of Energy appealed the Court decision.

On 14 February 2024, the Court declares null the appeal filed by the Ministry of Energy, the decision is final.

b) Litigations with Tax authorities regarding past tax treatments

Potential exposure: RON 214,385,212 as at 31 December 2023 and 2022

Plaintiff: Hidroelectrica

Subject: Annulment of the Decision on settling the preliminary tax appeal no. 406/18.12.2014 and annulment of Tax Decision no. F-MC 851/21.01.2014

The Company was subject to a general tax inspection covering the period 01.01.2006-30.06.2012 concluded with several tax decisions issued by ANAF in 2014, which imposed additional taxes of RON 214,385,212, which includes mainly income tax of RON 26,512,680 and related late payment interest and penalties of RON 119,447,934, value added tax of RON 37,676,955 and related late payments interest and penalties of RON 27,339,597. The Company filed a complaint in Court in 2015 requesting the cancellation of the tax decisions.

In 2021 the experts appointed by the Court issued their report, which concluded that ANAF is entitled to receive RON 510,872 plus interest and penalties. ANAF objected to the experts' report. In February 2023, the independent experts submitted the updated report containing responses to the ANAF's objections. In the updated report, the experts concluded that ANAF is entitled to receive RON 987,218.

On 7 April 2023 the Court of Appeal pronounced the sentence through which ANAF tax decision regarding to the Company's additional payment obligations of 214,385,212 was cancelled. The decision was appealed by ANAF, next term being 2 April 2024.

Based on the final decision of the Bucharest Court of Appeal in the Company's insolvency file according to which ANAF is deprived of the right to request payment of the tax obligations imposed by the tax decisions, and based on the experts' report which is favorable to the Group, as well as the Court of Appeal ruling from 7 April 2023, management estimates that the litigation will be ruled in the Group's favor, and consequently an outflow of resources is not probable.

c) Litigation with Tax authorities

Potential exposure: RON 63,612,328 as at 31 December 2023 (RON 62,052,115 as at 31 December 2022)

Plaintiff: Hidroelectrica

File no. 638/2/2024

Subject matter: Annulment of Tax Decision No. A-DAF 6890/11.05.2023

Tax for electricity producers was subject to multiple changes with respect to the method of computation during 2022. The latest change was instated through Law no. 357/2022, which was published on 16 December 2022. The Company applied the provisions of the law starting with 16 December 2022.

As previously mentioned in Note 12 D, the Company was subject to a tax control by the General Antifraud Division of ANAF on the tax for electricity producers. As per the control report on 11 April 2023, the tax authorities applied the changes introduced by the law retroactively starting 1 September 2022, and therefore computed additional tax of RON 62,052,115.

On 28 April 2023 the Company received the imposing decision for the amount of RON 62,052,115. The Group challenged the imposing decision within the procedural term, the challenge being rejected by the General Division for Solving Disputes within the Finance Ministry.

The Company argued in its Court application that successive changes of legislation regarding the calculation methodology of the tax for electricity producers can only be applicable for the future, starting with the date of publication of legislative amendments and not retroactively, as tax authorities considered.

On 7 August 2023 the Company received a decision regarding interest and penalties in the amount of RON 1,560,213 related to the previously mentioned imposing decision. The Group challenged the decision within the procedural term. The decision will be the object of a new litigation if the challenge will be rejected.

Management estimates that the litigation will be ruled in the Group's favor, and consequently an outflow of resources is not probable.

d) Litigation with Hidroconstructia SA

Potential exposure: RON 98,762,431 as at 31 December 2023 and 2022

Plaintiff: Hidroconstructia SA

File no. 12257/3/2022

Subject-matter: Termination of Contract no. 672/1989 regarding the Fagaras-Hoghiz investment project; claims

Hidroconstructia SA filed claims to recover RON 98,762,431 consisting of unrealized profits as a result of the suspension by Hidroelectrica of the construction works related to the Fagaras Hoghiz investment project. Also, Hidroconstructia requested the court to enforce the termination of the underlying contract.

In January 2023, the Court ruled in favor of the Company, rejecting Hidroconstructia's claims. The decision was appealed by Hidroconstructia.

On 12 October 2023, the Court of Appeal set aside the first Court ruling and granted a new hearing on the merits. On 14 December 2023, the Court requested an expertise report, next term being 4 April 2024.

Based on the legal analysis of the Hidroconstructia claims, the management considers the statement of claims as unsubstantiated. Considering the above, management estimates that the litigation will be ruled in favor of the Group and consequently an outflow of resources is not probable.

e) Litigation with Hidroconstructia SA

Potential exposure: RON 32,831,841 as at 31 December 2023 and 2022

Plaintiff: Hidroconstructia SA

Files no. 44443/3/2016 and 11314/3/2021

Subject-matter: Claims - the equivalent value of the costs generated by the cessation of construction works related to investment projects in progress.

Hidroconstructia SA claims the costs generated by the suspension of construction works rendered before the Company's insolvency. The Group argues that such claims have no grounds considering the insolvency process of Hidroelectrica and the fact that the claimant lost its right to claims as it failed to register the claim in the table of creditors.

In March 2018 the first Court rejected the claims of Hidroconstructia SA. This ruling was contested by Hidroconstructia SA. The Group also contested the ruling, as it provided for legal fees for Hidroelectrica.

In April 2019 the Court of appeal sent the case back to the first court for reexamination. The dispute was reopened by the first Court (file no. 11314/3/2021).

In April 2022, the Court requested an expertise report in hydrotechnical constructions and an accounting expertise report to be performed by independent experts. Currently, the expert report is being drafted, next term being 2 April 2024.

Based on the initial first Court ruling, management estimates that the litigation will be ruled in favor of the Group and consequently an outflow of resources is not probable.

f) Litigation with Hidroconstructia SA

Potential exposure: RON 28,962,708 as at 31 December 2023 and 2022

Plaintiff: Hidroconstructia SA

File no. 31451/3/2020

Subject-matter: Claims - commercial discounts granted to the Group during 2014 – 2019 for construction works related to the Siriu-Surduc investment project

Hidroconstructia SA filed claims in the amount of RON 28,962,708 representing discounts granted during 2014 – 2019 to the Group for construction of AHE Siriu-Surduc project, as well as indexation of the price of workings performed during the respective period.

As per contract between the parties, Hidroconstructia granted discounts to Hidroelectrica and agreed to maintain the prices flat as long as Hidroelectrica will ensure the financing of the project.

Hidroconstructia claims that Hidroelectrica failed to ensure the financing of the project and is entitled to recover the discounts granted.

In September 2022, the independent expert issued a report establishing a potential liability between RON 8,904,033 and RON 31,157,557. The independent expert did not analyse if the Group failed or not to finance the project.

On 10 April 2023, the Court rejected Hidroconstructia claims. The decision was challenged by Hidroconstructia.

On 26 October 2023 the Court rejected the appeal filed by Hidroconstructia as unfounded. The decision was challenged by Hidroconstructia, no term being settled yet.

Considering that the Group does not have a liability to Hidroconstructia in respect of the works made during 2014 – 2019 for AHE Siriu – Surduc project, the management assesses that the condition to ensure the financing of the project were met by Hidroelectrica and estimates that the litigation will be ruled in favor of the Group and consequently an outflow of resources is not probable.

g) Arbitration with Romelectro S.A.

Potential exposure: RON 29,249,983 as at 31 December 2023 and 2022

Plaintiff: Romelectro S.A.

File no. 8/2021, currently File no. 30/2022

Subject-matter: Claims arising from the construction contract related to the refurbishment of Stejaru hydroelectric power plant.

Hidroelectrica filed an arbitration request for RON 78.7 million representing penalties for delayed works and related interest, plus legal expenses in relation to the Retehnologizare Stejaru investment project.

Romelectro made its counterclaims of EUR 8,868,289, equivalent of RON 43,881,181, plus related interest, VAT and legal expenses. The claims refer mainly to costs incurred and lost profit by Romelectro due to delays in execution of the contract generated by Hidroelectrica.

During 2022, due to insolvency of Romelectro, Hidroelectrica requests for RON 78.7 million was terminated, as Hidroelectrica will be entitled to requests these amounts in the insolvency procedure.

Following the termination of Hidroelectrica request, file no. 30/2022 was constituted, containing only Romelectro claims.

During 2022, Romelectro adjusted their initial claims and requested only EUR 5,912,193, the equivalent of RON 29,249,983, plus VAT and legal expenses. The claims mainly refer to the counter value of the costs borne by Romelectro, generated by delays attributable to Hidroelectrica, such as site organization costs, personnel costs, finance costs.

In November 2022, the Arbitration Court requested a financial and accounting analysis to be performed by an independent expert. Currently, the expert report is being drafted, next arbitration term being 11 April 2024.

Based on the legal analysis of the contract between the parties and the documents related to the project, the Group argues that the delays in the execution of the project are not attributable to Hidroelectrica, but to Romelectro, which constantly proposed technical solutions that were not in conformity with the contract.

Based on the above, management estimates that the litigation will be ruled in favor of the Group and consequently an outflow of resources is not probable.

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

Potential exposure: RON 43,570,222 as at 31 December 2022 (provisioned at December 2023)

Plaintiff: Beny Alex SRL

File no. 36646/3/2018*

Subject-matter: Claims - the value of additional works performed under the subcontracting agreement concluded with Hidroserv (Company's subsidiary).

Beny Alex SRL claims the amount of additional works performed based on the subcontracting agreement concluded with Hidroserv (the Company's subsidiary). The first Court overruled the claim on the grounds of prescription of the material right of action. In 2020 Benny Alex appealed to this ruling. The appeal was approved

by the Court of judicial control, which fully cancelled the initial Court ruling and resent the case to the first Court for reexamination.

In December 2022, an independent expertise report was finalized. Based on the expert report the value of the additional works performed is RON 40,115,550. Hidroelectrica submitted objections to the report.

On 30 May 2023, the court ruled in favor of the plaintiff BENY ALEX S.R.L, the Company appealed the decision.

Considering the court's decision, the Group estimated that an unfavorable outcome is probable and, accordingly, recognized a provision of RON 40,115,550 in 2023 (Note 28).

31.2 Fiscal environment

Tax audits are frequent in Romania, consisting of thorough verifications of taxpayers' accounting records. Such audits sometimes take place months or even years after the establishment of the tax liabilities. Consequently, companies may be found liable for significant taxes and fines. In addition, the tax legislation is subject to frequent changes, and the authorities often show inconsistency in the interpretation of law.

Tax returns may be subject to revision and corrections by the tax authorities, generally for a five years period after they are filed with the tax authorities.

Romanian tax authorities carried out tax audits on Hidroelectrica's income tax and value added tax until 20 June 2012, while on Hidroserv's income tax until 31 December 2014.

Management believes that adequate provisions have been recognised in the consolidated financial statements for all significant tax liabilities; however, a risk persists that tax authorities might have different views.

31.3 Decommissioning obligations

As described in Note 5 a4), the Group identified decommissioning obligations in relation to its hydro-power facilities. Management estimates that, except for the assets abandoned or switched to post-utilisation upon management decisions, and except for its wind farm, for which decommissioning provisions are recognised (see Note 28), the occurrence of events that would require abandonment or switching to post-utilisation of other assets in the public domain or hydro-power plants owned by the Group by the end of the concession contract (30 years from 31 December 2023) is unlikely, considering the long useful life of dams, which can be significantly extended over 100 years by maintenance and improvements.

32. RELATED PARTIES

a) Ultimate controlling party

The Company's ultimate controlling party is the Romanian State, represented by the Ministry of Energy, with a shareholding of 80.0561%.

b) Transaction with key management personnel

Key management personnel include the members of the Management Board and Supervisory Board.

S.P.E.E.H. HIDROELECTRICA S.A. Two-tier system Company
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Management Board remuneration	2023	2022
Expenses recognized during the year		
Fixed component	3,524,227	2,342,301
Variable component accrual	-	8,201,340
Reversal of overaccrual of the previous year	(116,186)	-
Total	3,408,041	10,543,641
Payments made in the year	2023	2022
Fixed component	3,524,227	2,342,301
Variable component (for the previous year)	8,085,154	8,201,340
Total	11,609,381	10,543,641

The Management Board include 5 directors appointed for 4 years.

Remuneration of executive directors consists of a fixed monthly salary limited to six times the average monthly gross salary for the last 12 months prior to appointment published by National Institute of Statistics (INS) for the Company's activity code (CAEN) according to the classification of activities in the national economy, and a variable component calculated on the basis of the financial and non-financial performance indicators, negotiated and approved by the general meeting of shareholders. Due to the change in Management Board in 2023 and the performance indicators not being approved, there is no variable remuneration to be paid for the year 2023.

The Company accrued RON 8,201,340 at 31 December 2022 for the variable component of the Management Board remuneration for the year 2022.

The variable component of the remuneration of the Management Board paid in 2023 for the previous year, approved by shareholders decision in 2019 was limited to 3.5 times the monthly fixed component. The maximum amount of the variable component for all the executive directors was RON 8,201,340. The variable component is not subject to future service conditions.

The financial and non-financial performance indicators based on which the variable remuneration was determined include:

- Financial indicators: Revenues, adjusted EBITDA rate, Gross profit, Liquidity (current ratio), Indebtedness (debt ratio); outstanding payments to the State budget;
- Operating indicators: percentage of completeness of investment plan, percentage of completeness of maintenance plan, powerplants availability;
- Services indicators: degree of realization of system services and obligations regarding supply/sale of electricity;
- Corporate governance indicators: timely preparation of the revenues and expenses budget; establishment of policies for risk management and control and implementation of the internal control system.

The Company has no contractual obligations related to pensions to its former directors.

Supervisory Board remuneration

	2023	2022
Expenses recognized during the year		
Fixed component	1,209,660	889,920
Variable component accrual	-	1,038,240
Reversal of overaccual of the previous year	(154,728)	(148,320)
Total	1,054,932	1,779,840
Payments made in the year	2023	2022
Fixed component	1,209,660	889,920
Variable component (for the previous year)	883,512	889,920
Total	2,093,172	1,779,840

The Supervisory Board consists of 7 members appointed for 4 years.

Remuneration of the members of the Supervisory Board was approved by shareholders decision in 2023. According to this decision, the remuneration of the Supervisory Board members consists of a monthly fixed salary, limited to two times the average monthly gross salary for the last 12 months prior to appointment published by National Institute of Statistics for the Company's activity code (CAEN) according to the classification of activities in the national economy. The variable component is limited to 12 fixed monthly salaries, calculated on the basis of the financial and non-financial performance indicators, negotiated and approved by the general meeting of shareholders. Due to the change in Supervisory Board in 2023 and the performance indicators not being approved, there is no variable remuneration to be paid for the year 2023.

The Group accrued RON 1,038,240 at 31 December 2022 for the variable component of the Supervisory Board.

The financial and non-financial indicators based on which the variable remuneration for the members of the Supervisory Board was determined were the same as for the Management Board.

There were no loans granted to the members of Supervisory Board or Management Board in 2023 and 2022. No guarantees were granted / received to / from the members of Supervisory Board or Management Board.

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

In the normal course of business, the Group has transactions with other entities in which the State has control or significant influence, mainly related to the tax on industrial water, the purchase of electricity, transport and system services and sales of electricity, as follows:

	Purchases (without VAT) 2023	Payables (including VAT) 31 December 2023
Administratia Nationala Apele Romane	617,639,749	103,242,080
Transelectrica (Romanian Electricity System Operator)	444,638,803	85,459,333
OPCOM (Romanian Electricity Market Operator)	3,674,762	273,649
SN Nuclearelectrica SA	398,635,878	26
Distributie Energie Electrica Romania	292,844,864	32,845,603
Others	23,434,245	2,726,242
Total	1,780,868,301	224,546,933

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	Purchases (without VAT) 2022	Payables (including VAT) 31 December 2022
Administratia Nationala Apele Romane	436,699,613	78,624,520
Transelectrica (Romanian Electricity System Operator)	452,299,058	70,416,691
OPCOM (Romanian Electricity Market Operator)	368,244,567	85,101
SN Nuclearelectrica SA	185,197,320	(41,256,000)
Distributie Energie Electrica Romania	111,807,089	14,901,762
Others	17,441,590	1,564,145
Total	1,571,689,237	124,336,219

Client	Sales (without VAT)	Receivables Gross Carrying amount (including VAT)	Impairment loss	Receivables Net Carrying amount (including VAT)
	2023	31 December 2023		
Transelectrica (Romanian Electricity System Operator)	1,275,342,188	296,708,944	-	296,708,944
OPCOM (Romanian Electricity Market Operator)	4,505,118,629	177,885,270	-	177,885,270
Rompetro Rafinare	364,066,499	66,926,568	-	66,926,568
E.ON Energie Romania	86,992,845	7,389,817	-	7,389,817
S.N.G.N Romgaz SA	82,527,917	4,721,574	-	4,721,574
Raja SA	82,942,066	19,482,870	-	19,482,870
Engie Romania	51,476,514	5,230,692	-	5,230,692
SN Radiocomunicatii SA	39,559,069	19,769,563	-	19,769,563
Electrica Furnizare	25,627,244	-	-	-
Distributie Energie Electrica Romania	19,003,382	37,419	-	37,419
Others	314,866,101	206,846,637	(23,232,332)	183,614,305
Total	6,847,522,453	804,999,353	(23,232,332)	781,767,022

Client	Sales (without VAT)	Receivables Gross Carrying amount (including VAT)	Impairment loss	Receivables Net Carrying amount (including VAT)
	2022	31 December 2022		
Transelectrica (Romanian Electricity System Operator)	2,063,761,429	276,207,597	-	276,207,597
Electrica Furnizare	518,952,098	42,419,801	-	42,419,801
OPCOM (Romanian Electricity Market Operator)	1,233,993,237	2,821,403	-	2,821,403
E ON Energie Romania	305,686,480	27,342,582	-	27,342,582
Engie Romania	143,876,855	6,539,452	-	6,539,452
CET Brasov	-	18,724,742	(18,724,742)	-
Distributie Energie Electrica Romania	78,198,279	73,017	(15,537)	57,480
Romaero	3,438,919	7,502,387	(7,502,387)	-
Metrorex	7,753,332	8,024,313	(7,818,843)	205,470
Others	178,242,918	155,019,284	(15,670,823)	139,348,461
Total	4,533,903,547	544,674,578	(49,732,332)	494,942,246

Other customers include mainly public institutions, local authorities and public educational institutions to which the Company supplied electricity in 2023 and 2022.

Balance

Bank	Bank account	Bank deposits	Corporate bonds	Bank account	Bank deposits	Corporate bonds
	31 December 2023			31 December 2022		
Exim Bank (Banca Romaneasca)	4,190,642	932,056,000	-	3,583,645	1,408,665,437	-
CEC Bank	30,530,110	1,105,538,630	353,397,310	11,817,952	1,019,508,822	351,336,578
Total	34,720,752	2,037,594,630	353,397,310	15,401,597	2,428,174,259	351,336,578

Transactions

Bank	Bank deposits placed	Interest income	Bank deposits placed	Interest income
	2023		2022	
Exim Bank (Banca Romaneasca)	4,500,000,000	77,114,159	2,592,800,000	38,029,223
CEC Bank	1,901,993,894	24,758,350	4,549,300,768	45,252,748
Total	6,401,993,894	101,872,509	7,142,100,768	83,281,971

33. SUBSEQUENT EVENTS

Global minimum top-up tax

Following the implementation of the Minimum Tax Directive (EU Directive no. 2022/2523 on ensuring a global minimum level of taxation for multinational enterprise groups and large-scale domestic groups in the European Union ("Pillar Two"), on 5 January 2024 the Law no. 431/2023 regarding the global minimum top-up tax for multinational groups and large scale domestic groups was published in the Romanian Official Gazette. The Law no. 431/2023 applies to large groups of companies, both national and multinational, with a consolidated turnover (at group level) of at least 750 million euros in at least two of the four years preceding the reference year. The law creates a system through which starting with financial year 2024 an additional amount of tax (a "top-up tax") should be collected each time that the effective tax rate of a national or multinational enterprises group or in a given jurisdiction is below 15%.

Under the requirements of Law no. 431/2023, the Group qualifies as a large-scale domestic group, however if the Law no. 431/2023 were to be applied for the year ended 31 December 2023, no top-up tax should have been paid by the Group as the adjusted effective tax rate is above 15%.

Acquisition of UCM Resita business lines

On 22 February 2023, the Company was declared winner of the sales procedure of business lines ABC and Calnicel platform, which are the property of UCM Resita SA.

In January 2024, the Company set-up a new subsidiary, Uzina de Construcții Mașini Hidroenergetice S.R.L., through which it will take-over the business from U.C.M. Reșița S.A.. The object of activity of the new subsidiary will be manufacturing of engines and turbines (code CAEN 2811). The Company contributed with RON 119,650,000 to share capital of the newly formed subsidiary.

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On 22 January 2024 Extraordinary shareholders meeting (“EMGS”) approved the transaction and transaction documents regarding the acquisition of the business from U.C.M. Reșița S.A.

The transaction was completed following the fulfillment of the conditions precedent on 11 March 2024. The total price for the transfer of ownership rights over the business is RON 68,879,000.

The following table summarizes the amounts of assets acquired. The Company did not acquire liabilities.

Property, plant and equipment	<u>69,007,096</u>
Book value of Net assets acquired	<u>69,007,096</u>
Consideration transferred	<u>67,879,000</u>
Preliminary gain on bargain purchase (based on information available at the date of financial statements)	<u>1,128,096</u>

Karoly BORBELY Chairman of the Management Board	Bogdan-Nicolae BADEA Member of the Management Board	Radu Ioan CONSTANTIN Member of the Management Board	Marian FETIȚA Member of the Management Board	Ianăș RĂDOI Member of the Management Board
Petronel CHIRIAC Financial Director			Gabriela VASILESCU Accounting Manager	

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



SEPARATE FINANCIAL STATEMENTS
for the year ended
31 December 2023

Prepared in accordance with Order of Minister of Public Finance no. 2844/2016
and subsequent amendments

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

SEPARATE STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2023

(All amounts are in RON, unless otherwise stated)

	<u>Note</u>	<u>31 December 2023</u>	<u>31 December 2022</u>
Assets			
Non-current assets			
Property, plant and equipment	22	20,323,614,834	19,428,474,543
Intangible assets		38,719,164	40,762,795
Investments in subsidiaries	23	70,576,810	64,102,795
Restricted cash	18	-	101,057,471
Investments in corporate bonds	19	353,397,310	351,337,578
Other non-current assets	21	280,530,287	216,917,059
Total non-current assets		<u>21,066,838,405</u>	<u>20,202,652,241</u>
Current assets			
Inventories		60,797,743	63,746,005
Trade receivables	20	3,047,389,154	1,347,640,635
Investments in deposits	19	4,349,481,852	3,034,745,062
Cash and cash equivalents	18	378,289,740	641,705,886
Restricted cash	18	101,057,471	-
Other current assets	21	60,839,182	113,254,960
Total current assets		<u>7,997,855,142</u>	<u>5,201,092,548</u>
Total assets		<u>29,064,693,547</u>	<u>25,403,744,789</u>
Equity and liabilities			
Equity			
Share capital	24	4,498,025,670	4,484,594,820
Inflation adjustments to share capital	24	1,028,872,000	1,028,872,000
Public patrimony		45,324,243	45,324,243
Revaluation reserve	24	12,047,813,106	11,065,836,447
Other reserves	24	1,017,729,953	1,017,729,953
Retained earnings		6,399,236,025	3,983,955,768
Total equity		<u>25,037,000,997</u>	<u>21,626,313,231</u>
Liabilities			
Non-current liabilities			
Bank borrowings	25	300,252,643	390,491,214
Lease liabilities		61,255,105	7,566,923
Deferred income	28	131,224,667	135,910,503
Deferred tax liabilities	17	1,498,276,380	1,315,778,268
Employee benefits	16	120,696,563	115,249,389
Provisions	29	836,829,820	817,089,451
Trade payables	26	107,100	428,400
Other payables	27	7,330,367	5,487,927
Total non-current liabilities		<u>2,955,972,645</u>	<u>2,788,002,075</u>

(continued on page 2)

S.P.E.E.H. HIDROELECTRICA S.A. Two-tier system Company**SEPARATE STATEMENT OF FINANCIAL POSITION**

AS AT 31 DECEMBER 2023

(All amounts are in RON, unless otherwise stated)

		31 December 2023	31 December 2022
Current liabilities	Note		
Bank borrowings	25	93,282,098	92,522,027
Lease liabilities		5,045,866	7,834,182
Trade payables	26	426,657,720	297,780,494
Contract liabilities	11	41,719,807	84,684,492
Current tax liabilities	17	145,413,034	171,977,933
Deferred income	28	5,722,889	5,695,853
Employee benefits	16	62,245,437	55,925,747
Provisions	29	187,177,942	155,274,254
Tax for electricity producers	13D	876,904	91,370,195
Other payables	27	103,578,208	26,364,306
Total current liabilities		1,071,719,905	989,429,483
Total liabilities		4,027,692,550	3,777,431,558
Total equity and liabilities		29,064,693,547	25,403,744,789

The accompanying notes are an integral part of these separate financial statements.

Karoly BORBELY Chairman of the Management Board	Bogdan-Nicolae BADEA Member of the Management Board	Radu Ioan CONSTANTIN Member of the Management Board	Marian FETIȚA Member of the Management Board	Ianăș RĂDOI Member of the Management Board
Petronel CHIRIAC Financial Director			Gabriela VASILESCU Accounting Manager	

S.P.E.E.H. HIDROELECTRICA S.A. Two-tier system Company
SEPARATE STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2023
(All amounts are in RON, unless otherwise stated)

	<u>Note</u>	<u>2023</u>	<u>2022</u>
Revenue	11	12,159,373,344	9,212,111,226
Other income	12	34,291,266	65,783,052
Turbined water	13A	(639,205,702)	(450,963,376)
Employee benefits expenses	16	(604,962,842)	(513,920,576)
Transport and distribution of electricity	13C	(1,207,650,147)	(497,411,431)
Electricity purchased	13B	(456,162,844)	(740,450,064)
Green certificates expenses		(296,806,263)	(164,301,855)
Depreciation and amortization	22	(795,353,429)	(740,852,601)
Impairment loss on property, plant and equipment	22	(235,752,798)	(145,862,852)
Impairment loss on trade receivables	20	(79,782,093)	(43,153,771)
Repair, maintenance, materials and consumables		(246,000,938)	(198,257,444)
Tax for electricity producers	13D	(225,159,036)	(557,085,679)
Other operating expenses	13E	(228,833,097)	(323,473,780)
Operating profit		<u>7,177,995,421</u>	<u>4,902,160,849</u>
Finance income	14	324,934,198	270,532,167
Finance costs	14	(59,981,056)	(36,708,865)
Net finance result		<u>264,953,142</u>	<u>233,823,302</u>
Profit before tax		<u>7,442,948,563</u>	<u>5,135,984,151</u>
Income tax expense	17	(1,090,622,033)	(741,605,946)
Profit for the year		<u>6,352,326,530</u>	<u>4,394,378,205</u>
Earnings per share			
Basic and diluted earnings per share (RON)	15	<u>14.14</u>	<u>9.80</u>
Other comprehensive income			
Revaluation of property, plant and equipment, net of tax		1,397,705,724	1,777,822,246
Remeasurement of defined benefit liabilities, net of tax		(3,386,566)	(7,387,406)
Other comprehensive income		<u>1,394,319,158</u>	<u>1,770,434,840</u>
Total comprehensive income		<u>7,746,645,688</u>	<u>6,164,813,045</u>

The accompanying notes are an integral part of these separate financial statements.

Karoly BORBELY Chairman of the Management Board	Bogdan-Nicolae BADEA Member of the Management Board	Radu Ioan CONSTANTIN Member of the Management Board	Marian FETIȚA Member of the Management Board	Ianăș RĂDOI Member of the Management Board
Petronel CHIRIAC Financial Director			Gabriela VASILESCU Accounting Manager	

S.P.E.E.H. HIDROELECTRICA S.A. Two-tier system Company
SEPARATE STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2023
(All amounts are in RON, unless otherwise specified)

	Share capital	Inflation adjustments to share capital	Share capital-not issued	Public patrimony	Revaluation reserve	Other reserves	Retained earnings	Total equity
Balance at 1 January 2022	4,484,474,670	1,028,872,000	120,150	45,324,243	9,654,525,446	953,988,722	2,985,601,103	19,152,906,334
Total comprehensive income for the year								
Profit of the year	-	-	-	-	-	-	4,394,378,205	4,394,378,205
Other comprehensive income for the year								
Revaluation of property, plant and equipment, net of tax (Note 22,24)	-	-	-	-	1,777,822,246	-	-	1,777,822,246
Remeasurement of defined benefit liabilities, net of tax	-	-	-	-	-	-	(7,387,406)	(7,387,405)
Total other comprehensive income for the year	-	-	-	-	1,777,822,246	-	(7,387,406)	1,770,434,840
Total comprehensive income for the year	-	-	-	-	1,777,822,246	-	4,386,990,799	6,164,813,045
Transactions with owners of the Company								
Contributions and distributions								
Dividends (Note 24)	-	-	-	-	-	-	(3,830,945,832)	(3,830,945,832)
Issuance of ordinary shares (Note 24)	120,150	-	(120,150)	-	-	-	-	-
Total transactions with owners of the Company	120,150	-	(120,150)	-	-	-	(3,830,945,832)	(3,830,945,832)
Other changes in shareholders' equity								
Set up of legal reserves	-	-	-	-	-	63,741,231	(63,741,231)	-
Transfer of revaluation reserve to retained earnings due to depreciation and disposals of property, plant and equipment	-	-	-	-	(366,511,245)	-	366,511,245	-
Merger effect	-	-	-	-	-	-	139,539,683	139,539,683
Balance at 31 December 2022	4,484,594,820	1,028,872,000	-	45,324,243	11,065,836,447	1,017,729,953	3,983,955,768	21,626,313,231

(continued on page 5)

S.P.E.E.H. HIDROELECTRICA S.A. Two-tier system Company
SEPARATE STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2023
(All amounts are in RON, unless otherwise specified)

	Share capital	Inflation adjustments to share capital	Public patrimony	Revaluation reserve	Other reserves	Retained earnings	Total equity
Balance at 1 January 2023	4,484,594,820	1,028,872,000	45,324,243	11,065,836,447	1,017,729,953	3,983,955,768	21,626,313,231
Total comprehensive income for the year							
Profit of the year	-	-	-	-	-	6,352,326,530	6,352,326,530
Other comprehensive income for the year							
Revaluation of property, plant and equipment, net of tax (Note 22,24)	-	-	-	1,397,705,724	-	-	1,397,705,724
Remeasurement of defined benefit liabilities, net of tax	-	-	-	-	-	(3,386,566)	(3,386,566)
Total other comprehensive income for the year	-	-	-	1,397,705,724	-	(3,386,566)	1,394,319,158
Total comprehensive income for the year	-	-	-	1,397,705,724	-	6,348,939,964	7,746,645,688
Transactions with owners of the Company							
Contributions and distributions							
Dividends (Note 24)	-	-	-	-	-	(4,349,388,772)	(4,349,388,772)
Issuance of ordinary shares (Note 24)	13,430,850	-	-	-	-	-	13,430,850
Total transactions with owners of the Company	13,430,850	-	-	-	-	(4,349,388,772)	(4,335,957,922)
Other changes in shareholders' equity							
Transfer of revaluation reserve to retained earnings due to depreciation and disposals of property, plant and equipment	-	-	-	(415,729,065)	-	415,729,065	-
Balance at 31 December 2023	4,498,025,670	1,028,872,000	45,324,243	12,047,813,106	1,017,729,953	6,399,236,025	25,037,000,997

The accompanying notes are an integral part of these separate financial statements.

Karoly BORBELY
Chairman of the Management Board

Bogdan-Nicolae BADEA
Member of the Management Board

Radu Ioan CONSTANTIN
Member of the Management Board

Marian FETIȚA
Member of the Management Board

Ianăș RĂDOI
Member of the Management Board

Petronel CHIRIAC
Financial Director

Gabriela VASILECU
Accounting Manager

S.P.E.E.H. HIDROELECTRICA S.A. managed in a two-tier system

SEPARATE STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2023

(All amounts are in RON, unless otherwise stated)

	Note	<u>2023</u>	<u>2022</u>
Cash flow from operating activities:			
Profit for the year		6,352,326,530	4,394,378,205
Adjustments for:			
Depreciation	22	792,039,844	739,145,516
Amortisation		3,313,585	1,707,085
Impairment loss on property, plant and equipment, net	22	235,752,798	145,862,852
Impairment loss on financial investments, net	23	(6,474,015)	(15,017,845)
Impairment loss on trade receivables, net	20	79,782,093	43,153,771
Write-down of inventories		4,638,419	638,465
Loss on disposal of property, plant and equipment	13E	5,240,043	1,820,983
Net foreign exchange loss		141,802	226,895
Interest income	14	(301,626,374)	(250,288,843)
Interest expense	14	25,406,574	9,510,806
Income tax expense	17	1,090,622,033	741,605,946
		<u>8,281,163,332</u>	<u>5,812,743,836</u>
Changes in:			
Trade receivables		(1,779,530,612)	(712,346,164)
Inventories		(1,690,157)	(7,576,560)
Restricted cash		-	(90,800,000)
Other assets		13,241,693	(39,911,831)
Trade payables		119,848,018	92,627,066
Deferred income		(4,658,800)	(5,672,318)
Employee benefits		(2,220,633)	319,318
Provisions		55,033,233	192,370,417
Other payables		(58,584,775)	(165,575,624)
Cash generated from operating activities		<u>6,622,601,299</u>	<u>5,076,178,140</u>
Interest paid		(15,193,345)	(2,266,284)
Income tax paid		(1,200,024,727)	(927,767,524)
Net cash from operating activities		<u>5,407,383,227</u>	<u>4,146,144,332</u>
Cash flow from investing activities:			
Payments for acquisition of property, plant and equipment		(183,160,534)	(166,064,673)
Payments for acquisition of intangible assets		(1,235,692)	(1,153,805)
Payments for acquisition of corporate bonds		-	(351,265,400)
Payments for deposits held for investment purposes		(9,145,000,000)	(8,575,000,000)
Proceeds from deposits held for investment purposes		7,825,000,000	7,898,000,000
Proceeds from maturity of government bonds		-	235,410,000
Interest received		280,390,709	218,619,188
Proceeds from dividends		-	1,736,928
Proceeds from loans granted to subsidiaries		-	123,383,200
Net cash flow used in investing activity		<u>(1,224,005,517)</u>	<u>(616,334,562)</u>

(continued on page 7)

S.P.E.E.H. HIDROELECTRICA S.A. managed in a two-tier system**SEPARATE STATEMENT OF CASH FLOWS**

FOR THE YEAR ENDED 31 DECEMBER 2023

(All amounts are in RON, unless otherwise stated)

	Note	2023	2022
Cash flow from financing activities:			
Proceeds from issue of shares	24	2,678,640	-
Repayment of borrowings	25	(91,937,393)	(91,390,464)
Lease payments	25	(8,146,331)	(3,736,607)
Dividends paid	24	(4,349,388,772)	(3,830,945,832)
Net cash used in financing activities		(4,446,793,856)	(3,926,072,903)
Net increase/(decrease) in cash and cash equivalents		(263,416,146)	(396,263,133)
Cash and cash equivalents at 1 January	18	641,705,886	1,028,396,270
Cash and cash equivalents acquired at the merger		-	9,572,749
Cash and cash equivalents at 31 December	18	378,289,740	641,705,886

The accompanying notes are an integral part of these separate financial statements.

Karoly BORBELY
Chairman of the
Management Board

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BADEA**
Member of the
Management Board

**Radu Ioan
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Ianăș RĂDOI
Member of the
Management Board

Petronel CHIRIAC
Financial Director

Gabriela VASILESCU
Accounting Manager

S.P.E.E.H. HIDROELECTRICA S.A. Two-tier system Company
NOTES TO THE SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023
(All amounts are in RON, unless otherwise stated)

1. REPORTING ENTITY AND GENERAL INFORMATION

(a) General information about the Company

Societatea de Producere a Energiei Electrice in Hidrocentrale Hidroelectrica S.A. (“the Company” or “Hidroelectrica”) is a joint stock company, domiciled in Romania. The Company’s registered office is 15-17 Ion Mihalache Blvd., Tower Center Building, 10-15 floors, Sector 1, Bucharest. The Company is registered at National Trade Register Officer with no. J40/7426/2000 and has unique registration code 13267213.

These financial statements are separate financial statements (not consolidated) of Societății de Producere a Energiei Electrice în Hidrocentrale Hidroelectrica S.A.

The Company’s main lines of business are power generation (hydro and wind) and electricity supply to end consumers.

As of 31 December 2023, the Romanian State through the Ministry of Energy owns 360,094,390 shares, representing 80.0561% of the share capital and of the total voting rights. The rest of the shares are traded on the Bucharest Stock Exchange as follows: 75,535,576 shares, representing 16.7931% of the share capital are owned by legal persons and 14,172,601 shares, representing 3.1508% of the share capital by individuals.

The Company is governed by a two-tier system comprising the Supervisory Board and the Management Board.

Initial public offering (“IPO”)

Between 23 June and 4 July 2023, the Company went through an initial public offer on Bucharest Stock Exchange. The allocation of the shares was carried out on 5 July 2023, the total offer included the entire holding of Fondul Proprietatea, namely 89,708,177 shares representing 19.9439% of the Company's share capital.

The first trading day of Hidroelectrica shares at the Bucharest Stock Exchange was 12 July 2023.

List of subsidiaries

As of 31 December 2023 and 31 December 2022 Hidroelectrica has the following subsidiaries:

Subsidiary	Activity	Registered Office	% participation at 31 December 2023	% participation at 31 December 2022
Hidroserv S.A. (company in insolvency)	Services (maintenance, repairs, construction)	Bucharest, Romania	100%	100%

Hidroserv S.A. entered the insolvency proceedings in October 2016. In 2020, a reorganization plan of the subsidiary was approved by the Assembly of Creditors and confirmed by the insolvency judge. Hidroserv is expected to exit the insolvency procedure during 2024.

All revenues are generated in Romania.

(b) Regulatory environment

The activity in the energy sector is regulated by the National Energy Regulatory Authority ("ANRE").

The main responsibilities of ANRE include: licensing the entities operating in the energy sector, issuance of regulations applicable to the electricity market, approval of regulated prices and tariffs and issuance of methodologies used to set regulated prices and tariffs.

(c) Main operations of the Company

Electricity generation and system services

The Company generates electricity by operating 187 hydropower plants and micro-hydropower plants, including five pumping stations, (the main generation capacities being Portile de Fier I and Portile de Fier II, which represent approximately 40% of the total electricity generated) and 36 wind turbines of 3 MW each.

The electricity generated is sold both wholesale and retail (supply to end consumers).

On 1 January 2023 a centralized electricity acquisition mechanism was implemented by the Government through which the electricity producers shall sell the available (not contracted as of November 2022) quantity of electricity to the market operator, OPCOM, at a fixed price of RON 450 per MWh. OPCOM will re-sale the electricity to electricity suppliers and certain large consumers (such as electricity distribution operators) at the same price of RON 450 per Mwh. This price fixing mechanism is applicable between 1 January 2023 and 31 March 2025.

Hidroelectrica S.A. also provides system services to the national electricity system operator, Transelectrica. The system services involve making an agreed power generation capacity available to Transelectrica within a certain period of time, so that to allow the system operator to achieve permanent balancing of the electricity system.

Electricity supply to end users

The electricity market to end users in Romania is liberalized and all consumers are free to choose their electricity supplier from which they can purchase electricity at negotiated prices.

The Company supplies electricity at negotiated tariffs to both industrial consumers and household consumers. The supply tariff include, in addition to the electricity price, the electricity transmission and distribution costs (see accounting policy 7 c)), the contribution to high efficiency co-generation power support scheme, and the cost of green certificates (see *Green certificates* section).

Starting 1 November 2021, due to the significant increase in energy prices on the international and national markets and the impact thereof on Romanian consumers, the Government implemented consumer support schemes, as follows:

- capping the electricity supply tariffs for household (until 31 March 2025) and non-household consumers (until 31 January 2022 for certain types of non-household consumers, and for 1 February 2022 – 31 March 2025 for all non-household consumers); and receiving a subsidy from the State to compensate for the impact of capping mechanism; The impact of this mechanism on the Company's financial performance in

S.P.E.E.H. HIDROELECTRICA S.A. Two-tier system Company
NOTES TO THE SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023
(All amounts are in RON, unless otherwise stated)

2023 was a reduction of revenue due to capped prices by RON 1,246 million (2022: reduction of revenue of RON 551 million).

On 7 July 2023, Law 206 approving GEO 153/2022 was published and brought a series of changes with impact on the revenues obtained from the Supply activity, respectively on the method of computing the invoiced price to the final consumer, for the consumers for which the electricity consumed is purchased by the Company. The impact of these changes on the Company's financial performance in 2023 implied a reduction of revenue by RON 47 million as a consequence of the legal obligation to sell at a price lower than the contractual price.

Green certificates ("GC")

As a producer of electricity from renewable sources (hydroelectric power in refurbished micro-hydropower plants with an installed capacity of no more than 10 MW and with a service life of at least 15 years from the date of commissioning, and wind power), the Company receives green certificates through the green certificates support scheme.

In 2023 the Company received between 2.86 and 3 green certificates for each MWh generated by the eligible micro-hydropower plants (7 micro-hydropower plants in January 2023 and 6 micro-hydropower plants starting February 2023; 2022: between 2.64 and 3 green certificates for each MWh generated by 8 micro-hydropower plants) and 0.75 green certificates for each MWh generated by the wind farm in 2023. During 2023, the Company generated from its own production portfolio a number of 33,093 GC from hydropower plants and 251,242 GC from wind power plant (2022: 86,319 GC from hydropower plants).

The green certificates can be sold on the spot and forward market. The selling price must fall between the minimum and maximum values set by law:

- (a) a minimum trading value of EUR 29.4/GC and
- (b) a maximum trading value of EUR 35/GC.

As an electricity supplier, the Company is required to purchase a number of green certificates computed by multiplying the annual mandatory purchase quota of green certificates by the quantity (in MWh) of electricity supplied to end users. ANRE establishes the annual mandatory level of purchase obligations (quotas) of green certificates. Applicable annual quota for 2023 is 0.4946974 green certificate per Mwh (2022: 0.5014313 green certificate per Mwh).

Tax on electricity producers

Starting November 2021 the Government introduced a new tax for electricity producers. The tax is computed as 80% (for the period 1 November 2021 to 31 August 2022) and 100% (for the period 1 September 2022 to 31 March 2025) of net monthly average selling price in excess of RON 450 per Mwh.

Net monthly average selling price is computed based on monthly revenue of the generation segment, which includes the wholesale of electricity produced and the value of electricity transferred within the same entity from producer portfolio (generation segment) to supplier portfolio (supplier segment), less monthly cost of electricity purchased, market administration fees and trading fees. Electricity production costs are not included in the monthly expenses.

2. BASIS OF ACCOUNTING

These separate financial statements were prepared in accordance with the Order of Minister of Public Finance no.2844/2016 and subsequent amendments („OMFP 2844/2016”). According to OMFP 2884/2016 the International Financial Reporting Standards ("IFRS") represent standards adopted based on the procedure as per European Commission Regulation no. 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of international accounting standards (IFRS as adopted by European Union). OMFP no. 2844/2016 includes also additional provisions versus IFRS-EU, the Company identified as provisions applicable to its financial statements the matters described below.

The separate financial statements were authorized for issue by the Company’s Management Board on 25.03.2024 and by the Supervisory Board on 27.03.2024.

The Company also issues an original version of these separate financial statements prepared in accordance with OMFP 2844/2016 in Romanian language approved at the same date with these financial statements.

The Company also prepared consolidated financial statements in accordance with OMFP no. 2844/2016 and consolidated financial statements in accordance with IFRS-EU, approved at the same date as these separate financial statements.

Main differences between IFRS-EU and OMFP no. 2844/2016, that affects this set of financial statements refer to:

- Fee paid for the connection of the power generation capacities to the electricity grid is presented as “Property, plant and equipment” in the IFRS-EU financial statements while in the OMFP no. 2844/2016 financial statements is presented as “Intangible assets”;
- Impact of restatement of statutory share capital in nominal terms according to IAS 29 “Financial Reporting in Hyperinflationary Economies” is presented as part of “Share Capital” in the IFRS-EU financial statements while in the OMFP no. 2844/2016 financial statements is presented as an equity item separate from share capital, namely “Inflation adjustments in accordance with IAS 29”;
- Cash contribution received from State for construction of public domain assets (ie certain type of assets such as dams which will be transferred to the State at the end of its economic life) is presented as deferred income in the IFRS-EU financial statements, while in the OMFP no. 2844/2016 financial statements is presented as public patrimony;
- Accruals for employee bonuses are presented as employee benefits liabilities in the IFRS-EU financial statements, while in the OMFP no. 2844/2016 financial statements are presented as provisions.

These separate financial statements have been prepared on a going concern basis. Details of the Company’s accounting policies are included in Note 7.

3. FUNCTIONAL CURRENCY AND PRESENTATION CURRENCY

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

4. COMPARATIVES

These separate financial statements prepared at 31 December 2023 show comparability with the previous financial year separate financial statements.

5. USE OF JUDGEMENTS AND ESTIMATES

In preparing these separate financial statements, management has made judgements and estimates that affect the application of the Company's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively.

a) Judgements

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognized in the financial statements is presented below:

a1) Concession agreement

In November 1998 Law no. 213/1998 was issued regulating the statute of the public domain. This law provides that the ownership right over the public domain assets belongs to the State or local authorities, which can lease the assets that are in public property. In accordance with the provisions of Law no. 213/1998 and Law no. 219/1998, the Ministry of Economy and Commerce (currently the Ministry of Energy) has leased to the Company the hydropower facilities (dams, piers, locks, water storage reservoirs) and the land on which they are located. Thus, in December 2004, the concession contract no. 171/27.12.2004 was concluded between the Ministry of Economy and Commerce (currently the Ministry of Energy) (grantor) and Company (operator) for the hydropower assets in the public patrimony existing as at 31 December 2003.

The main terms of the concession contract and its subsequent amendments are the following:

- The State, through the Ministry of Economy and Commerce (currently the Ministry of Energy), holds the ownership right over the public assets that are the subject matter of the contract;
- The Company has the right to use these assets for a period of 49 years from the signoff date (the period may be extended in accordance with the provisions of the concessions law, by half of the original period, by mutual agreement of the parties), for the purpose of operation, refurbishment, modernization, rehabilitation, as well as construction of new hydro-power facilities according to the investment programs;
- The Company pays an annual royalty of 1/1000 of the annual revenues from power generation and system services generated in hydro-power facilities;
- Upon termination of the contract, certain assets that were used by the operator in carrying out the concession will be returned to the grantor, as explained below;
- The Company has the obligation to use the assets in accordance with the provisions of the concession contract and the operating license.

The concession contract provides for the following types of assets:

- Assets to be returned – assets of public domain that belong to the grantor and that are returned to the grantor in full right, free of charge and free of any encumbrances, upon termination of the concession contract. Assets to be returned are assets of public domain such as dams, piers, locks, that are subject to the concession/lease, as well as those resulting from investments/improvements to these assets made by the Company during the concession contract period. The Company depreciates these assets over the lower of the concession contract remaining period and the useful life of those assets.

- Takeover assets – assets that belong to the operator and are used by the operator during the concession period and which are similar in nature to assets of public domain above (land improvements and constructions, technical installations and machinery), over which, upon termination of the concession contract, the grantor has an option to take over those assets in exchange for a payment equal to the “present book value” on the takeover date. In Company’s interpretation, the “present book value” is the net book value at the date of the takeover, and given that the Company uses the revaluation model, this value will be the revalued amount at that date. These assets are depreciated over their estimated useful life.
- Own assets – assets that, upon termination of the concession contract, remain the property of the operator. Own assets are assets (constructions, technological installations, machinery and equipment, measuring and control devices; vehicles; furniture, office equipment, protective equipment and other tangible assets) that belong to the operator and are used by the operator during the concession period, except for the takeover assets. These assets are depreciated over their estimated useful life.

In assessing the application of IFRIC 12 “Service concession arrangements”, the Company considered the following criteria of the public-private service concession arrangements in the analysis of the concession contract:

- a) The grantor controls or regulates what services the operator must provide within the infrastructure, to whom it must provide them and at what price; and
- b) The grantor controls – by ownership, beneficial entitlement or otherwise – any significant residual interest in the infrastructure at the end of the term of the arrangement.

The Company concluded that it is not within the scope of IFRIC 12 because it does not meet criterium a) above, the grantor does not regulate to whom the operator must provide the service and at what price. The Company considered that the price fixing mechanism introduced by the Government starting 1 January 2023 does not affect this conclusion as this mechanism is temporary and applied only to part of the production.

The Company recognises the royalty of the concession contract in Other operating expenses.

a2) Leasing and refurbishing of assets to be returned

In assessing the application of IFRS 16 “Leases” to the concession contract presented above, the Company considered the following criteria to determine whether this contract contains a lease:

- a) the lessee has the right to obtain in essence all the economic benefits using the identified asset;
- b) the lessee has the right to direct the use of the identified asset.

The Company concluded that both criteria are met and, consequently, the concession contract contains a lease as the Ministry of Energy transferred the right to control the use of the assets of the public domain (assets to be returned) to the Company in exchange for a royalty. According to IFRS 16, the Company measured the carrying amount of the right-of-use asset and the amount of lease liability related to this contract as nil, because the future lease payments are variable and depending on Company’s revenue, the royalty being calculated as a percentage of revenues.

In respect of refurbishments made to the assets to be returned, the Company concluded that they are improvements of a leased asset for which the Company is the “accounting owner”, in the sense that these improvements serve the Company’s interest, as lessee, to use the leased assets. Consequently, the Company recognized improvements of assets to be returned as property, plant and equipment. The Company depreciates these assets over the lower of the concession contract remaining period and the useful life of those assets.

The Company believes that the following facts indicate that the Company is the “accounting owner” of improvements made:

- a) The Ministry of Energy, as a lessor, does not reimburse the Company, as lessee, for the cost of the improvements made. Consequently, the improvements are fully funded from the Company’s sources, and the Company is responsible to incur the costs;
- b) The Company has no obligation to make improvements of the assets to be returned. The decisions regarding refurbishment of the assets to be returned are made by the Company depending on its needs to use these assets and are unique to the Company’s intended use of the leased assets;
- c) The Company is permitted to alter the leasehold improvements without the consent of the lessor or without compensating the lessor;
- d) Improvements are made on the risk and responsibility of the Company (the Company bears the risk of overruns) and are not available to the grantor until the termination of the concession contract.

a3) Cash-generating units (“CGU”)

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

The Company concluded that the assets relating to hydro-power plants except for the ones mentioned below represent a single cash-generating unit, mainly based on the following considerations:

- the Company has a single hydro-power generation license which covers all power plants as a whole;
- the license stipulates the Company’s obligation to maintain the availability of its production capacities as a whole;
- the decision to produce electricity in a hydro-power plant is made based on the technical operating conditions of the other hydro-power plants;
- the balancing of the electricity contracted and produced is made at the Company’s level and not at individual plants;
- the contracts are concluded based on the total estimated electricity to be produced in a specific period in all of the Company’s hydro-power plants, and the price is set for the entire production.

Also, the Company concluded that the wind park is a separate single CGU and that each investment objective related to hydro-power assets with complex/multiple functions represent separate cash-generating units.

a4) Decommissioning obligations

Order of the Ministry of Water and Environment no. 119 of 11 February 2002 on approval of the Procedure of passage into conservation, post-utilisation or abandonment of dams provides the procedures for post-utilisation and abandonment of dams (including levees, hydro-power plants and locks) that must be carried out by the holders of dams under certain conditions provided by law. The Company has no legal or contractual obligations to disassemble and restore the site, other than those arising from Order no. 119, which are presented in the paragraphs below.

Dam holders are defined by GEO no. 244 of 28 November 2000 (republished) on the safety of the dams as legal persons of any title, who have in their possession, ownership and/or administration a dam.

Post-utilisation refers to the dams that have reached their normal operating life span and can be used for purposes other than those for which they were originally constructed for. Post-utilisation requires the

implementation of a set of measures and works that will ensure the new functionality of the dam to protect the population and the environment in safe conditions. The necessary measures and works are carried out through the care of both the holder or administrator of the dam, and the post-user.

The post-utilisation of the dams is proposed by the holders of the dams and is approved by order of the minister that exercises control, coordination or authority over the entity that holds the dam, based on the endorsement of the Ministry of Water and Environment.

After the performance of the works required by the post-utilisation project, the hand over reception protocol between the former holder and the post-user is performed.

Abandonment refers to completed or unfinished dams, with or without the normal life span exceeded, which can no longer be kept in operation or post-utilisation due to technical impossibility or very high costs and which, at the same time, represent a potential danger for the population and the environment. Abandonment requires the implementation of a set of measures and works for the decommissioning of the dam, the ecological reconstruction of the area and enabling adequate liquid and solid flows, including the maximum water flow in the dammed section. The necessary measures and works are carried out with the care of the holder or the administrator of the dam and must ensure the flow conditions existing prior to the construction of the dam.

The triggering events of dam abandonment operations include:

- the request of the holders of the dams, when they find that the necessary performance requirements according to the law cannot be met, the dams presenting an unacceptable associated risk;
- the disposition of the control bodies, following expertises that show that the dams present an unacceptable associated risk, constituting a real danger for the population and the environment;
- accidents, when the conclusions of the expert report specifically indicate the abandonment due to the very high cost of the necessary repairs, as well as not meeting the performance requirements and the safety criteria, etc.

The reception of the decommissioning and ecological reconstruction works is carried out by representatives of the holder of the dam and of the central or local public administration, who take over the respective area, by concluding a handover protocol.

The Romanian State, represented by the Ministry of Economy and Commerce, currently the Ministry of Energy, holds the ownership right over the hydropower developments (dams, levees, locks, storage lakes) and the land on which they are located that belong to the public domain and which are the subject of the concession contract mentioned above. The Company has the right to use these assets for a period of 49 years (remaining 30 years as of 31 December 2023).

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

The Company considers that, in accordance with the applicable legal provisions and practices, abandonment occurs in extreme situations, when the dams become an unacceptable risk impacting the environment and the population. Given that these constructions have complex functions in addition to power generation, including flood protection, water supply, irrigation etc., post-utilisation is the usual way in which these constructions will be transferred to central or local public administration, after they can no longer be used for power generation purposes.

The necessary works for post-utilisation are established by technical documentation prepared on the basis of an assessment of the safety status of the dam at that time, carried out by experts certified by the ministries

and certified/endorsed by the Ministry of Water and Environment.

Moreover, the abandonment works are carried out on the basis of a special documentation prepared with the water authority approval, the environmental protection agreement, and the endorsement of the local and central public administration. These documentations and endorsements will establish the activities necessary for abandonment.

The works and costs of transition into post-utilisation or abandonment are subject to significant uncertainties caused by the fact that the rate of degradation and the life span of a dam vary significantly from one case to another (some could reach more than 100 years), as well as by the complexity and variety of works that may be necessary for transition into post-use or abandonment, depending on the specific factual status of each dam at the time of entering post-utilisation or abandonment, on the cost sharing between the holder and the post-user, as well as by the very remote time period from present to the moment when the abandonment works would be performed, if any. Also, there are significant uncertainties related to the evolution of the degree of degradation and to the determination of the actual life span of a dam, which are dependent on natural disasters (floods, landslides, earthquakes, etc.) and on the reliability of the construction.

In addition, the Company estimates that, by the end of the concession contract (the remaining period of 30 years as of 31 December 2023), the occurrence of situations requiring post-utilisation or abandonment of public domain assets or its own assets – levees, hydro-power plants and locks (other than those in progress assets described in Note 22) is unlikely, considering the long life of the dams, which can be significantly extended over 100 years by maintenance and improvements.

Consequently, the Company recognizes decommissioning provisions only when management has taken the decision to abandon an asset or switch to post-utilisation or has no realistic alternative but to do so during the concession period. The provisions are recognized based on the costs resulting from the technical documentation prepared by specialists employed by the Company.

a5) Electricity sale-purchase contracts

Under IFRS 9 “Financial Instruments”, a contract to buy or sell a non-financial item (including electricity) may be classified and recognized as a financial instrument. According to paragraphs 2.4 and 2.6 of IFRS 9, if the contracts to buy or sell non-financial items can be settled net in cash or in another financial instrument, or by exchanging financial instruments, including if the underlying commodity is readily convertible into cash, they are in the scope of IFRS 9. The standard provides an exemption from applying IFRS 9 for the contracts that are entered into and continue to be held for the purpose of the receipt or delivery a non-financial item in accordance with the entity’s expected purchase, sale or usage requirements (“own-use exemption”).

The electricity is a commodity readily convertible into cash and therefore management has conducted an analysis in order to determine if own use exemption applies to its contracts.

The main considerations are:

- the Company is an electricity producer and its only intention and purpose is to sell all the electricity produced;
- the forward sell contracts are concluded with the sole intention of delivering the electricity produced; the Company does not act as an electricity broker/dealer;
- the buy-sell transactions on the spot markets (day-ahead, intra-day and balancing markets) are entered into only for meeting the Company’s own balancing necessity and responsibility;
- in 2020 the Company started to be active in the electricity supply sector (selling electricity to end users), acting also as a service provider (including customer service); and

- the Company has used limited forward purchase electricity contracts and their purpose was to cover the needs for the contractual commitments for deliveries to final end consumers.

The Company concluded that own use exemption applies in all its electricity sale and purchase contracts in 2023 si 2022 and therefore are not in scope of IFRS 9.

a6) Tax for electricity producers

Starting November 2021 the Government introduced a new tax for electricity producers. The tax is computed as 80% (for the period 1 November 2021 to 31 August 2022) and 100% (for the period 1 September 2022 to 31 March 2025) of net monthly average selling price in excess of RON 450 per Mwh.

Net monthly average selling price is computed based on monthly revenue of the generation segment, which includes the wholesale of electricity produced and the value of electricity transferred within the same entity from producer portfolio (generation segment) to supplier portfolio (supplier segment), less monthly cost of electricity purchased, transaction fees, such as market administration fees and trading fees. Electricity production costs are not included in the monthly expenses.

The Company analysed the nature of the tax in order to assess whether it falls under IAS 12 *Income tax* or IFRIC 21 *Levies*, main considerations being:

- the tax is revenue driven, as the main cost incurred by the producers, electricity production cost, is not considered in the net monthly revenue taxed;
- the costs deducted in the calculation (cost of electricity purchased and transaction fees) are marginal to revenue, as the Company has limited acquisitions of electricity as part of the electricity generation activity, and those are only for the purpose of balancing the production to the contractual commitments for sale of electricity on the wholesale market;
- the threshold of RON 450 per MWh for tax computation is not linked to producers' costs, but rather reflects a sales price cap.

The Company concluded that the tax for electricity producers is a levy falling under the provisions of IFRIC 21 *Levies*, and not income tax.

b) Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties at the reporting date that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year is included in the following notes:

- Note 22 – assumptions related to the revaluation of property, plant and equipment;
- Note 22 – assumptions related to determination of recoverable amount of assets under construction;
- Note 7 g) and h) – estimates of useful lives of property, plant and equipment and intangible assets;
- Note 13 D – estimates in relation to electricity transfer price between production and supply activity used in calculation of tax for electricity producers;
- Notes 29 and 33 – recognition and measurement of provisions and contingent liabilities;
- Notes 7 k), 20 and 30 b) – determination of expected credit losses for trade receivables;
- Note 16 – assessment of obligations resulting from defined benefit plans and other long-term employee benefits: the main actuarial assumptions;
- Note 29 – estimates related to decommissioning provisions.

Measurement of fair values

A number of the Company's accounting policies and disclosures require the measurement of fair values, for financial assets and liabilities, and non-financial assets (property, plant and equipment).

When measuring the fair value of an asset or liability, the Company uses observable market data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices);
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability fall into different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Company recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Further information about the assumptions made in measuring fair values is included in the following notes:

- Note 22: property, plant and equipment;
- Note 30: financial instruments.

Climate-related risks

Hidroelectrica is exposed to climate-related risks, which can impact water resource availability, a key factor in hydropower generation. These include variability in precipitation, with the potential for altered river flows impacting water availability for energy production. The increased incidence of extreme weather events—such as the drought experienced in 2022 that led to a significant decrease in hydro production—demonstrates the tangible effects of these risks. Nevertheless, the company has historically observed that during droughts, electricity prices have increased, which may benefit the company through increased profit margins rather than through volumes sold.

To address climate-related risks, Hidroelectrica is emphasizing the diversification of its energy portfolio, particularly focusing on expanding into renewable energy sources. The company plans to acquire solar parks and additional wind farms, aiming for an additional 500 MW of installed capacity in the next years. This shift towards solar and wind energy is strategically significant, especially given the inverse correlation between solar power generation and water levels for hydropower. The adoption of solar power, therefore, offers an offset during periods of low water availability, underlining the importance of a versatile and resilient energy mix in response to the challenges posed by climate variability.

The financial implications of climate-related risks include the valuation of Hidroelectrica's property, plant and equipment, related to water resources and hydropower facilities that can be affected by a lower volume of power generation estimated during projected useful life associated with climate change compared with the initial technical and financial performance indicators of such projects.

6. BASIS OF MEASUREMENT

The separate financial statements have been prepared on the historical cost basis except for land, buildings, equipment and other items of property, plant and equipment, which are measured using revaluation model.

7. MATERIAL ACCOUNTING POLICIES

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

(a) Foreign currency transactions

Transactions in foreign currencies are translated into the functional currency at the exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rate at the reporting date. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the exchange rate when the fair value was determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated at the exchange rate at the date of the transaction. Foreign currency differences are generally recognized in profit or loss and presented within finance costs.

(b) Revenue from contracts with customers

Revenue is measured based on the consideration specified in a contract with a customer. The Company recognises revenue when it transfers control over a good or service to a customer.

The following table provides information about the nature and timing of the satisfaction of performance obligations in contracts with customers, including significant payment terms, and the related revenue recognition policies.

	Nature and satisfaction of contractual obligations	Revenue recognition
Wholesale of electricity	<p>The Company sells the majority of electricity produced on forward contracts with electricity suppliers and traders, on the spot market (day-ahead market) to the market operator (OPCOM) and on the balancing market to the system operator (Transelectrica).</p> <p>Invoices are issued at the end of the month or at the beginning of the following month for the electricity delivered in the current month.</p> <p>The payment term is 30 days from invoice date.</p>	<p>Revenue is recognized over time, because the customer simultaneously receives the benefits provided by the performance of the Company as the Company delivers electricity; generation and use of electricity are simultaneous because electricity is not stored.</p> <p>Advance payments collected from customers for future electricity sales are recognized as contract liabilities.</p>
Electricity supply to end	<p>The performance obligation is represented by delivery of electricity to</p>	<p>Revenue is recognized over time, because the customer simultaneously receives</p>

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users (retail sales of electricity)

the customer's location, which includes transmission and distribution, performed via third party assets.

Customers obtain control of electricity as electricity is consumed. Revenue is recognized based on the volumes communicated to the Company by the distribution operators, which are based on automated or manual meter readings performed by the distribution operators, self-readings reported by the consumers, or based on estimates of electricity delivered for which readings were not yet performed for the interval between the date of last reading and the end of period.

Invoices are usually issued on a monthly basis, in the month following consumption. However, in 2022 and 2023, the Company incurred significant delays in invoicing final consumers, due to the implementation of new billing and customer relationship systems, which continued also in 2023 for supply activity and significant increase in the number of new customers.

The payment term is 45 days from invoice date.

and consumes the benefits provided by the Company's performance as the Company delivers electricity.

Electricity supply revenue include transmission and distribution tariffs, which are invoiced by the Company to end users. The transmission and distribution services are provided by the transmission operator and the distribution operators, and the related costs are billed by the transmission operator and the distribution operators to the Company.

The Company assessed whether it is a principal or an agent in relation to transmission and distribution services passed through to the customer and it concluded that it acts as a principal. The considerations supporting this conclusion include: the Company has a single performance obligation, i.e. delivery of electricity to end user location, which includes transmission and distribution; electricity consumption happens instantaneously as the electricity is generated at the Company's plants and delivered through the transmission and distribution grids to the end user's location.

System services

System services consist of Company making available an agreed generation capacity to the system operator, Transelectrica, for a certain period of time. This capacity is used by Transelectrica in the process of balancing the electricity system.

Invoices for system services are issued on a monthly basis, at the beginning of each month for the services provided in the previous month.

The payment term is 30 days from invoice date.

As the Company makes available generation capacity measured in MWh and not specific assets, the Company concluded that the contract does not contain a lease and therefore is in scope of IFRS 15.

Revenue is recognized over time, because the customer simultaneously receives and consumes the benefits provided by the Company's performance as the services are performed.

The fee received for system services depends on the hourly capacities made available (ie number of hours for which the capacity multiplied by the capacity) and the hourly tariffs.

Both the hourly capacities and the hourly tariffs are established based on the results of daily auctions organized by the system operator.

If, during the interval the capacity is made available, the system operator orders the Company to produce electricity using the capacity made available, the electricity produced is sold on the balancing market at the price established on the respective market (see *Wholesale of electricity* section above).

(c) Employee benefits

(i) Short-term employee benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(ii) Defined contribution plans

Obligations for contributions to defined contribution plans are expensed as the related service is provided. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

(iii) Defined benefit plans

The Company's net obligation in respect of defined benefit plans is calculated separately for each plan by estimating the amount of future benefits that employees have earned in the current and prior periods, discounting that amount. There are no plan assets.

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The defined benefit plans include cash benefits on retirement and benefits in kind consisting of free electricity granted to employees after retirement.

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

Remeasurements of the defined benefit liability, which comprise actuarial gains and losses, are recognised immediately in other comprehensive income ("OCI"). The Company determines the net interest expense (income) on the net defined benefit liability for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability, taking into account any changes in the net defined benefit liability during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognized in profit or loss.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognised immediately in profit or loss. The Company recognises gains and losses on the settlement of a defined benefit plan when the settlement occurs.

(iv) Other long-term employee benefits

The Company's net obligation in respect of long-term employee benefits is the amount of future benefit that the employees have earned in return for their service in the current period and prior periods. That benefit is discounted to determine its present value. Remeasurements are recognized in profit or loss in the period in which they arise.

Other long term employee benefits include cash benefits paid to employees at the moment when they achieve certain seniority milestones.

(v) Termination benefits

Termination benefits are expensed at the earlier of when the Company can no longer withdraw the offer of those benefits and when the Company recognises costs for a restructuring. If benefits are not expected to be settled wholly within 12 months of the reporting date, then they are discounted.

(d) Operating profit

Operating profit is the result generated from the continuing principal revenue-producing activities of the Company as well as other income and expenses related to operating activities. Operating profit excludes finance result and income taxes.

(e) Finance income and finance costs

The Company's finance income and finance costs include:

- interest income;
- interest expense;
- dividends income;
- the foreign currency gain or loss on financial assets and financial liabilities;
- impairment losses (and reversals) recognised on financial assets (other than trade receivables);
- unwinding of non-current provisions.

Interest income or expense is recognised using the effective interest method.

The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

– the gross carrying amount of the financial asset; or

– the amortised cost of the financial liability.

In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability. However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

(f) Income tax

Income tax expense comprises current and deferred tax. It is recognized in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in OCI.

The Company has determined that interest and penalties related to income taxes, including uncertain tax treatments, do not meet the definition of income taxes, and therefore accounted for them under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.

(i) Current tax

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to tax payable or receivable in respect of previous years. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any. It is measured using tax rates enacted or substantively enacted at the reporting date.

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

(ii) Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for:

- temporary differences that occur on the initial recognition of assets and liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries, associates and joint arrangements to the extent that the Company is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Future taxable profits are determined based on the reversal of relevant taxable temporary differences. If the amount of taxable temporary differences is insufficient to recognise a deferred tax asset in full, then future taxable profits, adjusted for reversals of existing temporary differences, are considered, based on the business plans of the Company. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized; such reductions are reversed when the probability of future taxable profits improves.

The measurement of deferred tax reflects the tax consequences that would follow from the manner in which the Company expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

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

(g) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are initially recognised at cost, which includes capitalized borrowing costs.

If significant parts of an item of property, plant and equipment have different useful lives, then they are accounted for as separate items (major components) of property, plant and equipment.

Any gain or loss on disposal of an item of property, plant and equipment is recognised in profit or loss.

After initial recognition:

- land, buildings, equipment and other items of property, plant and equipment are measured at revalued amount; and
- assets in progress are measured at cost less any accumulated impairment losses.

Revaluations are made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using the fair value at the end of the reporting period.

When an item of property, plant and equipment is revalued, the accumulated depreciation is eliminated from the gross book value, and the net amount is adjusted to the revalued amount of the asset.

If an asset's carrying amount is increased as a result of a revaluation, the increase is recognised and accumulated in equity under revaluation reserve. However, the increase is recognised in profit or loss to the extent that it reverses a revaluation decrease of the same amount of the same asset previously recognised in profit or loss.

If an asset's carrying amount is decreased as a result of a revaluation, the decrease is recognised in profit or loss. However, the decrease is recognized in equity in revaluation reserve if there is any credit balance existing in the revaluation reserve in respect of that asset.

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

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

(ii) Subsequent expenditure

Subsequent expenditure is capitalized only if it is probable that the future economic benefits associated with the expenditure will flow to the Company.

(iii) Depreciation

Depreciation is calculated using the straight-line method over the assets estimated useful lives, and is recognized in profit or loss. Land and assets under construction are not depreciated.

The estimated useful lives of property, plant and equipment for current and comparative periods are as follows:

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Category	Useful life (years)
Buildings and special installations	65-97
	The lesser of useful economic life and remaining period of the concession contract
Buildings and special installations representing assets to be returned, according to the concession contract (see Note 4 a1))	contract
Technological equipment	25-47
Measurement and control devices	15-23
Vehicles	16-24
Fixture and fittings	12

Depreciation methods and useful lives are reviewed at each reporting date and adjusted if appropriate.

(h) Intangible assets

(i) Recognition and measurement

Intangible assets that are acquired by the Company and have finite useful lives are measured at cost less accumulated amortisation and any accumulated impairment losses. Intangible assets include mainly software and licenses.

(ii) Subsequent expenditure

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognized in profit or loss as incurred.

(iii) Amortisation

Amortisation is calculated to write off the cost of intangible assets less their estimated residual values using the straight-line method over their estimated useful lives, and is generally recognized in profit or loss.

The estimated useful lives of software and licenses for current and comparative periods are 3-5 years.

Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

(i) Green certificates

The Company recognizes the green certificates granted under the support scheme for renewable energy generators at cost (which is 0) at the time of obtaining the right to receive the grant (when electricity is generated).

The Company recognizes green certificates purchased at cost.

The Company, as an electricity supplier, is required by law to purchase a number of green certificates (see Note 1 c)), whose cost is subsequently charged to the end users based on the quantities of electricity consumed. In order to meet the legal annual purchase obligation (annual target or quota), the Company uses both green certificates granted under the support scheme and green certificates purchased.

Green certificates purchased to meet the purchase obligation (quota) are recognized in profit or loss when acquired. Green certificates purchased in excess of the mandatory quota at the end of the reporting period are recognized in the separate statement of financial position. If the mandatory quota is not met at the end of the reporting period, then the Company recognized a liability in the separate statement of financial position.

The cost of green certificates recharged to end users is recognized in profit or loss as part of Revenue from contracts with customers.

(j) Financial instruments

(i) Recognition and initial measurement

Trade receivables are initially recognized when they are originated. All other financial assets and financial liabilities are initially recognized when the Company becomes a party to the contractual provisions of the instrument.

Cash and cash equivalents include cash balances, demand deposits and deposits with maturity of up to three months from the date of origination that have an insignificant exposure to the risk of change in fair value, and are used by the Company to manage short-term commitments.

A financial asset (unless it is a trade receivable without a significant financing component) or a financial liability is initially measured at fair value plus or minus transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

(ii) Classification and subsequent measurement

Financial assets

On initial recognition, a financial asset is classified into one of the business models: held to collect, held to collect and sell or other.

Financial assets are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is classified as held to collect and measured at amortized cost if it meets both of the following conditions:

- it is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All financial assets of the Company are classified as held to collect.

Financial assets – Subsequent measurement and gains and losses

Financial assets at amortized cost are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.

Financial liabilities – Classification, subsequent measurement and gains or losses

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

(iii) Derecognition

Financial assets

The Company derecognizes a financial asset when:

- the contractual rights to the cash flows from the financial asset expire; or
- it transfers the rights to receive the contractual cash flows in a transaction in which either:
 - substantially all of the risks and rewards of ownership of the financial asset are transferred; or
 - the Company neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

Financial liabilities

The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled, or expire. The Company also derecognizes a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognized at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognized in profit or loss.

(iv) Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously.

(k) Impairment

(i) Non-derivative financial assets

The Company recognizes a loss allowance for expected credit losses (“ECLs”) on financial assets measured at amortised cost and contract assets.

The Company measures loss allowances at an amount equal to lifetime ECLs (Note 30).

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company’s historical experience and informed credit assessments, that includes forward-looking information.

The Company assumes that the credit risk on a financial asset has increased significantly if it is more than 90 days past due.

The Company considers a financial asset to be in default when:

- the debtor is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to actions such as realising security (if any is held); or
- the financial asset is more than 180 days past due.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Company is exposed to credit risk.

Measurement of ECLs

ECLs are probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the Company in accordance with the contract and the cash flows that the Company expects to receive).

Credit-impaired financial assets

At each reporting date, the Company assesses whether financial assets carried at amortised cost are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the debtor;
- a breach of contract such as a default or being more than 180 days past due;
- the restructuring of a loan or advance by the Company on terms that the Company would not consider otherwise; or
- it is probable that the debtor will enter bankruptcy or other financial reorganisation.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

Write-off

The gross carrying amount of a financial asset is written off when the Company has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof.

(ii) Non-financial assets

At each reporting date, the Company reviews the carrying amounts of its non-financial assets (other than inventories, contract assets and deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs, according to the judgement described in Note 5 a3).

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs of disposal. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognized if the carrying amount of an asset or CGU exceeds its recoverable amount.

Impairment losses are recognized in profit or loss, except for the property, plant and equipment measured at revalued amount, in which case the impairment loss is recognized in other comprehensive income and decreases the revaluation reserve within equity to the extent that it reverses a previous revaluation surplus related to the same asset.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

A reversal of an impairment loss other than on revalued assets is recognized in profit or loss. A reversal of an impairment loss on a revalued asset is recognized in profit or loss to the extent that it reverses an impairment loss on the same asset that was previously recognized as an expense in profit or loss.

(l) Share capital

The Company recognized changes in share capital in accordance with the applicable legislation and after approval of the General Meeting of Shareholders and registration in the Trade Register.

Until 31 December 2003, the statutory share capital in nominal terms was restated according to IAS 29 “*Financial Reporting in Hyperinflationary Economies*” with a corresponding adjustment to retained earnings.

Ordinary shares

Incremental costs directly attributable to the issue of ordinary shares are recognized as a deduction from equity. Income tax relating to transaction costs of an equity transaction is accounted for in accordance with IAS 12 (see 7 (f)).

(m) Public patrimony

Public patrimony represents the value of assets belonging to the *public domain*, that have been financed from state budgetary sources (public funds). The part of the value of these assets funded from budgetary sources is initially recognized as deferred income, and then, at the time of work acceptance and commissioning of the assets, the value is transferred to Public Patrimony assimilated to equity accounts. According to Government Decision 1705/2006, these assets will be transferred to the balance sheet of the institutions from whose sources they were financed, after the end of their economic life, based on an official act adopted for this purpose. According to OMFP no. 2844/2016, entities that have not completed the legal procedures for the transfer of such public patrimony assets, meanwhile report them separately in equity, in accounts assimilated to capital.

(n) Dividends

Dividends are recognized as a deduction from equity in the period in which their distribution is approved and recognized as a liability to the extent it is unpaid at the reporting date. Dividends are disclosed in the notes to financial statements when their distribution is proposed after the reporting date and before the date of the issuance of the financial statements.

(o) Provisions

A provision is recognized if, as a result of a past event, the Company has a current, legal or constructive obligation, which can be reliably estimated and it is likely that an outflow of resources incorporating economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as finance cost.

Decommissioning

A decommissioning provision in respect of abandoned or switched to post-utilization hydro-power assets, and the related expenses are recognized when management has taken the decision to abandon an asset or switch an asset to post-utilisation or the Company has not a realistic alternative except to abandon or move to post-utilization an asset before the end of the concession period (see Note 5 (a4)).

Subsequent to initial measurement, the obligation is measured at the end of each reporting period to reflect the time value of money and any changes in the estimated future cash flows underlying the obligation. The increase in the provision due to time value of money is recognized as finance costs, while the changes in estimated future cash flow is recognized as operating expense.

The Company recognizes a decommissioning provision against property, plant and equipment in respect of decommissioning of the wind turbines. The obligation is measured at the end of each reporting period to reflect the time value of money and any changes in the estimated future cash flows underlying the obligation. The

change in the provision due to time value of money is recognized as finance costs, while the changes in estimated future cash flow is recognized against property, plant and equipment.

(p) Contingent assets and liabilities

A contingent liability is:

- a) a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Company; or
- b) a present obligation that arose from past events but is not recognized because:
 - i. it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or
 - ii. the amount of the obligation cannot be measured with sufficient reliability.

Contingent liabilities are not recognized in the financial statements, but disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Company.

A contingent asset is not recognized in the financial statements, unless it is virtually certain. Contingent assets are only disclosed when an inflow of economic benefits is considered probable.

(q) Tax uncertainties

The Company applies IFRIC 23 *Uncertainties over income tax treatment* to account for uncertainties related to income tax.

An 'uncertain tax treatment' is an income tax treatment for which there is uncertainty over whether the relevant tax authority will accept it under tax law. Whether an uncertain tax treatment is present depends both on the specific position taken by the Company and on the applicable tax law. Therefore, uncertain tax treatments often occur when the applicable tax law is unclear or is not consistently understood.

If there is uncertainty about an income tax treatment, then the Company considers whether it is probable (more likely than not) that a tax authority will accept the Company's tax treatment included or planned to be included in its tax filing.

The Company reflects uncertainty about a tax treatment in measuring its current and deferred taxes as follows:

- Tax authority is likely to accept the Company's tax treatment: If the Company concludes that it is probable that the tax authority will accept its tax treatment, then it measures current and deferred taxes consistently with the tax treatment used or planned to be used in its income tax filing.
- Tax authority is unlikely to accept the Company's tax treatment: If the Company concludes that it is not probable that the tax authority will accept its tax treatment, then it reflects the effect of that tax uncertainty in determining the related taxable profit (or tax loss), tax bases, unused tax losses, unused tax credits and tax rates. To do so, the Company uses either the most likely amount or the expected value method - whichever better predicts the resolution of the uncertainty.

Uncertainties related to taxes that are not income taxes (e.g. value added tax or taxes in scope of IFRSC 21 *Levies*) are recognized and measured in accordance with IAS 37 *Provisions, contingent liabilities and contingent assets*, unless they are dealt with specifically in another standard (e.g. IAS 19 *Employee Benefits* for social security taxes).

Uncertainties surrounding the amount to be recognized as a provision are dealt with by various means according to the circumstances. Where the provision being measured involves a large population of items, the obligation is estimated by weighting all possible outcomes by their associated probabilities. The name for this statistical method of estimation is 'expected value'. The provision will therefore be different depending on whether the probability of a loss of a given amount is. Where there is a continuous range of possible outcomes, and each point in that range is as likely as any other, the mid-point of the range is used.

Where a single obligation is being measured, the individual most likely outcome may be the best estimate of the liability. However, even in such a case, the Company considers other possible outcomes. Where other possible outcomes are either mostly higher or mostly lower than the most likely outcome, the best estimate will be a higher or lower amount.

(r) Leases

At inception of a contract, the Company assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

As a lessee

At commencement or on modification of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices.

The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Company by the end of the lease term or the cost of the right-of-use asset reflects that the Company will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if this rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

The Company determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed lease payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Company is reasonably certain to exercise, lease payments in an optional renewal period if the Company is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Company is reasonably certain not to terminate early.

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The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, if the Company changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Company presents right-of-use assets in Property, plant and equipment in the separate statement of financial position.

Short-term leases and leases of low-value assets

The Company has elected not to recognize right-of-use assets and lease liabilities for short-term leases (lease term of 12 months or less) and leases of low-value assets (less than USD 5,000 equivalent). The Company recognises the lease payments associated with these leases as an expenses on a straight-line basis over the lease term.

(s) Government grants

Government grants related to assets are initially recognised as deferred income at fair value if there is reasonable assurance that they will be received and the Company will comply with the conditions associated with the grant. Grants related to the acquisition of assets are recognised in profit or loss as other income on a systematic basis over the useful life of the asset.

Grants that compensate the Company for expenses incurred are recognised in profit or loss as other income on a systematic basis in the periods in which the expenses are recognised, unless the conditions for receiving the grant are met after the related expenses have been recognised. In this case, the grant is recognised when it becomes receivable.

For green certificates grants refer to Note 7 (j).

(t) Segment reporting

Segment results that are reported to the Company's Management Board and Supervisory Board include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

(u) Subsequent events

Events occurring after the reporting dates until the date these financial statements were authorized for issue, which provide additional information about conditions prevailing at the reporting date (adjusting events) are reflected in these financial statements. Events occurring after the reporting dates until the date these financial statements were authorized for issue, which provide information on events that occurred after the reporting dates (non-adjusting events), when material, are disclosed in the notes to the financial statements.

(v) Fair value measurement

'Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Company has access at that date. The fair value of a liability reflects its non-performance risk.

A number of the Company's accounting policies and disclosures require the measurement of fair values, for financial assets and liabilities, and non-financial assets (see Note 5 (b)).

When one is available, the Company measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as 'active' if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Company uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

8. CHANGE IN ACCOUNTING POLICY

Except as described above, the accounting policies applied in these separate financial statements are the same as those applied in the separate financial statements of the Company as at and for the year ended 31 December 2022.

Deferred tax related to assets and liabilities arising from a single transaction

The Company has adopted Deferred Tax related to Assets and Liabilities arising from a Single Transaction – Amendments to IAS 12 from 1 January 2023. The amendments narrow the scope of the initial recognition exemption to exclude transactions that give rise to equal and offsetting temporary differences – e.g. leases and decommissioning liabilities. For leases, and decommissioning liabilities, an entity is required to recognize the associated deferred tax assets and liabilities from the beginning of the earliest comparative period presented, with any cumulative effect recognized as an adjustment to retained earnings or other components of equity at that date. For all other transactions, an entity applies the amendments to transactions that occur after the beginning of the earliest period presented.

The Company previously accounted for deferred tax on leases applying the “integrally linked” approach, resulting in a similar outcome to the amendments, except that the deferred tax asset or liability was recognized on a net basis. Following the amendments, the Company has recognized a separate deferred tax asset in relation to its lease liability and a deferred tax liability in relation to its right-of-use assets. However, there was no impact on the statement of financial position because the balances qualify for offset under paragraph 74 of IAS 12. There was also no impact on the opening retained earnings as at 1 January 2022 as a result of the change. The key impact for the Company relates to disclosures of the deferred tax assets and liabilities recognized.

9. STANDARDS ISSUED BUT NOT YET EFFECTIVE

The following amended standards are effective for annual periods beginning after 1 January 2023 and earlier application is permitted. The Company has not early adopted any of these amended standards and does not expect that they will have a significant impact on the Company's separate financial statements when become effective.

- Classification of Liabilities as Current or Non-Current (Amendments to IAS 1);
- Non-current Liabilities with Covenants (Amendments to IAS 1);
- Supplier Finance Arrangements (Amendments to IAS 7 and IFRS 7);
- Lease Liability in a Sale and Leaseback (Amendments to IFRS 16);
- Lack of exchangeability (Amendments to IAS 21)

10. OPERATING SEGMENTS

A. Basis for segmentation

The Company has identified two reporting segments based on the operating licenses owned – production of electricity and supply of electricity.

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The following summary describes the operations of each reportable segment:

Reportable segment	Operations
Electricity generation	Production of electricity through the operation of hydropower plants, micro-hydropower plants and wind turbines, rendering of system services to the system operator (meaning making available an agreed generation capacity for the balancing needs of the energy system). Electricity produced is sold mainly to electricity suppliers and entities that trade electricity on the wholesale electricity market, as well as supplied to final consumers through the electricity supply segment.
Electricity supply	Supply of electricity to non-households and households final consumers. Electricity supplied to end consumers is mainly generated by the electricity generation segment, and where there is a gap, this is covered through spot or forward electricity purchases.

Management Board of the Company reviews management reports of each segment. Segment profit before tax is used to measure performance because management believes that such information is one of the most relevant in evaluating the results of the segments.

B. Information about operating segments

Year ended 31 December 2023	Electricity generation	Electricity supply	Total for reportable segments	Inter-segment eliminations	Total
External revenues	7,223,459,411	4,935,913,933	12,159,373,344	-	12,159,373,344
Inter-segment revenue	1,373,505,561	-	1,373,505,561	(1,373,505,561)	-
Segment revenue	8,596,964,972	4,935,913,933	13,532,878,905	(1,373,505,561)	12,159,373,344
Segment profit before tax	5,863,609,495	1,579,339,068	7,442,948,563	-	7,442,948,563
Net finance income/(cost)	264,951,102	2,040	264,953,142	-	264,953,142
Amortization and depreciation	(795,281,892)	(71,537)	(795,353,429)	-	(795,353,429)
Impairment loss on property, plant and equipment	(235,752,798)	-	(235,752,798)	-	(235,752,798)
Electricity purchased	(12,002,792)	(1,723,826,405)	(1,735,829,197)	1,279,666,353	(456,162,844)
Green certificates expenses	-	(390,645,471)	(390,645,471)	93,839,208	(296,806,263)
Employee benefits expenses	(589,196,101)	(15,766,741)	(604,962,842)	-	(604,962,842)
Turbinated water	(639,205,702)	-	(639,205,702)	-	(639,205,702)
Tax for electricity producers	(225,159,036)	-	(225,159,036)	-	(225,159,036)
Transport and distribution of electricity	(80,783,593)	(1,126,866,554)	(1,207,650,147)	-	(1,207,650,147)
Other expenses	(454,073,500)	(100,542,628)	(554,616,128)	-	(554,616,128)

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Year ended 31 December 2022	Electricity generation	Electricity supply	Total for reportable segments	Inter-segment eliminations	Total
External revenues	7,062,091,148	2,150,020,078	9,212,111,226	-	9,212,111,226
Inter-segment revenue	823,012,499	-	823,012,499	(823,012,499)	-
Segment revenue	7,885,103,647	2,150,020,078	10,035,123,725	(823,012,499)	9,212,111,226
Segment profit before tax	4,629,814,212	506,169,939	5,135,984,151	-	5,135,984,151
Net finance income/(cost)	229,456,399	4,366,903	233,823,302	-	233,823,302
Amortization and depreciation	(740,805,353)	(47,248)	(740,852,601)	-	(740,852,601)
Impairment loss on property, plant and equipment	(145,862,177)	(675)	(145,862,852)	-	(145,862,852)
Electricity purchased	(596,869,199)	(937,715,070)	(1,534,584,269)	794,134,205	(740,450,064)
Green certificates expenses	(13,285,125)	(179,895,024)	(193,180,149)	28,878,294	(164,301,855)
Employee benefits expenses	(505,394,461)	(8,526,115)	(513,920,576)	-	(513,920,576)
Turbinated water	(450,963,376)	-	(450,963,376)	-	(450,963,376)
Tax for electricity producers	(557,085,679)	-	(557,085,679)	-	(557,085,679)
Transport and distribution of electricity	(42,648,190)	(454,763,241)	(497,411,431)	-	(497,411,431)
Other expenses	(496,977,307)	(67,907,688)	(564,884,995)	-	(564,884,995)

Other expenses include the following captions from separate statement of profit or loss: Repair, maintenance, materials and consumables, Impairment loss on trade receivables and Other operating expenses.

Electricity generation segment includes also system services and production of electricity for system balancing which are billed to the system operator, Transelectrica SA (see details in Note 11).

Inter-segment revenue includes the value of electricity produced and transferred within the same entity from producer portfolio (generation segment) to supplier portfolio (supplier segment) of RON 1,279,832,298 (2022: RON 714,078,972). Inter-segment revenue is calculated based on a methodology approved by Management Board in 2021. The methodology used for computing transfer price between segments is based on the average electricity production cost in the last 12 months ending 2 months prior the calculation month, plus an internal margin.

All revenues are generated in Romania.

Total segment assets and total segment liabilities are not included in the management reports reviewed by the Management Board.

11. REVENUE

A. Revenue from contracts with customers

The Company generates revenue from:

	2023	2022
Wholesale of electricity	6,889,602,826	6,745,558,827
Electricity supplied to final consumers (retail sales)	4,935,913,933	2,150,020,078
System services	333,856,585	316,532,321
Total	12,159,373,344	9,212,111,226

Revenue from electricity supplied to final consumers reflect the value of volume supplied, including imbalances, which are based on automated or manual meter readings performed by the distribution operators, self-readings reported by the consumers, or based on volume estimated by distribution operators if readings are not available.

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The majority of the Company's supply revenue in the year ended 31 December 2023 represent sales to non-household consumers (approx. 75% of volume, 85% in 2022), for which readings are performed at the end of each month, data sent by the distribution operators. Also, approximately 63% (35% in 2022) of the volume supplied to household consumers is determined based on meter readings at the end of the period, and the rest is based on estimates of the consumption. Company assesses that the risk of revenue adjustment subsequent to period end that could result from the difference between the meter readings and the estimated volumes would have a limited impact on the financial statements.

In 2023, the Company produced 17,639 GWh (2022: 13,250 GWh) and sold 19,338 GWh (2022: 14,326 GWh). From total quantity sold, 6,239 GWh were supplied to end users in 2023 (3,676 GWh in 2022).

The Company has contracts with customers for periods up to 12 months.

Individual clients who represent more than 10% of the Company's revenues are as follows:

- Transelectrica SA, the electricity system operator - system services and production of electricity for system balancing (latter included in Sale of electricity produced) – RON 1,275,342,188 in 2023 (10%) and RON 2,063,760,561 in 2022 (22%);
- OPCOM SA, the market operator – sale of electricity produced on the spot market of RON 4,505,118,629 in 2023 (37%) and RON 913,301,269 in 2022 (10%).

Timing of revenue recognition:

	2023	2022
Revenue recognised over time	12,159,373,344	9,212,111,226
Total	12,159,373,344	9,212,111,226

B. Contract liabilities

As at 31 December 2023, the Company has contract liabilities of RON 41,719,807 (31 December 2022: RON 84,684,492). These represent advance payments from customers for future contractual obligations for electricity delivery and supply.

Contract liabilities as at 31 December 2022 of RON 84,684,492 were recognized as revenues during 2023 (2022: RON 93,330,569).

12. OTHER INCOME

	2023	2022
Grant income	5,752,442	5,709,969
Compensations, fines and penalties from suppliers	1,128,966	46,310,869
Other income	27,409,858	13,762,214
Total	34,291,266	65,783,052

13. OPERATING EXPENSES

A. Turbined water

Turbined water represents the water used by the hydropower plants in order to generate electricity. According to the Romanian legislation, a fee per cubic meter of water used is established annually by the National Agency for Water Administration. Starting 12 June 2023 the fee for turbined water was set at 37 RON/MWh produced. Until 12 June 2023, the fee was RON 1.40 per thousand cubic meters (2022: RON 1.23 per thousand cubic meters).

B. Electricity purchased

The Company purchases electricity in order to fulfill the deficit between the electricity contracted for sales and the actual electricity produced or in order to cover the electricity needs of the supply segment.

In 2023 the Company purchased 1,699 GWh (2022: 1,075 GWh) for RON 456,162,844 (2022: RON 740,450,064). Decrease in value of electricity purchases as compared to 2022 is due to the decrease in the average acquisition price in 2023.

C. Transport and distribution of electricity

	2023	2022
Injection of electricity produced in the national system	64,564,651	30,225,021
Distribution of electricity supplied	932,463,811	342,983,593
Transport of electricity supplied	210,621,685	124,202,817
Total	1,207,650,147	497,411,431

Tariffs for transport and distribution of electricity are regulated. Increase in transport and distribution costs in 2023 is determined by increase in quantity of electricity supplied and increase in the regulated tariffs with approximately 15% starting 1 April 2023.

D. Tax for electricity producers

Starting November 2021 the Government introduced a new tax for electricity producers. The tax is computed as 80% (for the period 1 November 2021 to 31 August 2022) and 100% (for the period 1 September 2022 to 31 March 2025) of net monthly average selling price in excess of RON 450 per MWh.

The net monthly average selling price is computed based on monthly revenue of the generation segment less monthly cost of electricity purchased, market administration fees and trading fees. Electricity production costs are not included in the monthly expenses.

The monthly revenue of the generation segment includes, according to the legislation, the wholesale of electricity produced and/or purchased and the value of electricity transferred within the same entity from producer portfolio (generation segment) to supplier portfolio (supplier segment). As the legislation does not define and does not include provisions on how the transfer value from producer portfolio to supplier portfolio should be computed, the Company has used its internal methodology for calculation of the transfer price between its licensed activities (generation and supply), which was approved by the Management Board on 8 June 2021, before the issuance of the legislation regarding the tax for electricity producers. This methodology is based on the average electricity production cost in the last 12 months ending 2 months prior the calculation month, plus an internal margin. This methodology may differ from the methodologies used by other companies taking into consideration that there is no regulation that stipulates a certain definition or method of calculation.

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The tax computed by the Company for 2023 is RON 225,159,036 (2022: RON 557,085,679). As at 31 December 2023 the outstanding amount payable is RON 876.904 (31 December 2022: RON 91,370,195).

Romanian tax authorities, through the General Antifraud Fiscal Division, performed controls at the Company on the tax for electricity producers. The authorities did not make any changes to the method of computing the tax or to the method of computing the transfer price between the production and supply portfolios, but had a different point of view regarding the date from which Law 357/2023 was applied by the Company. Also, the authorities mentioned in the report that the provisions of the Fiscal Code regarding transfer pricing does not apply in respect of the transfer price of the electricity between the portfolios/ segments, since these provisions regulate the transactions between related parties and not the transactions performed within the same entity.

Law 357/2023 was published by the authorities on 16 December 2022 and modified the method of computing net monthly revenue, by limiting the revenues in scope only to electricity produced and sold or transferred between segments and the costs in scope only to the balancing costs capped to 5% of the revenue from electricity produced and transfer value of electricity transferred between segments. The text of the law mentions that the provisions of the law are applicable starting with 1 September 2022, however the Company applied the law starting with the publication date, 16 December 2022.

As per control report issued on 11 April 2023, the tax authorities applied the law retroactively from 1 September 2022, and therefore computed additional tax of RON 62,052,115. The Company paid the additional tax, the amount being presented in other non-current assets as Hidroelectrica challenged the decision, estimating that the asset resulted from the payment will be realized in a period longer than one year. Further analysis on the retroactive application of the law is presented in Note 33 c).

E. Other operating expenses

	2023	2022
Movement in provisions, net	21,090,130	167,293,082
Local taxes	50,321,575	50,686,559
Security	21,211,149	17,396,617
Sponsorship	6,135,133	1,930,287
Professional services	14,429,968	10,833,099
Services related to abandoned constructions	9,250,707	7,646,546
ANRE contribution	9,593,226	6,329,312
Compensations and penalties	3,891,084	4,910,336
Loss on disposal of property, plant and equipment	5,240,043	1,820,983
Other expenses	87,670,082	54,626,959
Total	228,833,097	323,473,780

F. Auditor remuneration

Remuneration of the statutory auditor, KPMG Audit SRL, for the audit services for the years 2023 and 2022, as well as the fees charged for non-audit services, are as follows:

	2023 (EUR)	2022 (EUR)
Contractual fee for the audits of the separate and consolidated financial statements prepared in accordance with OMFP no. 2844/2016 and of the consolidated financial statements prepared in accordance with IFRS-EU	212,462	214,225
Total audit fees	212,462	214,225
Fees for non-audit services fees	260,000	-
Total fees	472,462	214,225

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Non-audit services include reviews of interim condensed consolidated financial statements, limited assurance on the information included in the current reports issued by the Company in accordance with the requirements of Law no. 24/2017, and FSA Regulation no. 5/2018, comfort letters provided by the statutory auditor in an IPO. These services are not prohibited by the article no. 5(1) of European Union Regulation no. 537/2014.

Other firms within KPMG network did not provide any services to the Company or its subsidiaries.

14. FINANCE RESULT

	2023	2022
Interest income	301,626,374	250,288,843
Impairment loss on financial investments, net (Nota 23)	6,474,015	15,017,845
Dividends from subsidiaries	-	1,736,928
Other finance income	16,833,809	3,488,551
Finance income	324,934,198	270,532,167
Interest expense	(25,406,574)	(9,510,806)
Unwinding of non-current provisions	(33,943,103)	(27,848,345)
Gain or (loss) from foreign exchange differences	(631,371)	1,212,255
Other finance expenses	(8)	(561,969)
Finance expenses	(59,981,056)	(36,708,865)
Net finance result	264,953,142	233,823,302

15. EARNINGS PER SHARE

The calculation of earnings per share has been based on the following profit attributable to ordinary shareholders and weighted-average number of ordinary shares outstanding.

	2023	2022
<i>Profit attributable to the owners of the Company</i>		
Profit for the year attributable to the owners of the Company	6,352,326,530	4,394,378,205
Profit attributable to ordinary shareholders	6,352,326,530	4,394,378,205
<i>Weighted average number of ordinary shares (basic and diluted)</i>		
Issued ordinary shares at 1 January	448,459,482	448,459,482
Effect of shares issued in May 2023	783,466	-
Weighted average number of ordinary shares at 31 December	449,242,948	448,459,482
Earnings per share (basic and diluted) RON/share	14.14	9.80

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16. EMPLOYEE BENEFITS

	31 December 2023	31 December 2022
Defined benefit plans	93,243,143	86,786,473
Other long-term employee benefits	41,085,875	43,434,510
Salaries payable	24,767,971	20,396,373
Social security contributions	17,857,015	15,244,195
Tax on salaries	3,185,962	2,675,172
Other	2,802,034	2,638,412
Total	182,942,000	171,175,136
- Current	62,245,437	55,925,747
- Non-current	120,696,563	115,249,389

Current portion of employee benefits is as follows:

	31 December 2023	31 December 2022
Defined benefit plans	9,423,114	9,647,425
Other long-term employee benefits	4,933,138	5,806,102
Salaries payable	24,767,971	12,496,514
Social security contributions	17,857,015	15,244,195
Tax on salaries	3,185,962	2,675,172
Other	2,078,237	10,056,339
Total	62,245,437	55,925,747

Post-employment benefits (defined benefit plans)

In accordance with the Collective Labour Agreements, the Company provides cash benefits to employees at retirement depending on the years of service in the Company, as follows:

Retirement benefits

Years of service	31 December 2023	31 December 2022
Up to 10 years	1	1
Between 10 and 25 years	3	3
More than 25 years	6	6

Benefits in kind

Also, in accordance with Collective Labour Agreements, the Company provides benefits in kind consisting of free electricity (within the limit of 1,200 kWh annually) to employees retired from the Company, subject to meeting certain conditions (at least 15 cumulative years of seniority in the Company or other companies operating in the electricity sector or at least 10 consecutive years of service in such companies before retirement). In the event of the retired person's death, the surviving spouse has the right to receive the same benefit until the time of their remarriage or death.

Until 27 June 2022, the Company provided benefits in kind consisting of free electricity (within the limit of 1,200 kWh annually) to employees retired from the predecessors entities of Hidroelectrica SA in accordance with the Government Decision no. 1041/2003. On 27 June 2022, the High Court of Cassation and Justice of Romania cancelled the Government Decision no. 1041/2003, following a request made by another Romanian energy sector entity. As a result, as at 31 December 2023 and 31 December 2022, the Company does not have the obligation to provide benefits in kind to employees retired from the predecessors entities.

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Other long-term employee benefits

In accordance with the Collective Labour Agreements, the Company provides cash benefits to the Company's employees depending on seniority in the companies, as follows:

Seniority	Number of monthly gross base salary	
	31 December 2023	31 December 2022
20 years	1	1
25 years	2	2
30 years	3	3
35 years	4	4
40 years	5	5
45 years	6	6

(i) Movement in the defined benefit liability and other long-term employee benefits

The following tables show the reconciliation between the opening and closing balance for the defined benefit liability and other long-term employee benefits and their components. There are no benefit plan assets.

Defined benefit liabilities	2023	2022
Balance at 1 January	86,786,473	87,255,445
Included in profit or loss		
Current service cost	4,024,498	3,609,661
Past service cost	-	(8,555,216)
Interest cost	6,790,963	3,842,351
Benefits paid	(8,390,417)	(8,160,298)
Included in other comprehensive income		
Actuarial losses/(gains)	4,031,626	8,794,530
Balance at 31 December	93,243,143	86,786,473
Other long-term employee benefits	2023	2022
Balance at 1 January	43,434,510	39,764,928
Included in profit or loss		
Current service cost	2,068,857	2,035,901
Interest cost	3,164,908	2,019,025
Actuarial losses/(gains)	(590,274)	5,250,129
Benefits paid	(6,992,126)	(5,635,473)
Balance at 31 December	41,085,875	43,434,510

(ii) Actuarial assumptions

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

(a) Macroeconomic assumptions:

- the inflation rate used as at 31 December 2023 and 2022 is based on the forecast of the National Bank of Romania ("NBR") for the inflation for RON, as follows:

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Year	Valuation date	Valuation date
	31 December 2023	31 December 2022
2023	n/a	12.4%
2024	5.3%	7.5%
2025	3.3%	4.2%
2026 – 2032	2.5%	4.2%
2033+	2.5%	2.3%

- discount rate used was obtained from the interest rates for RON published by the European Insurance and Occupational Pensions Authority (EIOPA) as follows:

Year	Valuation date	Valuation date
	31 December 2023	31 December 2022
2023	n/a	7.091%
2024	5.995%	7.246%
2025	6.022%	7.437%
2026	6.049%	7.638%
2027+	6.073%-4.077% (average 4.847%)	7.835%-3.631% (average 5.622%)

- increase in electricity price per kWh in line with the inflation rate. The electricity price used in the actuarial calculation is RON 0.810/kWh as at 31 December 2023 (31 December 2022: RON 0.747/kWh);
- mortality rate used on is the rate published by the National Institute of Statistics for the last 10 years as of the valuation date.
- taxes and social contributions are those in force at the reporting dates.

(b) Company specific assumptions:

- growth rate of gross salaries used as at 31 December 2023 is a rate equal to the inflation rate in the following years (31 December 2022: 9.6% for 2023 and a rate equal to the inflation rate in the following years);
- employee' turnover rate used as at 31 December 2023 is based on annual averages of employee' turnover for the last 7 years differentiated by age and gender (31 December 2022: last 6 years averages). The weighted average employee' turnover rate used as at 31 December 2023 is 1.40% (31 December 2022: 1.56%).

(iii) Sensitivity analysis

The significant actuarial assumptions used for the determination of the defined benefits and other long-term employee benefits obligations are discount rate, expected salary increase and employee turnover. The sensitivity analysis below shows the effect on employee benefit liabilities – increase/(decrease), and was determined based on the reasonable changes in the respective assumptions at the end of the reporting periods, while other assumptions remain constant.

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	31 December 2023		31 December 2022	
	Increase	Decrease	Increase	Decrease
Discount rate (100 bp)	(10,939,017)	12,825,221	(9,546,172)	11,015,642
Employee turnover ratio (100 bp)	(7,484,641)	4,751,288	(7,002,584)	4,275,864
Annual salary increase rate (100 bp)	6,449,079	(5,787,706)	6,065,914	(5,500,182)

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

Employee benefits expense

	2023	2022
Average number of employees	3,461	3,388
Number of employees at 31 December	3,551	3,465
	2023	2022
Salaries and other remuneration	557,998,735	486,337,519
Social security contributions	24,199,115	12,994,732
Meal tickets	22,764,992	14,588,325
Total	604,962,842	513,920,576

17. INCOME TAX

In the determination of the current and deferred tax the Company takes into account the impact of uncertain tax positions (see Note 33). This assessment relies on estimates and assumptions and may involve a series of judgments about future events.

The Company considers that the accounting records for income tax due are appropriate for all open tax years, based on assessment made by management taking into account various factors, including the interpretation of tax legislation and previous experience. New information may become available that causes the Company to change its judgement regarding the adequacy of the existing tax liabilities; such changes to tax liabilities will have impact in tax expense in the period that such determination is made (Note 33).

(a) Amounts recognized to profit or loss

	2023	2022
Current tax expense	1,173,459,828	976,444,604
Deferred tax benefit	(82,837,795)	(234,838,658)
Total	1,090,622,033	741,605,946

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(b) Amounts recognized in OCI

	2023			2022		
	Before tax	Tax (expense)/ benefit	Net	Before tax	Tax (expense)/ benefit	Net
<i>Items that will not be reclassified to profit or loss</i>						
Revaluation of property, plant and equipment	(4,031,625)	645,059	(3,386,566)	2,116,549,252	(338,727,006)	1,777,822,246
Remeasurement of defined benefit liability	1,663,686,690	(265,980,966)	1,397,705,724	(8,794,531)	1,407,125	(7,387,406)
	1,659,655,065	(265,335,907)	1,394,319,158	2,107,754,721	(337,319,881)	1,770,434,840

(c) Reconciliation of effective tax rate

	2023		2022	
Profit before tax		7,442,948,563		5,135,984,151
Tax using the Company's domestic tax rate	16%	1,190,871,770	16.0%	821,757,464
Tax effect of:				
- Non-deductible expenses	0.1%	4,057,632	0.0%	1,720,584
- Tax-exempt income	(0.1%)	(5,503,118)	(0.3%)	(13,131,230)
- Deduction of legal reserves	-	-	(0.1%)	(6,388,839)
- Tax incentives	(1.6%)	(118,279,069)	(0.5%)	(26,968,340)
- Distribution of previously tax deducted revaluation reserves	0.3%	19,474,818	2.5%	127,861,037
- Temporary differences not recognised previously	-	-	(3.2%)	(163,244,730)
Income tax	14.7%	1,090,622,033	14.4%	741,605,946

In 2023 and 2022, tax incentives refer to reinvested profit tax facility, positive tax incentive, increase in equity tax incentive and sponsorships granted. The main increase is due to the increase in equity tax incentive.

According to the Fiscal Code, certain revaluation reserves are subject to income tax at their distribution as dividends, if the revaluation reserves were previously tax deducted.

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(d) Movement in deferred tax balances

	Net balance at 1 January 2023	Recognized in profit or loss	Reconized in OCI	Net balance at 31 December 2023	Deferred tax assets	Deferred tax liabilities
Property, plant and equipment and intangible assets	1,505,839,926	(39,084,708)	265,980,966	1,732,736,184	-	1,732,736,1804
Provisions	(140,623,581)	(8,869,811)		(149,493,392)	(149,493,392)	-
Employee benefits	(20,835,358)	(12,225)	(645,059)	(21,492,642)	(21,492,642)	-
Leasing liabilities	-	(14,094,736)	-	(14,094,736)	(14,094,736)	-
Trade receivables	(22,944,807)	(20,034,167)		(42,978,974)	(42,978,974)	-
Inventories	(5,657,912)	(742,148)		(6,400,060)	(6,400,060)	-
Total deferred tax liabilities (assets) before set-off	1,315,778,268	(82,837,795)	265,335,907	1,498,276,380	(234,459,804)	1,732,736,184
Set-off tax					234,459,804	(234,459,804)
Net deferred tax liabilities (assets)					-	1,498,276,380

	Net balance at 1 January 2022	From merger	Recognized in profit or loss	Reconized in OCI	Net balance at 31 December 2022	Deferred tax assets	Deferred tax liabilities
Property, plant and equipment and intangible assets	1,357,833,531	7,599,548	(198,320,159)	338,727,006	1,505,839,926	-	1,505,839,926
Provisions	(102,495,100)	(2,564,642)	(35,563,839)	-	(140,623,581)	(140,623,581)	-
Employee benefits	(20,323,260)	-	895,027	(1,407,125)	(20,835,358)	(20,835,358)	-
Leasing liabilities	(17,688,621)	-	(5,256,186)	-	(22,944,807)	(22,944,807)	-
Trade receivables	(5,556,272)	-	(101,640)	-	(5,657,912)	(5,657,912)	-
Green certificates	-	2,125,620	(2,125,620)	-	-	-	-
Tax loss carried forward	-	(5,633,759)	5,633,759	-	-	-	-
Total deferred tax liabilities (assets) before set-off	1,211,770,278	1,526,767	(234,838,658)	337,319,881	1,315,778,268	(190,061,658)	1,505,839,926
Set-off tax						190,061,658	(190,061,658)
Net deferred tax liabilities (assets)						-	1,315,778,268

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(e) Potential consequences on income tax

The Company may have potential consequences on corporate income tax that may result from the payment to shareholders of dividends from revaluation reserves transferred to retained earnings which, according to tax law, are taxed at the time of change of destination, to the extent they were previously tax deducted. Thus, the distribution of dividends from such reserves will generate additional income tax. The Company has such reserves transferred in retained earnings at 31 December 2023, which following the distribution would generate additional income tax for the Company of RON 10,435,097 (31 December 2022: RON 21,499,864).

The potential tax effect of revaluation reserves taxable at change in destination/distribution (at 16% tax rate) that were not yet transferred to retained earnings, amount to RON 363,332,251 at 31 December 2023 (RON 371,760,881 at 31 December 2022).

18. CASH AND CASH EQUIVALENTS AND RESTRICTED CASH

Cash and cash equivalents

	31 December 2023	31 December 2022
Bank accounts	378,193,481	641,448,426
Petty cash	96,259	89,796
Cash equivalents	-	167,664
Total	378,289,740	641,705,886

Restricted cash

As at 31 December 2023, restricted cash represents a collateral deposit of RON 101,057,471 at Banca Comerciala Romana for issuance of bank guarantee. The maturity of the collateral is 30 April 2024; during the period until maturity the Company does not have access to this deposit.

19. INVESTMENTS IN DEPOSITS AND BONDS

	31 December 2023		31 December 2022	
	Current	Non-current	Current	Non-current
Bank deposits with maturity less than 1 year held for investment purposes	4,349,481,852	-	3,034,745,062	-
Corporate bonds with a maturity more than 1 year	-	353,397,310	-	351,337,578
TOTAL	4,349,481,852	353,397,310	3,034,745,062	351,337,578

Bank deposits are short-term deposits with maturity between 3 to 12 months held for investment purposes rather than for short term cash commitments. The average interest rate on term deposits was 6.96% per year in 2023 (2022: 6.61% per year).

In 2022 the Company acquired from CEC Bank corporate bonds denominated in euro with maturity on 30 December 2025. The balance as at 31 December 2023 represents principal of RON 353,196,600 and related interest of RON 200,710 (31 December 2022: principal of RON 351,265,400 and related interest of RON 72,178). The corporate bonds annual yield is 7.5%.

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20. TRADE RECEIVABLES

	31 December 2023	31 December 2022
Trade receivables – generation segment (wholesale)	598,959,774	544,373,605
Trade receivables – supply segment (retail)	2,684,308,430	959,412,230
Impairment allowance	(235,879,050)	(156,145,200)
Total	3,047,389,154	1,347,640,635

The unbilled revenues included in trade receivables amounts to RON 1,229,155,895 gross at 31 December 2023, representing 37% of total gross trade receivables (RON 1,116,046,031 at 31 December 2022, representing 74% of total gross trade receivables), out of which RON 1,046,869,776 gross relate to supply segment (RON 767,611,526 as at 31 December 2022). In 2022 the Company started the implementation of new billing and customer relationship systems, which continued also in 2023, which together with the frequent regulatory changes with respect of supply prices to end-users and the significant increase in the number of retail clients of the Company conducted to delays in the billing process of the Company and a significant balance of unbilled revenues at 31 December 2023 and 31 December 2022.

Of the invoiced receivables at 31 December 2023, RON 522,940,087 represent payment rescheduled receivables.

The movement of impairment loss for trade receivables is as follows:

	2023	2022
Balance at 1 January	156,145,200	111,192,377
Impairment loss recognized	90,771,113	60,229,063
Impairment loss reversed	(11,037,263)	(15,276,240)
Balance at 31 December	235,879,050	156,145,200

Trade receivables ageing analysis is disclosed in Note 28. Trade receivables due from related parties are disclosed in Note 34.

21. OTHER ASSETS

	31 December 2023		31 December 2022	
	Current	Non-current	Current	Non-current
Payments made in connection with uncertain tax treatments	-	277,997,540	-	214,385,212
Income tax assets	-	19,214,124	-	19,214,124
Impairment loss income tax assets	-	(19,214,124)	-	(19,214,124)
Prepayments	37,717,825	-	60,334,932	-
Value added tax receivable	847,185	-	41,648,054	-
Other assets	30,813,561	2,532,747	19,500,962	2,531,847
Impairment loss on other assets	(8,539,389)	-	(8,228,988)	-
Total	60,839,182	280,530,287	113,254,960	216,917,059

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The movement of impairment losses for other receivables is as follows:

	2023	2022
Balance at 1 January	27,443,112	29,245,178
Impairment loss recognized	316,152	423
Impairment loss reversed	(5,751)	(1,802,489)
Balance at 31 December	27,753,513	27,443,112

Payments made in connection with uncertain tax treatments

RON 214,385,212 represents amounts paid by the Company as a result of the forced execution by ANAF in 2016 of the bank guarantee issued by ING Bank in favor of the Company for guaranteeing the amounts resulting from a Tax Inspection concluded by ANAF in 2014. The Company initiated lawsuits against ING Bank and ANAF in order to recover this amount executed. Litigation details are presented in Note 33.

According to the General Antifraud Fiscal Division report from 11 April 2023 and related imposing decision, the fiscal authorities applied the Law 357/2022 regarding the tax for electricity producers retrospectively from 1 September 2022 and computed additional tax of RON 62,052,115 (see Note 13D). On 7 August 2023, the Company received a decision regarding interest and penalties in the amount of RON 1,560,213 related to the previously mentioned imposing decision. In 2023, the Company paid both the additional tax imposed and the related interest and penalties, the amount being recorded as other non-current assets as Hidroelectrica challenged in Court these decisions, estimating that the assets represented by the payment will be recovered within a period longer than one year. The analysis regarding the retrospective application of the law is presented in Note 33 c).

The Company recognized these payments as an asset based on IFRIC 23 *Uncertainty over Income Tax Treatments* because they will either be refunded if the Company is successful in the litigations related to the liability or they will be used to pay the liability in case of loss of the dispute.

22. PROPERTY, PLANDT AND EQUIPMENT

	Land and land improvements	Buildings and special constructions and installations	Machinery, equipment and other items	Assets under construction	TOTAL
GROSS CARRYING AMOUNT					
Balance at 1 January 2022	612,719,355	13,242,910,375	2,625,952,928	4,281,895,800	20,763,478,458
Merger additions	7,083,014	210,407,645	326,632,081	-	544,122,740
Additions	378,649	6,352,966	1,164	183,273,299	190,006,078
Transfers from assets under construction	-	55,770,883	63,247,225	(119,018,108)	-
Disposals	(13,206)	(131,609)	(291,649)	(9,599,571)	(10,036,035)
Revaluation recorded in other comprehensive income, net	(27,269,430)	1,812,850,545	330,968,139	-	2,116,549,254
Revaluation recorded in profit or loss, net	(9,006,966)	24,071,071	24,903,774	-	39,967,879
Accumulated depreciation eliminated against gross carrying amount at revaluation	-	(334,770,775)	(441,176,470)	-	(775,947,245)
Balance at 31 December 2022	583,891,416	15,017,461,101	2,930,237,192	4,336,551,420	22,868,141,129
Balance at 1 January 2023	583,891,416	15,017,461,101	2,930,237,192	4,336,551,420	22,868,141,129
Additions	17,906,170	58,646,979	4,035	192,588,230	269,145,414

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	Land and land improvements	Buildings and special constructions and installations	Machinery, equipment and other items	Assets under construction	TOTAL
Transfers from assets under construction	467,038	167,408,280	111,183,818	(279,059,136)	-
Disposals	-	(127,583)	(456,027)	(5,981,625)	(6,565,235)
Revaluation recorded in other comprehensive income, net	(30,410,008)	1,435,140,414	258,956,284	-	1,663,686,690
Revaluation recorded in profit or loss, net	(71,103,801)	584,032	(7,715,565)	-	(74,846,158)
Accumulated depreciation eliminated against gross carrying amount at revaluation	-	(361,582,766)	(422,305,387)	-	(783,888,153)
Balance at 31 December 2023	500,750,815	16,317,530,457	2,869,904,350	4,244,098,888	23,932,284,510

ACCUMULATED DEPRECIATION

Balance at 1 January 2022	-	13,835,335	3,163,092	-	16,998,427
Merger additions	858,713	16,274,182	24,618,026	-	41,750,921
Depreciation charge	-	320,954,541	418,191,322	-	739,145,863
Accumulated depreciation of disposals	-	(65,879)	(56,051)	-	(121,930)
Accumulated depreciation eliminated against gross carrying amount at revaluation	-	(334,770,775)	(441,176,470)	-	(775,947,245)
Balance at 31 December 2022	858,713	16,227,404	4,739,919	-	21,826,036

Balance at 1 January 2023	858,713	16,227,404	4,739,919	-	21,826,036
Depreciation charge	569,277	367,511,636	423,958,931	-	792,039,844
Accumulated depreciation of disposals	-	(20,039)	(69,462)	-	(89,501)
Accumulated depreciation eliminated against gross carrying amount at revaluation	-	(361,582,766)	(422,305,387)	-	(783,888,153)
Balance at 31 December 2023	1,427,990	22,136,235	6,324,001	-	29,888,226

ACCUMULATED IMPAIRMENT LOSSES

Balance at 1 January 2022	-	-	-	3,240,792,599	3,240,792,599
Impairment loss	-	605	27,435	255,956,473	255,984,513
Reversal of impairment loss	-	(605)	(27,435)	(78,908,522)	(78,936,562)
Balance at 31 December 2022	-	-	-	3,417,840,550	3,417,840,550

Balance at 1 January 2023	-	-	-	3,417,840,550	3,417,840,550
Impairment loss	-	4,827	3,967	175,505,083	175,513,877
Reversal of impairment loss	-	(4,827)	(3,967)	(14,564,183)	(14,572,977)
Balance at 31 December 2023	-	-	-	3,578,781,450	3,578,781,450

NET CARRYING AMOUNT

Balance at 1 January 2022	612,719,355	13,229,075,040	2,622,789,836	1,041,103,202	17,505,687,433
Balance at 31 December 2022	583,032,703	15,001,233,697	2,925,497,273	918,710,870	19,428,474,543
Balance at 31 December 2023	499,322,825	16,295,394,222	2,863,580,349	665,317,438	20,323,614,834

Property, plant and equipment in use

The Company's property, plant and equipment include mainly special constructions, namely hydro-power plants, energy pumping stations, micro hydro-power plants, floodgates, as well as hydro-aggregates, equipment and installations and wind turbines. The Company operates 187 hydro-power plants with an installed capacity of 6,372.172 MW, out of which 5 pumping stations with an installed capacity of 91.5 MW, and 36 wind turbines with an installed capacity of 108 MW.

According to applicable legislation, the Company has to obtain environmental authorizations in order to operate. Starting 2021 the Company has obtained permanent authorizations, however there is an obligation to apply for annual permits from the Environmental Protection Agencies and Romanian Water Agency. In 2022 and 2023 annual permits were obtained for all authorisations falling under these rules, except for those facilities that are not in use.

The conditions enacted by the environmental authorisations include monitoring the environmental factors and compliance with the environmental legislation applicable to wind and hydro-power objectives. In order to monitor the environmental factors, the Company performs measurements of the physical and chemical quality indicators of water in the reservoirs, of industrial and wastewater, and measurements of the noise level at site boundaries. In 2023 all the required measurements have been made and the legal limits of the indicators were not exceeded. The Company expects that for 2024 the legal limits of the indicators not to be exceeded as well.

Right-of-use assets

Property, plant and equipment include right-of-use assets mainly in relation to the Company's headquarters, land of the wind park and the car fleet of RON 66,471,477 as at 31 December 2023 (31 December 2022: RON 15,153.967) classified in Land, Buildings and installations and Machinery, equipment and other items. In December 2023 an addendum was signed for the Company's headquarters extending the lease for 10 years, until 17 December 2033.

Revaluation of property, plant and equipment

Property, plant and equipment, except for assets under construction and right-of-use assets, were revalued by an independent valuation expert, Appraisal & Valuation SA, at 31 December 2023 (RON 19,591,825,920) and 31 December 2022 (RON 18,494,609,706).

Measurement of fair value

The following paragraphs describe the valuation techniques used by the independent valuation expert in measuring the fair values (Level 3) for the revaluation of land, buildings and special installations, machinery, equipment and other fixed assets, as well as the significant unobservable input used.

In 2023, the revaluation increase was driven mainly by approximately 9% increase in the cost of construction materials (i.e – concrete, steel, other metals) due to the economic environment, as well as the inflation in the construction industry of approx. 13%.

In 2022, the revaluation increase was driven mainly by approximately 9% increase in the cost of construction materials (i.e – concrete, steel, other metals) due to the economic environment, as well as the inflation in the construction industry of approx. 12%.

Land

Valuation technique - Direct comparison approach

The fair value was estimated by using the market comparison approach (comparison grids) based on the price per square meter for land plots with similar characteristics (i.e. property rights, location, physical characteristics, area, best use). The estimate fair value is based on adjustments applied to unit asking prices for land situated in similar locations. For a number of locations the unit values were extrapolated to plots situated in similar areas based on location and size categories.

Significant unobservable inputs

- adjustments for liquidity (negotiation margin between -25% and -10%), surface area (between -50% and 0%).

Inter-relationship between key unobservable inputs and fair value measurement

The estimated fair value would increase (decrease) if:

- adjustments for liquidity and surface area would be smaller (larger).

Special constructions and installations

Valuation technique

(a) Cost approach – Net reconstruction cost

For construction items where recent comparative constructions were not available in the market (include hydro-power facilities and other highly specialized items, with no such works being undertaken in the last decades in Romania), the valuation expert determined the net reconstruction cost (gross reconstruction cost, less physical, functional and external depreciation).

- *Gross reconstruction cost*

Gross reconstruction cost was determined based on cost information extracted from valuation catalogues relevant to the type of each construction (Catalogue 125 Meteorological, hydrotechnical, water supply and sewerage constructions and Catalogue 128 Hydrotechnical constructions and annex buildings for energy development, 1964 editions, republished by Matrix Rom Publishing House). These catalogues are used in the Romanian valuation practice by the licensed valuers body in all instances where there is no recent information for costs for similar constructions and acknowledged by the licensed valuers body – Romanian Association of Licensed Valuers (ANEVAR).

For specific types of constructions, the catalogues provide the cost per unit of relevant construction parameters (i.e. volume, surface, power output etc.). The valuation expert applied the cost per unit to the specific parameters of the each construction item of the Company. Since the catalogues are outdated and no other recent sources were available, the results have been indexed to the present date by using price indices corresponding to the asset type (such as hypower constructions, industrial buildings) available in the Technical Expertise Documentary Bulletin no. 165 (31 December 2022: Technical Expertise Documentary Bulletin no. 162), published by the Romanian Body of Technical Experts in October 2023 (31 December 2022: December 2022).

For constructions for which no characteristics were available (e.g. areas, volumes, lengths) GRC was derived by indexation of gross book value (GBV). GBV is the fair value estimated as at 31 December 2022. The index used

was a statistical index published by the Romanian National Institute of Statistics (INSSE) for construction works, for the period October 2022- October 2023, last indexation using the October 2022 index. For those items depreciated for lower power output as at 31 December 2022, the indexation base used was the NRC derived before applying the functional and external depreciation.

- *Physical depreciation*

Physical depreciation was determined as the ratio of remaining useful life to the economic useful life of each asset applied to the gross replacement cost. Useful lives were discussed between the Company and the valuation expert and verified by the valuation expert for the main items with public information related to life duration of similar constructions, worldwide.

For items where GRC was derived based on prior valuation estimates, physical depreciation was estimated by considering a wear for the period between valuations.

- *Functional and external depreciation*

Functional depreciation, specific to the net reconstruction cost approach, is usually determined by comparing the item subject to valuation to a similar asset existing in the market in terms of functionality. External depreciation is due to external factors affecting the asset (i.e. market, political, environmental factors). The valuation expert did not identify similar assets for those subject to valuation in order to determine functional depreciation. Consequently, in order to account for both functional and external depreciation, the valuation expert determined the depreciation factor of each hydro-power facility as the ratio of actual power output (based on recent production reports) to the total capacity of the asset. The lower actual output of the Company's hydro-power facilities was deemed as due to both functional and external factors.

(b) Cost approach – Net replacement cost

For general purpose construction items, the valuation expert determined the net replacement cost (i.e. the cost to replace an asset with another comparable asset available in the market), computed as gross replacement cost, less physical and external depreciation (functional depreciation is accounted for when computing the gross replacement cost – i.e. the replacement cost does not include the cost of specific functionalities that are not specific to the asset subject to valuation).

- *Gross replacement cost*

Gross replacement cost was determined based on cost information extracted from the most recent valuation catalogue (Reconstruction Costs – Replacement Costs, Industrial, Commercial and Agricultural Buildings. Special Constructions, published by IROVAL Publishing House – Evaluation Research, Bucharest, 2016) relevant to each type of construction.

For specific types of constructions and relevant construction stages (i.e. foundation, roof etc.) and functionalities (i.e. elevators, utilities), the catalogue provides the cost per unit of relevant parameters (i.e. volume, surface etc.). The valuation expert applied the cost per unit to the specific parameters of the each construction item of the Company. The results have been indexed to the present date by using price indices published by IROVAL for the same catalogues, on an annual basis, that are correlated with construction price market, per categories of constructions and installation works, and used in the valuation practice in Romania.

- *Physical depreciation*

Physical depreciation was determined as the ratio of remaining useful life to the economic useful life of each asset, applied to the gross replacement cost.

- *External depreciation*

External depreciation was applied to those general purpose construction items that are part of an operating unit for which an external depreciation due to low capacity use was identified, as described above.

Significant unobservable inputs

- gross replacement / reconstruction cost determined based on technical catalogues;
- price indices;
- adjustments for physical depreciation;
- adjustments for low capacity use (average of 20%).

Inter-relationship between key unobservable inputs and fair value measurement

The estimated fair value would increase (decrease) if:

- different judgement would be applied on determination of gross reconstruction/replacement cost; and
- physical, functional and external depreciations would be lower (higher).

Machinery, equipment and other items

Valuation technique

(a) Direct comparison approach

The direct comparison approach was used for machinery, equipment and other items for which there are observable offer prices- for similar items (vehicles, office equipment etc.). Under this approach, the price of similar assets obtained from public market sources was adjusted to account for market conditions and differences in technical characteristics between the asset subject to valuation and the similar asset.

(b) Cost approach – Net replacement cost

For machinery and equipment for which there is no active market, the valuation expert determined the net replacement cost, computed as gross replacement cost, less physical and external depreciation.

- *Gross replacement cost*

Gross replacement cost was determined as follows:

- direct method: for assets where comparable assets were identified (i.e. power transformers), gross replacement cost was derived from price information of comparable new assets in the international market (i.e. supplier price information);
- indirect method: for highly specialized assets for which no comparable asset was identified (i.e. hydro-power equipment), gross replacement cost was derived from the gross book value of the asset subject to valuation, indexed with specific price indices published by the Romanian institute of statistics (INSSE).

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- *Physical depreciation*

Physical depreciation was determined as the ratio of remaining useful life to the economic useful life of each asset, applied to the gross replacement cost.

- *External depreciation*

External depreciation was applied to those highly specialized equipment that are part of an operating unit for which an external depreciation due to low capacity use was identified, as described above.

Significant unobservable inputs

- assets appraised under the direct comparison approach: price adjustments depending on the availability of trading negotiations and the current conditions of the specific market (5% - 25%), the comparability of the technical characteristics at the level of each identified comparability;
- assets appraised under the cost approach: adjustments for physical depreciation (3% - 90%, 32% on average), and external depreciation – adjustments for low capacity use (average of 20%).

Inter-relationship between key unobservable inputs and fair value measurement

The estimated fair value would increase (decrease) if:

- market price adjustments would be lower (higher);
- adjustments for physical and external depreciation applied under the cost approach would be lower (higher).

Assets under construction

As at 31 December 2023, the Company has assets under construction with a gross carrying amount of RON 4,244,098,888 (31 December 2022: RON 4,336,551,420) for which it recognized accumulated impairment losses of RON 3,578,781,450 (31 December 2022: RON 3,417,840,550).

The main assets under construction relate to the construction or rehabilitation of the following hydro-power projects or plants: construction of hydro- power plants – Bumbesti – Livezeni, Siriu – Surduc, Rastolita, Cornetu-Avrig, Pascani, Cerna Belareca, Cerna-Motru-Tismana, Bistra, Cosmesti-Movileni, Valea Sadului, Fagaras Hoghiz, Runcu Firiza; and rehabilitation of hydro-power plants – CHE Stejaru, CHE Slatina.

These assets under construction include mainly investments with complex functions, represented by historical investment objectives regarding hydropower development schemes with social functions (described below) which have been designed to have a secondary energy function. The primary objectives of these investment objectives are rational and safe water supply management, including:

- Limitation of flooding effects;
- Protection of population, communities and agricultural land;
- Water supply to riverain communities;
- Insuring water reserves to supply population and industry;
- Insuring flow for irrigation during periods of drought;
- Retaining solid flow in the water accumulations.

The social functions described above are specific to public authorities, which are not-for-profit entities. In fact, many of these investments belonged to the “Romanian Waters” National Agency, the governmental body concerned with regional planning and water management, in the past. Hidroelectrica SA is incorporated under Companies Law no. 31/1990 and is not a not-for-profit organization. In addition, Hidroelectrica does not benefit

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from public funds to complete such social investments, which, if continued to be funded, would impair shareholder value.

These “historical” hydro-power projects were mainly initiated between 1982 and 1989, following a number of Decrees of the State Council, and were financed by public funds, through the ministries involved as owners. After 1989, some of these projects were continued by the Romanian Waters National Agency, financed with public funds, before they were transferred to Hidroelectrica. The economic and energy conditions have significantly changed compared to 1980s and 1990s, mainly due to the shut down of the state centralized investment fund, and the beneficiaries of these complex works ceased funding the specific works included in the hydro-power projects, while the costs of these works remained to be incurred by Hidroelectrica.

After Hidroelectrica entered insolvency in June 2012 and in the view of the planned future listing of the Company’s shares, the legal administrators strongly prioritized the Company focus on profit and rational cash management.

In 2017 the Company contracted a specialized engineer, ISPH SA, to estimate the costs of abandonment, conservation and securing the works performed on the investments with complex functions. In 2018, based on the analysis of costs and benefits, the management decided to abandon certain investment objectives, as presented below and in Note 29.

For the investment objectives for which the decision to abandon was taken, impairment losses were recognized at the amount of their total gross carrying amount. The gross book value of abandoned investments is RON 590,889,477 as at the end of 31 December 2023 (2022: RON 590,889,888). For these investment objectives the Company recognized provisions for decommissioning and site restoration (see Note 29).

Project	Purpose	Gross carrying amount as at 31 December 2023	Accumulated impairment as at 31 December 2023	Net carrying amount as at 31 December 2023
Borca – Poiana Teiului	Galu Step	9,022,718	(9,022,718)	-
Cosmesti – Movileni	Cosmesti Step	93,206,729	(93,206,729)	-
Surduc – Siriu	Ciresu-Surduc Step	17,345,275	(17,345,275)	-
Fagaras-Hoghiz	Fagaras – Hoghiz	174,949,578	(174,949,578)	-
Runcu – Firiza	Runcu Firiza	87,807,430	(87,807,430)	-
Dambovita – Clabucet	Dambovita – Clabucet	34,761,669	(34,761,669)	-
Valea Sadului-Vadeni	Valea Sadului-Vadeni	165,209,205	(165,209,205)	-
Others		8,586,873	(8,586,873)	-
Total		590,889,477	(590,889,477)	-

Project	Purpose	Gross carrying amount as at 31 December 2022	Accumulated impairment as at 31 December 2022	Net carrying amount as at 31 December 2022
Borca – Poiana Teiului	Galu Step	9,023,129	(9,023,129)	-
Cosmesti – Movileni	Cosmesti Step	93,206,729	(93,206,729)	-
Surduc – Siriu	Ciresu-Surduc Step	17,345,275	(17,345,275)	-
Fagaras-Hoghiz	Fagaras – Hoghiz	174,949,578	(174,949,578)	-
Runcu – Firiza	Runcu Firiza	87,807,430	(87,807,430)	-
Dambovita – Clabucet	Dambovita – Clabucet	34,761,669	(34,761,669)	-
Valea Sadului-Vadeni	Valea Sadului-Vadeni	165,209,205	(165,209,205)	-
Others		8,586,873	(8,586,873)	-
Total		590,889,888	(590,889,888)	-

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For 2023 and 2022 impairment losses were recognized for assets under construction, other than the abandoned assets discussed above, as follows:

Project	Gross carrying amount 31 Dec 2023	Accumulated impairment loss 31 Dec 2023	Net book value 31 Dec 2023	Impairment loss/(reversal) 2023
AHE Bumbesti-Livezeni	770,521,007	(451,088,950)	319,432,057	92,075,795
CHE Racovita	62,781,188	(62,781,188)	-	(7,775,357)
AHE Rastolita	697,882,711	(654,070,752)	43,811,959	23,031,276
AHE Siriu-Surduc	745,847,074	(699,935,179)	45,911,895	34,978,078
AHE Pascani	396,482,625	(396,482,625)	-	22,912,761
AHE Cerna-Belareca	318,265,165	(318,265,165)	-	16,940
AHE Cornetu-Avrig	107,225,230	(105,949,624)	1,275,606	280,719
Cerna Motru Tismana - Stage II	72,942,551	(72,942,551)	-	-
Lac redresor Sebes	56,363,185	(56,363,185)	-	225,000
Bistra	45,009,766	(45,009,766)	-	16,152
Rehabilitation of Portile de Fier II	45,265,051	(45,265,051)	-	-
Others	86,142,384	(79,737,937)	6,404,447	(4,820,464)
Total	3,404,727,937	(2,987,891,973)	416,835,964	160,940,900

Project	Gross carrying amount 31 Dec 2022	Accumulated impairment loss 31 Dec 2022	Net book value 31 Dec 2022	Impairment loss/(reversal) 2022
AHE Bumbesti-Livezeni	770,520,008	(359,013,155)	411,506,853	48,200,711
CHE Racovita	70,556,545	(70,556,545)	-	5,064,554
AHE Rastolita	696,498,062	(631,039,476)	65,458,586	(43,216,648)
AHE Siriu-Surduc	743,933,018	(664,957,101)	78,975,917	207,047,062
AHE Pascani	373,569,864	(373,569,864)	-	3,595,544
AHE Cerna-Belareca	318,248,225	(318,248,225)	-	165,228
AHE Cornetu-Avrig	106,944,511	(105,668,905)	1,275,606	197,059
Cerna Motru Tismana - Stage II	72,942,551	(72,942,551)	-	-
Lac redresor Sebes	56,138,185	(56,138,185)	-	-
Bistra	44,993,614	(44,993,614)	-	(281,356)
Rehabilitation of Portile de Fier II	45,265,051	(45,265,051)	-	-
Others	90,287,459	(84,557,990)	5,729,469	(33,912,754)
Total	3,389,897,093	(2,826,950,662)	562,946,431	186,859,400

Determination of recoverable amounts

The determination of the recoverable amounts of the investments under construction above was based on a series of assumptions related to the feasibility of completion of the investments and the projected cash flows.

The significant assumptions used in estimating the recoverable amount are presented below. The estimates were based both on historical data, as well as on management's assessment of future trends related to electricity prices, margins, costs to complete and climate related risk:

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Estimates	Method for building the estimates	
	31 December 2023	31 December 2022
Cost to complete the projects, annual cash flows to completion and the date of commissioning	based on the contracts concluded with the suppliers for each project or estimation made by management (see below)	
Installed capacities	based on technical data for each project (see below)	
Capacity utilization rate	80% of the production capacity on average (based on Company average historical electricity production for the previous 6 years and also adjusted downwards for addressing climate risks.)	85% of the production capacity on average (based on Company average historical electricity production for the previous 5 years)
Electricity prices	Based on reports prepared by external consultants for the period 2024-2060, adjusted for certain assumptions; 2% annual price increase (long-term inflation rate) for the period 2061 – 2078	Based on reports prepared by external consultants for the period 2023 – 2035; 2% annual price increase (long-term inflation rate) for the period 2036 – 2050
PPE EBITDA margin (*)	72%	72%
Useful life	50 years	50 years
Discount rate before tax	10.2%	10.5%

(*)PPE EBITDA margin represents the margin used by the Company in impairment testing of assets under construction and is computed as Adjusted EBITDA as defined in Note 24 plus tax on electricity producers as a non-recurring item, changes in provisions and impairment loss on trade receivables, divided by Revenues.

The Company's estimates of the costs necessary to complete the projects under construction, as well as the annual production capacities to be installed per year, are as follows:

Year	Estimated costs to complete		Installed capacity per year (GW)	
	31 December 2023	31 December 2022	31 December 2023	31 December 2022
2023	-	132,321,000	-	-
2024	152,000,000	517,861,000	-	-
2025	566,043,706	608,730,810	91	299
2026	551,517,682	408,430,580	384	222
2027	122,000,000	14,585,000	-	20
2028	128,634,128	-	20	-
2029	99,030,011	-	45	-
Total	1,619,225,527	1,681,928,390	540	540

The Company estimated that approximately 88% of the additional generation capacity will be installed by the end of 2027.

The impairment losses recognized were mainly driven by the change in the assumptions used on future prices of electricity, as well as by the update of the work schedule until completion.

The main variations in the recoverable amount/ impairment loss in 2023 and 2022 refer mainly to the following investment projects:

- Bumbesti-Livezeni project, with a net carrying amount of RON 319,432,057 as at 31 December 2023 (31 December 2022: RON 411,506,853), for which the works were suspended in 2017 due to the fact that the construction and environmental authorisations were cancelled as a result of litigation lost by the Company

with non-profit organizations. The project started in 2003, while in 2005 the National Park “Defileul Jiului” was ruled as protected area; therefore the Company needs to reassess the impact on the environment and obtain new authorisations.

The impairment loss of RON 92,075,795 in 2023 for Bumbesti-Livezeni project was driven by the decrease in forecasted electricity prices.

The impairment loss of RON 48,200,711 in 2022 for Bumbesti-Livezeni project was driven by the increase in cost to complete by RON 231,938,000 as a result of the new claims and litigation initiated by the constructor in 2022. (see also Note 29 (i)), offset by the increase in forecasted electricity prices.

The Company is currently in process of obtaining new construction and environmental authorisations in order to continue the works. In 2022, the authorities informed the Company that the documentation submitted does not comply with the legal requirements and needs to be revised.

In December 2022, the Government issued the Emergency Ordinance no. 175/2022 (“OUG 175/2022”), through which a number of investments projects developed by Company, including Bumbesti-Livezeni, are declared public interest projects and are considered exceptional situations under the definition of Law no. 292/2018 regarding the evaluation of certain projects’ impact on environment. According to the Law no. 292/2018, in exceptional situations the relevant authority can exempt a project from the partial or full application of the requirements for obtaining the environmental authorization.

In January 2023, a new procedure was started in order to obtain the environmental authorization and new consultants were contracted during the year to complete the documentation for obtaining the environmental authorization. Although the environmental documentation needs to be revised and re-submitted to the authorities, management believes that there are no issues that would prevent the Company to obtain the authorizations and complete the project. Consequently, the recoverable value of the project was determined considering that the project will be completed in 2026.

- Siriu-Surduc project with a net carrying amount of RON 45,911,896 as at 31 December 2023 (31 December 2022: RON 78,975,917), for which works were suspended due to the fact that the construction and environmental authorizations for the construction of the dam were cancelled as a result of litigation lost by the Company with non-profit organizations. The project started in 1983 and comprises 3 hydropower plants, out of which one was put in function in 1988, for another one the management decided to abandon the project and the third one is under construction, with the works suspended until revision of the impact on the environment and obtain new authorisations.

Impairment loss of RON 34,978,078 in 2023 for Siriu – Surduc project was driven mainly by the climate risk assumptions used at the end of 2023.

Impairment loss of RON 207,047,062 in 2022 for Siriu – Surduc project was driven by the increase of the estimated cost to complete by RON 284,557,000 as result of the high increase in prices of construction materials corroborated with offers received by the Company for other refurbishment projects with the same characteristic as the above mentioned project.

Management believes that there are no issues that would prevent the Company to obtain the authorisations and complete the project. Consequently, the recoverable value of the project was determined considering that the project will be completed in 2026.

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Sensitivity analysis

The sensitivity analysis below shows the effect on profit before tax, and was determined based on the reasonable changes in key assumptions at the end of the reporting periods, while other assumptions remain constant.

	Increase/ (decrease) of Profit before tax	
	100 bp increase	100 bp decrease
Discount rate before tax		
2023	(112,500,717)	141,270,853
2022	(129,294,714)	162,003,177

	Increase/ (decrease) of Profit before tax	
	500 bp increase	500 bp decrease
PPE EBITDA margin		
2023	73,475,742	(73,475,742)
2022	84,119,849	(84,119,849)

	Increase/ (decrease) of Profit before tax	
	5% increase	5% decrease
Electricity prices		
2023	52,989,471	(52,895,941)
2022	60,566,292	(60,566,292)

	Increase/ (decrease) of Profit before tax	
	500 bp increase	500 bp decrease
Capacity utilization rate		
2023	58,830,242	(58,830,242)
2022	30,588,699	(30,588,699)

23. INVESTMENTS IN SUBSIDIARIES

	31 December 2023	31 December 2022
Hidroserv S.A.	70,576,810	70,576,810
Impairment loss on financial investments	-	(6,474,015)
Total	70,576,810	64,102,795

24. CAPITAL AND RESERVES

(a) Share capital

	31 December 2023	31 December 2022
Nominal share capital	4,498,025,670	4,484,594,820
Inflation adjustments in accordance with IAS 29	1,028,872,000	1,028,872,000
Total	5,526,897,670	5,513,466,820

Until 31 December 2003, the share capital in nominal terms was restated in accordance with IAS 29 "Financial Reporting in Hyperinflationary Economies", the related adjustments being recognized against retained earnings.

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On 27 May 2023, a share capital increase was registered at the Trade Register of RON 13,430,850, representing 1,343,085 shares, out of which RON 10,752,210 contribution in kind by the Ministry of Energy representing land and RON 2,678,640 contribution in cash by Fondul Proprietatea.

At 31 December 2023, the authorized, subscribed share capital of the Company is divided into 449,802,567 ordinary shares (31 December 2022: 448,459,482 ordinary shares) with a nominal value of RON 10 per share. The shareholders are entitled to dividends and each share grants a voting right.

Shareholders	31 December 2023		31 December 2022	
	Number of shares	%	Number of shares	%
Ministry of Energy	360,094,390	80.0561%	359,019,169	80.0561%
Fondul Proprietatea	-	-	89,440,313	19.9439%
Legal persons	75,535,576	16.7931%	-	-
Individuals	14,172,601	3.1508%	-	-
Total	449,802,567	100%	448,459,482	100%

(b) Revaluation reserve

The reconciliation between opening balance and closing balance of the revaluation reserve is as follows:

	2023	2022
Balance at 1 January	11,065,836,447	9,654,525,446
Transfer of revaluation reserve to retained earnings following depreciation and disposal of property, plant and equipment, net of tax	(415,729,065)	(366,511,245)
Revaluation of property, plant and equipment	1,663,686,690	2,116,549,252
Deferred tax related to revaluation reserve	(265,980,966)	(338,727,006)
Balance at 31 December	12,047,813,106	11,065,836,447

(c) Other reserves

Other reserves include:

- legal reserve of RON 920,729,953 (31 December 2022: RON 920,729,953), set-up annually as 5% of the profit before tax until the total legal reserve reach 20% of the paid-up nominal share capital. Legal reserves are mandatory, are deductible for income tax purposes and are not distributable.
- Other non-distributable reserves of RON 97,000,000 at 31 December 2023 and 2022, set-up in 2006 based on Government Emergency Ordinance no. 89/2004.

(d) Dividends

The Company declared and paid dividends as follows:

	2023	2022
Dividends declared and paid	4,349,388,772	3,830,945,832
Dividend per share (RON)	9.67	8.54

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(e) Capital management

The capital management of the Company is significantly influenced by the regulations. The distribution of dividends is governed by special regulation, including the Government Ordinance no. 64/2001, according to which, in the case of companies wholly or majority-owned by the State, minimum 50% of the accounting profit shall be distributed as dividends, unless otherwise provided by special laws.

The Company' policy is to maintain a strong capital base as to maintain investor, creditor and market confidence and to sustain future developments of the business. Management monitors the return on capital, as well as the level of dividends to shareholders. The net debt / (net cash and short-term investments) to ADJUSTED EBITDA should not exceed 3.

	2023	2022
Bank borrowings	393,534,741	483,013,241
Lease liabilities	66,300,971	15,401,105
Less: Cash and cash equivalents	(378,289,740)	(641,705,886)
Less : Short-term investments	(4,349,481,852)	(3,034,745,062)
Net debt /(net cash and short-term investments)	A (4,267,935,880)	(3,178,036,602)
ADJUSTED EBITDA⁽¹⁾	B 8,225,304,078	5,794,752,067
Net debt /(net cash and short-term investments) to ADJUSTED EBITDA ratio	A/B (0.52)	(0.55)

(1) ADJUSTED EBITDA (Earnings before interest, tax, depreciation and amortisation) is calculated as EBITDA, defined and calculated as profit/(loss) before tax before (i) depreciation and amortization of property, plant and equipment and (ii) interest income and expense, and ADJUSTED FOR (a) impairment/reversal of impairment of property, plant and equipment and (b) impairment/reversal of impairment of financial investments. EBITDA and ADJUSTED EBITDA are not IFRS measures and should not be treated as an alternative to IFRS measures. Moreover, ADJUSTED EBITDA is not uniformly defined. The method used to calculate ADJUSTED EBITDA by other companies may differ significantly from that used by the Company. As a consequence, the ADJUSTED EBITDA presented in this note cannot, as such, be relied upon for the purpose of comparison to EBITDA or ADJUSTED EBITDA of other companies.

25. BORROWINGS

Description	31 December 2023	31 December 2022
BRD Groupe Societe Generale dated 4 March 2021 of RON 1,250,000,000 - loan contracted for financing the acquisition of a Crucea Wind Farm SA and Hidroelectrica Wind Services SRL. Proceeds from loan: EUR 130 million (representing RON 635,219,000) Repayment: quarterly installments between 11 June 2021 and 11 March 2028. Interest is linked to EURIBOR 3 months plus a margin. Year of maturity: 2028.	393,534,741	483,013,241
Total loans	393,534,741	483,013,241
Current portion	93,282,098	92,522,027
Non-current portion	300,252,643	390,491,214

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In 2023 the Company repaid loans of RON 91,937,393 (2022: RON 91,390,464).

The loan agreement with BRD Groupe Societe Generale include the following financial ratios: Debt Service Coverage Ratio – minimum 1.1 and debt rate – maximum 3.0. As at 31 December 2023 and 31 December 2022 the Company met the financial ratios mentioned. In case any of the covenants is not met, the borrower is entitled, upon written notice, to request full or partial accelerated reimbursement of the borrowing.

Reconciliation of movements of liabilities to cash flows arising from financing activity

	Liabilities		Total
	Bank borrowings	Lease liabilities	
Balance at 1 January 2023	483,013,241	15,401,105	498,414,346
<i>Changes from financing cash flows</i>			
Repayment of bank loans	(91,937,393)	-	(91,937,393)
Lease payments	-	(8,146,331)	(8,146,331)
Total changes from financing cash flows	(91,937,393)	(8,146,331)	(100,083,724)
The effect of changes in foreign exchange rates	2,201,534	-	2,201,534
<i>Other changes</i>			
<i>Liability-related</i>			
Lease modifications	-	59,046,197	59,046,197
Interest expense	14,926,820	523,883	15,450,703
Interest paid	(14,669,462)	(523,883)	(15,193,345)
Total liability-related other changes	257,359	59,046,197	59,303,555
Balance at 31 December 2023	393,534,741	66,300,971	459,835,711

	Liabilities		Total
	Bank borrowings	Lease liabilities	
Balance at 1 January 2022	574,400,041	4,870,233	579,270,274
<i>Changes from financing cash flows</i>			
Repayment of bank loans	(91,390,464)	-	(91,390,464)
Lease payments	-	(3,736,607)	(3,736,607)
Total changes from financing cash flows	(91,390,464)	(3,736,607)	(95,127,071)
Merger changes	-	8,107,461	8,107,461
The effect of changes in foreign exchange rates	(574,195)	-	(574,195)
<i>Other changes</i>			
<i>Liability-related</i>			
Lease modifications	-	6,160,018	6,160,018
Interest expense	2,707,851	136,292	2,844,143
Interest paid	(2,129,992)	(136,292)	(2,266,284)
Total liability-related other changes	577,859	6,160,018	6,737,877
Balance at 31 December 2022	483,013,241	15,401,105	498,414,346

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26. TRADE PAYABLES

	31 decembrie 2023	31 decembrie 2022
Electricity suppliers	85,827,816	70,602,235
Electricity distribution services suppliers	119,452,919	45,065,330
Property, plant and equipment suppliers	72,026,302	61,663,892
Turbinated water supplier	105,990,650	79,810,370
Maintenance and repairs suppliers	26,827,265	25,069,983
Other suppliers	16,639,868	15,997,084
Total trade payables	426,764,820	298,208,894
Current	426,657,720	297,780,494
Non-current	107,100	428,400

The suppliers of electricity, electricity distribution, water and maintenance and repairs are mainly those presented in Note 34 Related Parties.

Other suppliers include service providers, materials and consumables providers.

The Company has guarantees received from suppliers of RON 247,928,656 at 31 December 2023 (RON 238,302,986 at 31 December 2022). These are good performance guarantees in the form of bank letters of guarantee, insurance policies and escrow accounts.

27. OTHER PAYABLES

	31 December 2023		31 December 2022	
	Current	Non-current	Current	Non-current
Payables to the State	78,081,314	-	1,973,470	-
Performance deposits from suppliers	10,139,382	7,284,825	12,042,146	5,442,547
Other	15,357,512	45,542	12,348,690	45,380
Total	103,578,208	7,330,367	26,364,306	5,487,927

Payables to the State represent mainly VAT payable of RON 75,771,875 as at 31 December 2023.

At 31 December 2023, for volume supplied for which invoicing delays for more than 12 months were identified, the Company self-invoiced the related VAT in value of RON 24,062,906 in accordance with art.281, paragraph (8) of the Fiscal Code.

28. DEFERRED INCOME

	31 December 2023		31 December 2022	
	Current	Non-current	Current	Non-current
Government grants	5,705,613	131,173,305	5,678,808	135,850,724
Other	17,276	51,362	17,045	59,779
Total	5,722,889	131,224,667	5,695,853	135,910,503

Government grants represent amounts received from the State for the construction of certain investment projects.

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Reconciliation between opening and closing balance of government grants:

	2023	2022
Balance at 1 January	141,529,532	147,162,586
Increase in the year	1,082,856	42,676
Released to income	(5,733,470)	(5,675,730)
Balance at 31 December	136,878,918	141,529,532

29. PROVISIONS

	31 December 2023		31 December 2022	
	Current	Non-current	Current	Non-current
Litigation and claims	162,818,480	-	119,585,423	-
Decommissioning	-	746,285,396	-	723,968,467
Tax provisions	-	90,544,424	-	93,120,984
Other provisions	24,359,462	-	35,688,831	-
Total	187,177,942	836,829,820	155,274,254	817,089,451

	Litigation and claims	Decommissioning	Tax provisions	Other provisions	Total
Balance at 1 January 2023	119,585,423	723,968,467	93,120,984	35,688,831	972,363,705
Provisions recognized against property, plant and equipment	-	(3,389,176)	-	-	(3,389,176)
Provisions recognized in profit or loss	43,446,555	-	-	23,617,193	67,063,749
Provisions used	-	-	-	(34,253,701)	(34,253,701)
Provisions reversed	(213,499)	(4,403,599)	(6,409,959)	(692,861)	(11,719,918)
Unwinding of provisions (Note 14)	-	30,109,704	3,833,399	-	33,943,103
Balance at 31 December 2023	162,818,480	746,285,396	90,544,424	24,359,462	1,024,007,762

	Litigation and claims	Decommissioning	Tax provisions	Other provisions	Total
Balance at 1 January 2022	75,446,608	556,822,348	92,810,037	38,885,281	763,964,274
Merger additions	-	16,029,014	-	-	16,029,014
Provisions recognized in profit or loss	47,403,996	127,083,727	(3,457,320)	35,115,535	206,145,938
Provisions used	(2,771,010)	-	-	(37,203,840)	(39,974,850)
Provisions reversed	(494,171)	(46,700)	-	(1,108,145)	(1,649,016)
Unwinding of provisions (Note 14)	-	24,080,078	3,768,267	-	27,848,345
Balance at 31 December 2022	119,585,423	723,968,467	93,120,984	35,688,831	972,363,705

I. Provisions for litigation and claims

As at 31 December 2023 and 31 December 2022, provisions for litigations include RON 47,403,996 relating to a litigation started in December 2022 by Hidroconstructia SA, one of the constructors used for Bumbesti-Livezeni investment project. Hidroconstructia requested RON 47,403,996 representing works performed in 2017 and related interest and costs incurred during the period the project was in stand-by due to the annulment of the required construction and environmental authorizations. These costs include security and safety of the project during the stand-by period. Considering the probability of an unfavourable outcome, the Company recognized a provision of RON 47,403,996.

As at 31 December 2023 and 31 December 2022, provisions for litigations include RON 67,618,460 relating to the litigation with the Association of Romelectro SA, Hidroconstructia SA and ISPH Project Development SA (the Association) started in 2013. The subject of the litigation is disputes over the contract signed in 2004 for the Bumbesti-Livezeni investment project. The Association requested RON 88,441,000 representing additional works performed by the Association starting 2010 until the date of commencement of the litigation. Following several rulings and appeals in 2019 the file was sent to retrial. In 2020 the Court requested a technical expert report. Based on the past rulings, the expert report issued on 17 February 2022 and considering the probability of an unfavourable outcome the Company recognized a provision of RON 67,618,460.

In 2023, the Company recognized provisions for litigations of RON 40,115,550 relating to the litigation with Benny Alex SRL. The subject of the litigation is disputes over the value of the additional works performed on the basis of the subcontracting agreement concluded with Hidroserv (the Company's subsidiary) in the amount of RON 40,115,550. On 30 May 2023, the court ruled in favor of the plaintiff BENY ALEX S.R.L and the Company appealed the decision. Considering the court's decision, the Company estimated that an unfavorable outcome is probable and, accordingly, recognized a provision of RON 40,115,550.

II. Decommissioning provision

In 2018 and 2019, the management of the Company decided to abandon certain investment projects in progress (Note 22). As a result, the Company recognized decommissioning provisions against profit or loss for the present value of the works estimated to be necessary to abandon those assets. The decommissioning costs were estimated based on studies performed by an external technical expert in 2017, adjusted with inflation or estimated increase in costs in construction and transportation industry.

Main abandonment costs included in the provision are:

- cost to demolish existing constructions;
- cost to transport the waste materials to the nearest ecological deposit;
- environmental tax, in accordance with the legal requirements;
- cost to deposit the waste at an ecological deposit.

The costs were discounted using discount rates between 4.76% and 7.05% (31 December 2022: between 4.12% and 5.3%), depending on the expected period of decommissioning.

A decommissioning provision of RON 13,782,706 is related to the wind farm. The effects of changes in assumptions underlying the decommissioning costs for the wind farm are recognized against property, plant and equipment.

III. Tax provisions

Tax provisions of RON 90,544,424 at 31 December 2023 (31 December 2022: RON 93,120,984) represent the present value of the VAT expected to be paid at the write off of the abandoned investment projects (Note 22).

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IV. Other provisions

	Employee profit sharing	Variable component remuneration for Management and Supervisory Board	Others	Total
Balance at 1 January 2023	20,358,492	14,440,000	890,339	35,688,831
Provisions recognized in profit or loss	23,614,403	-	2,790	23,617,193
Provisions used	(20,358,492)	(13,895,209)	-	(34,253,701)
Provisions reversed	-	(544,791)	(148,070)	(692,861)
Balance at 31 December 2023	23,614,403	-	745,059	24,359,462

	Employee profit sharing	Variable component remuneration for Management and Supervisory Board	Others	Total
Balance at 1 January 2022	18,427,200	13,789,580	6,668,501	38,885,281
Provisions recognized in profit or loss	20,358,492	14,440,000	317,043	35,115,535
Provisions used	(18,427,200)	(12,681,435)	(6,095,205)	(37,203,840)
Provisions reversed	-	(1,108,145)	-	(1,108,145)
Balance at 31 December 2022	20,358,492	14,440,000	890,339	35,688,831

30. FINANCIAL INSTRUMENTS – Fair Values and Risk Management

(a) Accounting classifications and fair values

In accordance with IFRS 9, the Company's financial assets and liabilities are measured at amortized cost. According to the business model of the Company, financial assets and liabilities are held to collect contractual cash flows and these cash flows are solely payments of principal and interest. The Company did not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

(b) Financial risk management

Credit risk

Credit risk is the risk that the Company will incur a financial loss if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and this risk derives mainly from trade receivables, cash and cash equivalents, and other investments.

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Cash and bank deposits are placed in financial institutions that are considered to have high creditworthiness.

Exposure to credit risk

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

	<u>31 December 2023</u>	<u>31 December 2022</u>
Trade receivables	3,047,389,154	1,347,640,635
Cash and cash equivalents	378,289,740	641,705,886
Restricted cash	101,057,471	101,057,471
Investments in corporate bonds and deposits	4,702,879,162	3,386,082,640
Total	<u>8,229,615,527</u>	<u>5,476,486,632</u>

Trade receivables

The Company's exposure to credit risk is mainly influenced by the individual characteristics of each client. The Company has established a credit policy according to which each new business client is analyzed individually from the point of view of creditworthiness before the conclusion of a contract, so that the sale is made to the clients with an adequate creditworthiness. For household clients, such credit risk analysis is not performed due to the nature and volume of the customers. Impairment adjustments of trade receivables reflect the expected credit losses, calculated based on the loss rates.

The increase in trade receivables is the result of delays in the invoicing electricity supplied to end users due to the implementation of new billing and customer relationship systems for supply activity which continued also in 2023, to which are added the frequent regulatory changes with respect of supply prices to end-users and the significant increase in the number of new retail clients. These aspects resulted in material balance of unbilled revenues included in trade receivables of RON 1,229,155,895 at 31 December 2023 (RON 1,116,046,031 at 31 December 2022).

The following table provides information about the exposure to credit risk and expected credit loss (ECL) for trade receivables as at 31 December 2023:

	<u>Weighted average loss rate</u>	<u>Gross carrying amount</u>	<u>Impairment loss allowance</u>	<u>Net trade receivables</u>
Not past due	2.32%	1,758,838,254	(40,746,869)	1,718,091,385
Past due - from 0 to 3 months	24.81%	229,611,450	(56,957,890)	172,653,560
Past due - from 3 to 6 months	80.61%	37,611,990	(30,318,455)	7,293,535
Past due - from 6 months to 1 year	100.00%	12,875,598	(12,875,598)	-
Past due - more than 1 year	100.00%	94,980,238	(94,980,238)	-
Total		<u>2,133,917,530</u>	<u>(235,879,050)</u>	<u>1,898,038,480</u>
Customers analyzed individually		<u>1,149,350,674</u>	<u>-</u>	<u>1,149,350,674</u>
Total trade receivables		<u>3,283,268,204</u>	<u>(235,879,050)</u>	<u>3,047,389,154</u>

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The following table provides information about the exposure to credit risk and expected credit loss (ECL) for trade receivables as at 31 December 2022:

	Weighted average loss rate	Gross carrying amount	Impairment loss allowance	Net trade receivables
Not past due	2,57%	1,013,017,598	(26,050,829)	986,966,769
Past due - from 0 to 3 months	36,40%	39,458,627	(14,363,403)	25,095,224
Past due - from 3 to 6 months	62,78%	13,496,500	(8,473,667)	5,022,833
Past due - from 6 months to 1 year	100,00%	19,035,777	(19,035,777)	-
Past due - more than 1 year	100,00%	88,221,524	(88,221,524)	-
Total		1,173,230,026	(156,145,200)	1,017,084,826
Customers analyzed individually		330,555,809	-	330,555,809
Total trade receivables		1,503,785,835	(156,145,200)	1,347,640,635

Customers analyzed individually represent outstanding amounts from customers for which the Company believes that there is a negligible risk to collect.

Loss rates estimated for 2023 are based on the actual credit loss experienced over the past six quarters considering the evolution of the supply segment and the delays in invoicing the electricity supplied (31 December 2022: five years).

The Company has guarantees received from customers of RON 444,550,561 at 31 December 2023 (RON 907,555,320 at 31 December 2022). These are guarantees for payment in the form of bank letters of guarantee received in relation to electricity sales contracts. Decrease of guarantees received from customers is due to the implementation of the market for centralised acquisition mechanism of electricity. Transactions on this market are made through OPCOM as intermediary, meaning that the Company concluded one wholesale contract with OPCOM, thus the number of wholesale contracts decreased in 2023.

Liquidity risk

Liquidity risk represents the risk that the Company may have difficulties in meeting the obligations associated with financial liabilities settled by transfer of cash or another financial asset. The Company has significant cash and cash equivalents and short-term investments, therefore it does not face significant liquidity risk.

The Company monitors the level of cash inflows forecasted from collection of trade receivables, as well as the level of cash outflows forecasted for the payment of loans, trade and other payables. The Company aims to maintain a level of current bank accounts and bank deposits that exceeds the cash outflows forecasted for the payment of financial liabilities.

Exposure to liquidity risk

The following table shows the remaining contractual maturities of financial liabilities at the reporting date. The contractual cash flows are presented gross and undiscounted, and include estimated contractual interest payments.

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	Carrying amount	Contractual cash flows			
		Total	< 12 months	1 - 5 years	> 5 years
31 December 2023					
Financial liabilities					
Trade payables	426,764,820	426,764,820	426,657,720	107,100	
Bank borrowings	393,534,741	430,008,791	107,558,925	322,449,866	-
Lease liabilities	66,300,971	90,166,814	9,163,219	35,779,365	45,224,230
Total	886,600,532	946,940,425	543,379,864	358,336,331	45,224,230
31 December 2022					
Financial liabilities					
Trade payables	298,208,894	298,208,894	297,780,494	428,400	-
Bank borrowings	483,013,241	511,722,154	101,823,115	386,802,561	23,096,478
Lease liabilities	15,401,105	17,882,906	8,301,354	4,677,235	4,904,317
Total	796,623,240	827,813,954	407,904,963	391,908,196	28,000,795

Market risk

Market risk is the risk that changes in market prices – foreign exchange rate and interest rate – will affect the Company's profit or the value of the financial instruments held. The objective of market risk management is to control market risk exposures within acceptable parameters, while optimizing the return.

(i) Interest rate risk

The Company has long-term bank borrowings with variable interest rates, which may expose the Company to interest rate risk.

	31 December 2023	31 December 2022
Fixed-rate instruments		
Financial assets		
Restricted cash	101,057,471	101,057,471
Investments in corporate bonds and deposits	4,702,879,162	3,386,082,640
Total	4,803,936,633	3,487,140,111
Financial liabilities		
Lease liabilities	(66,300,971)	(15,401,105)
Total	(66,300,971)	(15,401,105)
Variable-rate instruments		
Financial liabilities		
Bank borrowings	(393,534,741)	(483,013,241)
Total	(393,534,741)	(483,013,241)

Fair value sensitivity analysis of fixed-rate instruments

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

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Cash flow sensitivity analysis of variable-rate instruments

A reasonably possible change of 50 basis points in interest rates at the reporting date would have increased (decreased) the profit before tax by the amounts shown below. This analysis assumes that all other variables, in particular currency exchange rates, remain constant.

	Increase/ (decrease) of Profit before tax	
	50 bp increase	50 bp decrease
2023		
Variable-rate instruments	(1,967,674)	1,967,674
2022		
Variable-rate instruments	(2,415,066)	2,415,066

(ii) Currency risk

The Company is exposed to transactional foreign currency risk to the extent that there is mismatch between the currencies in which sales, purchases, receivables and borrowings are denominated and the respective functional currency of the Company. The functional currency of the Company is the Romanian Leu (RON).

The currency in which these transactions are primarily denominated are RON. Certain liabilities are denominated in foreign currencies as EUR and USD. The Company's risk management policy is to primarily use the local currency. The Company does not use derivative instruments or hedging instruments.

	31 December 2023 - RON equivalent of the currency -		
	EUR	USD	CHF
Trade receivables	221,340	-	-
Investments in corporate bonds and deposits	353,397,310	-	-
Cash and cash equivalents	27,121,407	203,308	2,553
Trade payables	(3,855,878)	(160,093)	-
Bank borrowings	(393,534,741)	-	-
Lease liabilities	(66,162,956)	-	-
Net statement of financial position exposure	(82,813,518)	43,215	2,553
	31 December 2022 - RON equivalent of the currency -		
	EUR	USD	CHF
Trade receivables	221,340	-	-
Investments in corporate bonds and deposits	351,337,578	-	-
Cash and cash equivalents	3,349,977	227,954	2,392
Trade payables	(3,970,908)	-	-
Bank borrowings	(483,013,241)	-	-
Lease liabilities	(13,585,357)	-	-
Net statement of financial position exposure	(145,660,611)	227,954	2,392

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The following exchange rates have been applied:

	<u>31 December 2023</u>	<u>31 December 2022</u>
RON / EUR	4.9746	4.9474
RON / USD	4.4958	4.6346
RON / CHF	5.3666	5.0289

Sensitivity analysis

A 5% appreciation of the Romanian leu (RON) against all other foreign currencies as at 31 December would have affected the profit before tax by the amounts shown below. This analysis assumes that all other variables remain constant.

	<u>Increase/(decrease) of Profit before tax 2023 (RON)</u>	<u>Increase/(decrease) of Profit before tax 2022 (RON)</u>
EUR	4,140,676	7,283,031
USD	(2,161)	(11,398)
CHF	(128)	(120)
Total	4,138,388	7,271,513

A 5% depreciation of the Romanian leu (RON) against all other foreign currencies as at 31 December would have affected the profit before tax by the amounts shown below. This analysis assumes that all other variables remain constant.

	<u>Increase/(decrease) of Profit before tax 2023 (RON)</u>	<u>Increase/(decrease) of Profit before tax 2022 (RON)</u>
EUR	(4,140,676)	(7,283,031)
USD	2,161	11,398
CHF	128	120
Total	(4,138,388)	(7,271,513)

31. MERGER WITH SUBSIDIARIES

At 31 December 2022, the companies Crucea Wind Farm S.A. and Hidroelectrica Wind Services were absorbed by Hidroelectrica S.A.

The following tabel summarizes the value of assets acquired and liabilities assumed at the date of the merger:

	RON
Property, plant and equipment	502,371,816
Intangible assets	37,649,110
Green Certificates	13,285,125
Inventories	58,496
Trade receivables and other assets	26,130,734
Other current assets	30,856,402
Cash and cash equivalents	9,572,749
Total assets acquired	619,924,432
Bank borrowings	197,896,000
Lease liabilities	8,107,461
Provisions	16,029,014
Trade payables and other payables	7,039,806
Deferred tax liabilities	1,526,767
Employee benefits	(3)
Other current payables	25,557
Total value of liabilities assumed	230,624,602

32. COMMITMENTS

32.1 Contractual commitments

The Company has the following contractual commitments:

	31 December 2023	31 December 2022
Acquisition of property, plant and equipment and intangible assets	565,361,076	545,183,945

32.2 Guarantees

The Company issued good performance guarantees of RON 32,884,753 at 31 December 2023 (31 December 2022: RON 35,213,329) mainly in relation to its obligations to deliver electricity, and in relation to its payment obligations related to electricity purchase transactions on the day-ahead and intra-day markets.

33. CONTINGENCIES

33.1 Litigation

The main litigations involving the Company, with a potential exposure of RON 467,804,503 as at 31 December 2023 (31 December 2022: RON 882,864,241), are disclosed as contingent liabilities:

a) Litigation with Ministry of Energy

Potential exposure: RON 373,049,729 as at 31 December 2022 (nil as at 31 December 2023)

Plaintiff: Ministry of Energy

File no. 3200/2/2018

Subject-matter: Claims arising from concession agreement no.171/2004

The Ministry of Energy claims the following:

1. enforcing the Company to consent to conclude an addendum to the concession agreement as follows:
 - a) the Ministry of Energy, as grantor, to be able to change the royalty discretionary; and
 - b) the annual royalty to be changed to an amount equal to the annual depreciation of property, plant and equipment subject to royalty as per the concession agreement.
2. The Ministry of Energy also claims RON 373,049,729 representing additional royalties for the period 2013 – 2018 computed as described in 1b) above.

The Court appointed an expert to determine the amount payable by the Company, if any. The court also approved an expert engaged by the Company. Both experts concluded that the royalty calculated and paid by the Company for the period 2013 - 2018 was in accordance with the provisions of the concession agreement and is accurate and complete.

On 11 May 2021, the first Court rejected the claims of the Ministry of Energy as groundless. During 2022, the Ministry of Energy appealed the Court decision.

On 14 February 2024, the Court declares null the appeal filed by the Ministry of Energy, the decision is final.

b) Litigations with Tax authorities regarding past tax treatments

Potential exposure: RON 214,385,212 as at 31 December 2023 and 2022

Plaintiff: Hidroelectrica

Subject: Annulment of the Decision on settling the preliminary tax appeal no. 406/18.12.2014 and annulment of Tax Decision no. F-MC 851/21.01.2014

The Company was subject to a general tax inspection covering the period 01.01.2006-30.06.2012 concluded with several tax decisions issued by ANAF in 2014, which imposed additional taxes of RON 214,385,212, which includes mainly income tax of RON 26,512,680 and related late payment interest and penalties of RON 119,447,934, value added tax of RON 37,676,955 and related late payments interest and penalties of RON 27,339,597. The Company filed a complaint in Court in 2015 requesting the cancellation of the tax decisions.

In 2021 the experts appointed by the Court issued their report, which concluded that ANAF is entitled to receive RON 510,872 plus interest and penalties. ANAF objected to the experts' report. In February 2023, the independent experts submitted the updated report containing responses to the ANAF's objections. In the updated report, the experts concluded that ANAF is entitled to receive RON 987,218.

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On 7 April 2023 the Court of Appeal pronounced the sentence through which ANAF tax decision regarding to the Company's additional payment obligations of 214,385,212 was cancelled. The decision was appealed by ANAF, next term being 2 April 2024.

Based on the final decision of the Bucharest Court of Appeal in the Company's insolvency file according to which ANAF is deprived of the right to request payment of the tax obligations imposed by the tax decisions, and based on the experts' report which is favorable to the Company, as well as the Court of Appeal ruling from 7 April 2023, management estimates that the litigation will be ruled in the Company's favor, and consequently an outflow of resources is not probable.

c) Litigation with Tax authorities regarding tax for electricity producers

Potential exposure: RON 63,612,328 as at 31 December 2023 (RON 62,052,115 as at 31 December 2022)

Plaintiff: Hidroelectrica

File no. 638/2/2024

Subject matter: Annulment of Tax Decision No. A-DAF 6890/11.05.2023

Tax for electricity producers was subject to multiple changes with respect to the method of computation during 2022. The latest change was instated through Law no. 357/2022, which was published on 16 December 2022. The Company applied the provisions of the law starting with 16 Decembre 2022.

As previously mentioned in Note 13 D, the Company was subject to a tax control by the General Antifraud Division of ANAF on the tax for electricity producers. As per the control report on 11 April 2023, the tax authorities applied the changes introduced by the law retroactively starting 1 September 2022, and therefore computed additional tax of RON 62,052,115.

On 28 April 2023 the Company received the imposing decision for the amount of RON 62,052,115. The Company challenged the imposing decision within the procedural term, the challenge being rejected by the General Division for Solving Disputes within the Finance Ministry.

The Company argued in its Court application that successive changes of legislation regarding the calculation methodology of the tax for electricity producers can only be applicable for the future, starting with the date of publication of legislative amendments and not retroactively, as tax authorities considered.

On 7 August 2023 the Company received a decision regarding interest and penalties in the amount of RON 1,560,213 related to the previously mentioned imposing decision. The Company challenged the decision within the procedural term. The decision will be the object of a new litigation if the challenge will be rejected.

Management estimates that the litigation will be ruled in the Company's favor, and consequently an outflow of resources is not probable.

d) Litigation with Hidroconstructia SA

Potential exposure: RON 98,762,431 as at 31 December 2023 and 2022

Plaintiff: Hidroconstructia SA

File no. 12257/3/2022

Subject-matter: Termination of Contract no. 672/1989 regarding the Fagaras-Hoghiz investment project; claims

Hidroconstructia SA filed claims to recover RON 98,762,431 consisting of unrealized profits as a result of the suspension by Hidroelectrica of the construction works related to the Fagaras Hoghiz investment project. Also, Hidroconstructia requested the court to enforce the termination of the underlying contract.

In January 2023, the Court ruled in favor of the Company, rejecting Hidroconstructia's claims. The decision was appealed by Hidroconstructia SA.

On 12 October 2023, the Court of Appeal set aside the first Court ruling and granted a new hearing on the merits. On 12 October 2023, the Court of Appeal set aside the first Court ruling and granted a new hearing on the merits. On 14 December 2023, the Court requested an expertise report, next term being 4 April 2024.

Based on the legal analysis of the Hidroconstructia claims, the management considers the statement of claims as unsubstantiated. Considering the above, management estimates that the litigation will be ruled in favor of the Company and consequently an outflow of resources is not probable.

e) Litigation with Hidroconstructia SA

Potential exposure: RON 32,831,841 as at 31 December 2023 and 2022

Plaintiff: Hidroconstructia SA

Files no. 44443/3/2016 and 11314/3/2021

Subject-matter: Claims - the equivalent value of the costs generated by the cessation of construction works related to investment projects in progress.

Hidroconstructia SA claims the costs generated by the suspension of construction works rendered before the Company's insolvency. The Company argues that such claims have no grounds considering the insolvency process of Hidroelectrica and the fact that the claimant lost its right to claims as it failed to register the claim in the table of creditors.

In March 2018 the first Court rejected the claims of Hidroconstructia SA. This ruling was contested by Hidroconstructia SA. The Company also contested the ruling, as it provided for legal fees for Hidroelectrica.

In April 2019 the Court of appeal sent the case back to the first court for reexamination. The dispute was reopened by the first Court (file no. 11314/3/2021).

In April 2022, the Court requested an expertise report in hydrotechnical constructions and an accounting expertise report to be performed by independent experts. Currently, the expert report is being drafted, next term being 2 April 2024.

Based on the initial first Court ruling, management estimates that the litigation will be ruled in favor of the Company and consequently an outflow of resources is not probable.

f) Litigation with Hidroconstructia SA

Potential exposure: RON 28,962,708 as at 31 December 2023 and 2022

Plaintiff: Hidroconstructia SA

File no. 31451/3/2020

Subject-matter: Claims - commercial discounts granted to the Company during 2014 – 2019 for construction works related to the Siriu-Surduc investment project

Hidroconstructia SA filed claims in the amount of RON 28,962,708 representing discounts granted during 2014 – 2019 to the Company for construction of AHE Siriu-Surduc project, as well as indexation of the price of workings performed during the respective period.

As per contract between the parties, Hidroconstructia granted discounts to Hidroelectrica and agreed to maintain the prices flat as long as Hidroelectrica will ensure the financing of the project.

Hidroconstructia claims that Hidroelectrica failed to ensure the financing of the project and is entitled to recover the discounts granted.

In September 2022, the independent expert issued a report establishing a potential liability between RON 8,904,033 and RON 31,157,557. The independent expert did not analyse if the Company failed or not to finance the project.

On 10 April 2023, the Court rejected Hidroconstructia claims. The decision was challenged by Hidroconstructia.

On 26 October 2023 the Court rejected the appeal filed by Hidroconstructia as unfounded. The decision was challenged by Hidroconstructia, no term being settled yet.

Considering that the Company does not have a liability to Hidroconstructia in respect of the works made during 2014 – 2019 for AHE Siriu – Surduc project, the management assesses that the condition to ensure the financing of the project were met by Hidroelectrica and estimates that the litigation will be ruled in favor of the Company and consequently an outflow of resources is not probable.

g) Arbitration with Romelectro S.A.

Potential exposure: RON 29,249,983 as at 31 December 2023 and 2022

Plaintiff: Romelectro S.A.

File no. 8/2021, currently File no. 30/2022

Subject-matter: Claims arising from the construction contract related to the refurbishment of Stejaru hydroelectric power plant.

Hidroelectrica filed an arbitration request for RON 78.7 million representing penalties for delayed works and related interest, plus legal expenses in relation to the Retehnologizare Stejaru investment project.

Romelectro made its counterclaims of EUR 8,868,289, equivalent of RON 43,881,181, plus related interest, VAT and legal expenses. The claims refer mainly to costs incurred and lost profit by Romelectro due to delays in execution of the contract generated by Hidroelectrica.

During 2022, due to insolvency of Romelectro, Hidroelectrica requests for RON 78.7 million was terminated, as Hidroelectrica will be entitled to requests these amounts in the insolvency procedure.

Following the termination of Hidroelectrica request, file no. 30/2022 was constituted, containing only Romelectro claims.

During 2022, Romelectro adjusted their initial claims and requested only EUR 5,912,193, the equivalent of RON 29,249,983, plus VAT and legal expenses. The claims mainly refer to the counter value of the costs borne by Romelectro, generated by delays attributable to Hidroelectrica, such as site organization costs, personnel costs, finance costs.

In November 2022, the Arbitration Court requested a financial and accounting analysis to be performed by an independent expert. Currently, the expert report is being drafted, next arbitration term being 11 April 2024.

Based on the legal analysis of the contract between the parties and the documents related to the project, the Company argues that the delays in the execution of the project are not attributable to Hidroelectrica, but to Romelectro, which constantly proposed technical solutions that were not in conformity with the contract.

Based on the above, management estimates that the litigation will be ruled in favor of the Company and consequently an outflow of resources is not probable.

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

Potential exposure: RON 43,570,222 as at 31 December 2022 (provisioned at December 2023)

Plaintiff: Beny Alex SRL

File no. 36646/3/2018*

Subject-matter: Claims - the value of additional works performed under the subcontracting agreement concluded with Hidroserv (Company's subsidiary).

Beny Alex SRL claims the amount of additional works performed based on the subcontracting agreement concluded with Hidroserv (the Company's subsidiary). The first Court overruled the claim on the grounds of prescription of the material right of action. In 2020 Benny Alex appealed to this ruling. The appeal was approved by the Court of judicial control, which fully cancelled the initial Court ruling and resent the case to the first Court for reexamination.

In December 2022, an independent expertise report was finalized. Based on the expert report the value of the additional works performed is RON 40,115,550. Hidroelectrica submitted objections to the report.

On 30 May 2023, the court ruled in favor of the plaintiff BENY ALEX S.R.L, the Company appealed the decision.

Considering the court's decision, the Company estimated that an unfavorable outcome is probable and, accordingly, recognized a provision of RON 40,115,550 in 2023 (Note 29).

33.2 Fiscal environment

Tax audits are frequent in Romania, consisting of thorough verifications of taxpayers' accounting records. Such audits sometimes take place months or even years after the establishment of the tax liabilities. Consequently, companies may be found liable for significant taxes and fines. In addition, the tax legislation is subject to frequent changes, and the authorities often show inconsistency in the interpretation of law.

Tax returns may be subject to revision and corrections by the tax authorities, generally for a five years period after they are filed with the tax authorities.

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Romanian tax authorities carried out tax audits on Hidroelectrica's income tax and value added tax until 20 June 2012.

Management believes that adequate provisions have been recognised in the separate financial statements for all significant tax liabilities; however, a risk persists that tax authorities might have different views.

33.3 Decommissioning obligations

As described in Note 5 a4), the Company identified decommissioning obligations in relation to its hydro-power facilities. Management estimates that, except for the assets abandoned or switched to post-utilisation upon management decisions, and except for its wind farm, for which decommissioning provisions are recognised (see Note 29), the occurrence of events that would require abandonment or switching to post-utilisation of other assets in the public domain or hydro-power plants owned by the Company by the end of the concession contract (30 years from 31 December 2023) is unlikely, considering the long useful life of dams, which can be significantly extended over 100 years by maintenance and improvements.

34. RELATED PARTIES

a) Ultimate controlling party

The Company's ultimate controlling party is the Romanian State, represented by the Ministry of Energy, with a shareholding of 80.0561%.

b) Transaction with key management personnel

Key management personnel include the members of the Management Board and Supervisory Board.

Management Board remuneration	2023	2022
Expenses recognized during the year		
Fixed component	3,524,227	2,342,301
Variable component accrual	-	8,201,340
Reversal of overaccrual of the previous year	(116,186)	-
Total	3,408,041	10,543,641
Payments made in the year	2023	2022
Fixed component	3,524,227	2,342,301
Variable component (for the previous year)	8,085,154	8,201,340
Total	11,609,381	10,543,641

The Management Board include 5 directors appointed for 4 years.

Remuneration of executive directors consists of a fixed monthly salary limited to six times the average monthly gross salary for the last 12 months prior to appointment published by National Institute of Statistics (INS) for the Company's activity code (CAEN) according to the classification of activities in the national economy, and a variable component calculated on the basis of the financial and non-financial performance indicators, negotiated and approved by the general meeting of shareholders. Due to the change in Management Board in 2023 and the performance indicators not being approved, there is no variable remuneration to be paid for the year 2023.

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The Company accrued RON 8,201,340 at 31 December 2022 for the variable component of the Management Board remuneration for the year 2022 (Note 29).

The variable component of the remuneration of the Management Board paid in 2023 for the previous year, approved by shareholders decision in 2019 was limited to 3.5 times the monthly fixed component. The maximum amount of the variable component for all the executive directors was RON 8,201,340. The variable component is not subject to future service conditions.

The financial and non-financial performance indicators based on which the variable remuneration was determined include:

- Financial indicators: Revenues, adjusted EBITDA rate, Gross profit, Liquidity (current ratio), Indebtedness (debt ratio); outstanding payments to the State budget;
- Operating indicators: percentage of completeness of investment plan, percentage of completeness of maintenance plan, powerplants availability;
- Services indicators: degree of realization of system services and obligations regarding supply/sale of electricity;
- Corporate governance indicators: timely preparation of the revenues and expenses budget; establishment of policies for risk management and control and implementation of the internal control system.

The Company has no contractual obligations related to pensions to its former directors.

Supervisory Board remuneration

	2023	2022
Expenses recognized during the year		
Fixed component	1,209,660	889,920
Variable component accrual	-	1,038,240
Reversal of overaccual of the previous year	(154,728)	(148,320)
Total	1,054,932	1,779,840
Payments made in the year		
Fixed component	1,209,660	889,920
Variable component (for the previous year)	883,512	889,920
Total	2,093,172	1,779,840

The Supervisory Board consists of 7 members appointed for 4 years.

Remuneration of the members of the Supervisory Board was approved by shareholders decision in 2023. According to this decision, the remuneration of the Supervisory Board members consists of a monthly fixed salary, limited to two times the average monthly gross salary for the last 12 months prior to appointment published by National Institute of Statistics for the Company's activity code (CAEN) according to the classification of activities in the national economy. The variable component is limited to 12 fixed monthly salaries, calculated on the basis of the financial and non-financial performance indicators, negotiated and approved by the general meeting of shareholders. Due to the change in Supervisory Board in 2023 and the performance indicators not being approved, there is no variable remuneration to be paid for the year 2023.

The Company accrued RON 1,038,240 at 31 December 2022 for the variable component of the Supervisory Board.

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The financial and non-financial indicators based on which the variable remuneration for the members of the Supervisory Board was determined were the same as for the Management Board.

There were no loans granted to the members of Supervisory Board or Management Board in 2023 and 2022. No guarantees were granted / received to / from the members of Supervisory Board or Management Board.

c) Transactions with subsidiaries

(i) Receivables and liabilities balances from/to subsidiaries

	Receivables from		Liabilities to	
	31 December 2023	31 December 2022	31 December 2023	31 December 2022
Hidroserv S.A.	492,858	810,486	29,008,181	23,267,151
Total	492,858	810,486	29,008,181	23,267,151

Liabilities to Hidroserv S.A include debts from maintenance services provided

(ii) Transactions with subsidiaries

	Sales in 2023	Sales in 2022	Purchases in 2023	Purchases in 2022
Hidroserv S.A.	1,132,982	904,748	227,476,356	179,278,410
Crucea Wind Farm S.A.	-	106,606,671	-	58,883,301
Hidroelectrica Wind Services SRL	-	384,028	-	-
Total	1,132,982	107,895,447	227,476,356	238,161,711

Acquisitions are mainly related to the maintenance services acquired from Hidroserv S.A. and purchase of electricity and green certificates from Crucea Wind Farm in 2022.

Sales to subsidiaries are mainly related to the sale of electricity and rental services.

(iii) Loans granted to subsidiaries

	Borrowings balance		Proceeds from borrowings		Merger effect (decrease)	Interest received	
	2023	2022	2023	2022	2022	2023	2022
Crucea Wind Farm S.A.	-	-	-	123,383,200	206,462,944	-	8,566,917
Total	-	-	-	123,383,200	206,462,944	-	8,566,917

d) Transactions with other companies in which the State has control or significant influence

In the normal course of business, the Group has transactions with other entities in which the State has control or significant influence, mainly related to the tax on industrial water, the purchase of electricity, transport and system services and sales of electricity, as follows:

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Supplier

	Purchases (without VAT) 2023	Payables (including VAT) 31 decembrie 2023
Administrația Națională Apele Romane	617,639,749	103,242,080
Transelectrica (Romanian Electricity System Operator)	444,638,803	85,459,333
OPCOM (Romanian Electricity Market Operator)	3,674,762	273,649
Nuclearelectrica	398,635,878	26
Distributie Energie Electrica Romania	292,844,864	32,845,603
Others	23,129,797	2,715,314
Total	1,780,563,853	224,536,006

Supplier

	Purchases (without VAT) 2022	Payables (including VAT) 31 decembrie 2022
Administrația Națională Apele Romane	436,699,613	78,624,520
Transelectrica (Romanian Electricity System Operator)	451,659,871	70,416,691
OPCOM (Romanian Electricity Market Operator)	355,257,542	85,101
Nuclearelectrica	185,197,320	(41,256,000)
Distributie Energie Electrica Romania	111,807,089	14,901,762
Alții	16,641,459	1,529,143
Total	1,557,262,894	124,301,217

Client	Sales (without VAT)	Receivables Gross Carrying amount (including VAT)	Impairment loss	Receivables Net Carrying amount (including VAT)
	2023	31 December 2023		
Transelectrica (Romanian Electricity System Operator)	1,275,342,188	296,708,944		296,708,944
OPCOM (Romanian Electricity Market Operator)	4,505,118,629	177,885,270		177,885,270
Rompetrol Rafinare	364,066,499	66,926,568		66,926,568
E.ON Energie Romania	86,992,845	7,389,817		7,389,817
S.N.G.N Romgaz SA	82,527,917	4,721,574		4,721,574
Raja SA	82,942,066	19,482,870		19,482,870
Engie Romania	51,476,514	5,230,692		5,230,692
SN Radiocomunicatii SA	39,559,069	19,769,563		19,769,563
Electrica Furnizare	25,627,244	-		-
Distributie Energie Electrica Romania	19,003,382	37,419		37,419
Altii	314,854,599	206,842,755	(23,232,332)	183,610,423
Total	6,847,510,951	804,995,472	(23,232,332)	781,763,140

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Client	Sales (without VAT)	Receivables Gross Carrying amount (including VAT)	Impairment loss	Receivables Net Carrying amount (including VAT)
	2022	31 December 2022		
Transelectrica (Romanian Electricity System Operator)	2,063,760,561	276,207,597	-	276,207,597
Electrica Furnizare OPCOM (Romanian Electricity Market Operator)	503,373,684	42,419,801	-	42,419,801
E ON Energie Romania	913,301,269	2,821,403	-	2,821,403
Engie Romania	305,686,480	27,342,582	-	27,342,582
CET Brasov	143,876,855	6,539,452	-	6,539,452
Distributie Energie Electrica Romania	-	18,724,742	(18,724,742)	-
Romaero	78,198,279	73,017	(15,537)	57,480
Metrorex	3,438,919	7,502,387	(7,502,387)	-
Altii	7,753,332	8,024,313	(7,818,843)	205,470
Altii	174,727,107	155,019,284	(15,670,823)	139,348,461
Total	4,194,116,486	544,674,579	(49,732,332)	494,942,246

Other customers include mainly public institutions, local authorities and public educational institutions to which the Company supplied electricity in 2023 and 2022.

Balance

Bank	Bank account	Bank deposits	Corporate bonds	Bank account	Bank deposits	Corporate bonds
	31 December 2023			31 December 2022		
Exim Bank (Banca Romaneasca)	6,483	909,056,000	-	12,407	1,396,165,437	-
CEC Bank	30,530,110	1,105,538,630	353,397,310	11,817,952	1,019,508,822	351,336,578
Total	30,536,593	2,014,594,630	353,397,310	11,830,359	2,415,674,259	351,336,578

Transactions

Bank	Bank deposits placed	Interest income	Bank deposits placed	Interest income
	2023		2022	
Exim Bank (Banca Romaneasca)	4,500,000,000	77,114,159	2,592,800,000	38,029,223
CEC Bank	1,901,993,894	24,758,350	4,549,300,768	45,252,748
Total	6,401,993,894	101,872,509	7,142,100,768	83,281,971

35. SUBSEQUENT EVENTS

Global minimum top-up tax

Following the implementation of the Minimum Tax Directive (EU Directive no. 2022/2523 on ensuring a global minimum level of taxation for multinational enterprise groups and large-scale domestic groups in the European Union ("Pillar Two"), on 5 January 2024 the Law no. 431/2023 regarding the global minimum top-up tax for multinational groups and large scale domestic groups was published in the Romanian Official Gazette. The Law no. 431/2023 applies to large groups of companies, both national and multinational, with a consolidated

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turnover (at group level) of at least 750 million euros in at least two of the four years preceding the reference year. The law creates a system through which starting with financial year 2024 an additional amount of tax (a “top-up tax”) should be collected each time that the effective tax rate of a national or multinational enterprises group or in a given jurisdiction is below 15%.

Under the requirements of Law no. 431/2023, Hidroelectrica qualifies as a large-scale domestic group, however if the Law no. 431/2023 were to be applied for the year ended 31 December 2023, no top-up tax should have been paid by the Company as the adjusted effective tax rate is above 15%.

Acquisition of UCM Resita business lines

On 22 February 2023, the Company was declared winner of the sales procedure of business lines ABC and Calnicel platform, which are the property of UCM Resita SA.

In January 2024, the Company set-up a new subsidiary, Uzina de Construcții Mașini Hidroenergetice S.R.L., through which it will take-over the business from U.C.M. Reșița S.A.. The object of activity of the new subsidiary will be manufacturing of engines and turbines (code CAEN 2811). The Company contributed with RON 119,650,000 to share capital of the newly formed subsidiary.

On 22 January 2024 Extraordinary shareholders meeting (“EMGS”) approved the transaction and transaction documents regarding the acquisition of the business from U.C.M. Reșița S.A.

The transaction was completed following the fulfillment of the conditions precedent on 11 March 2024. The total price for the transfer of ownership rights over the business is RON 68,879,000.

The following table summarizes the amounts of assets acquired. The Company did not acquire liabilities.

Property, plant and equipment	69,007,096
Book value of Net assets acquired	69,007,096
Consideration transferred	67,879,000
Preliminary gain on bargain purchase (based on information available at the date of financial statements)	1,128,096

Karoly BORBELY Chairman of the Management Board	Bogdan-Nicolae BADEA Member of the Management Board	Radu Ioan CONSTANTIN Member of the Management Board	Marian FETIȚA Member of the Management Board	Ianăș RĂDOI Member of the Management Board
Petronel CHIRIAC Financial Director			Gabriela VASILESCU Accounting Manager	



KPMG Audit SRL
DN1, Bucharest - Ploiești Road no. 89A
Sector 1, Bucharest
013685, P.O. Box 18 - 191
Tel: +40 372 377 800
Fax: +40 372 377 700
www.kpmg.ro

Independent Auditors' Report

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

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

Report on the Audit of the Separate Financial Statements

Opinion

We have audited the separate financial statements of Societatea de Producere a Energiei Electrice in Hidrocentrale Hidroelectrica S.A. ("the Company") as at and for the year ended 31 December 2023, which comprise the separate statement of financial position as at 31 December 2023, the separate statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising material accounting policies and other explanatory information.

The separate financial statements as at and for the year ended 31 December 2023 are identified as follows:

- | | |
|-----------------------------|--------------------|
| • Net assets/Total equity : | RON 25,037,000,997 |
| • Net profit for the year: | RON 6,352,326,530 |

In our opinion, the accompanying separate financial statements give a true and fair view of the unconsolidated financial position of the Company as at 31 December 2023, and of its unconsolidated financial performance and its unconsolidated cash flows for the year then ended in accordance with Order of Minister of Public Finance no. 2844/2016 for approval of accounting regulations in accordance with International Financial Reporting Standards, and related amendments ("OMPF no. 2844/2016").

Basis for Opinion

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



Key Audit Matters

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

Revenue recognition -electricity supply

Revenue – Electricity supplied to final consumers (retail sales): RON 4,935,913,933 for the year ended 31 December 2023 (RON 2,150,020,078 for the year ended 31 December 2022)

Trade receivables – electricity supply segment (retail): RON 2,684,308,430 gross as at 31 December 2023, of which RON 1,046,869,776 represents unbilled revenue (RON 959,412,230 gross as at 31 December 2022, of which RON 767,611,526 represents unbilled revenues)

Refer to Notes 7(b) (accounting policies), 11 and 20 (explanatory disclosures) to the separate financial statements.

Key audit matter	How the matter was addressed in our audit
<p>The share of the electricity supply segment in the Company's total revenues increased significantly in 2023, reaching 40% (23% of total revenues in 2022).</p> <p>Revenue from supply of electricity to final consumers is recognised as the product of the lower of the agreed contractual prices with customers and, where applicable, the capped electricity prices as per legislation, and the electricity consumption of each consumer determined based on meter readings, self-readings or volumes estimated by distribution operators, as applicable.</p> <p>Further, in 2022 the Company started the implementation of a new billing system that continued during 2023, which, combined with a significant increase in the number of retail clients, lead to significant delays in the Company's billing process and a resulting material balance of unbilled revenues in the electricity supply segment as at both 31 December 2023 and 31 December 2022.</p> <p>In addition, the Company could not rely on its IT systems in the determination of the electricity supply revenues, due to the prolonged period of implementation of the new billing system. Instead, the process relied on substantial manual input and end-user computing, with large amount of data processed. Accordingly, our audit was characterised by an increased reliance on substantive procedures.</p>	<p>Our audit procedures in the area included, among others:</p> <ul style="list-style-type: none"> • updating our understanding of the Company's electricity supply revenue recognition process; • obtaining an independent confirmation from the electricity transmission operator of the total electricity volume transmitted to final consumers during the year and tracing the volume confirmed to the Company's records; • for a sample of electricity supply revenue transactions recognized during the year, checking whether the underlying prices are within the legal requirements of the capping mechanism, tracing the contractual prices to customer contracts and the volumes sold to those reported in the electricity distribution operators' monthly reports, whose relevance and reliability we independently assessed; • developing an independent expectation of the electricity supply revenues based on the volumes reported by the electricity distribution operators, as discussed in the preceding procedure, and the contractual prices or the capped electricity prices as per legislation, as applicable; • for a sample of retail business customers, obtaining independent confirmations therefrom for the reporting-date receivables balances;

MV



<p>Due to the factors mentioned above, we considered the area to be associated with a significant risk of a material misstatement, which required our increased attention in the audit. As such, we considered it to be a key audit matter.</p>	<ul style="list-style-type: none"> • for a sample of retail household customers tracing the reporting-date receivables balances to underlying contracts and invoices, and to subsequent collections, if applicable; • developing an independent expectation of the unbilled supply revenues based on inputs such as volumes reported by the electricity distribution operators for the year, the unbilled portion thereof and average supply unit price; • assessing the accuracy and completeness of the Company's revenue-related disclosures in the separate financial statements against the requirements of the relevant financial reporting standards.
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Property, plant and equipment carried under the revaluation model	
<p><i>Property, plant and equipment carried under the revaluation model: RON 19,591,825,920 as at 31 December 2023 (RON 18,494,609,706 as at 31 December 2022)</i></p> <p><i>Revaluation reserve: RON 12,047,813,106 as at 31 December 2023 (RON 11,065,836,447 as at 31 December 2022)</i></p> <p><i>Increase in revaluation recognized in other comprehensive income, net: RON 1,663,686,690 in 2023 (RON 2,116,549,254 in 2022)</i></p> <p><i>Increase/decrease in revaluation recognized in profit of loss, net: revaluation loss of RON 74,846,158 (revaluation gain of RON 39,967,879 in 2022)</i></p>	
<p>Refer to Notes 7(g) (accounting policies), 22 and 24(b) (explanatory disclosures) to the separate financial statements.</p>	
Key audit matter	How the matter was addressed in our audit
<p>Property, plant and equipment represents a significant portion of the Company's total assets. The Company carries all of its property, plant and equipment, other than assets under construction and leased assets, under the revaluation model, with most recent revaluations performed as at 31 December 2023 and 31 December 2022.</p> <p>In the Company's case, the fair value of property, plant and equipment is estimated based on the following principal methods:</p> <ul style="list-style-type: none"> - market approach – for land and certain equipment and vehicles; and - net replacement cost method (including the economic obsolescence test) – for hydro-power 	<p>Our audit procedures in the area, performed assisted, where applicable, by our own valuation specialists, included, among others:</p> <ul style="list-style-type: none"> • assessing the appropriateness and consistency of application of the methods and models used in estimating the fair values of property, plant and equipment against the requirements of the relevant financial reporting standards and generally accepted valuation methods; • evaluating relevance and reliability of data applied by the Company in its measurement of fair values of the items of property, plant and equipment; • evaluating key assumptions in the Company's valuation models, as follows (in all cases for a sample of assets):

<p>industry-specific constructions, plant and equipment.</p> <p>Estimating the assets' fair value requires management to make significant judgments and complex assumptions, including those made in selecting the appropriate valuation methods, identifying comparable transactions and information for the determination of the replacement cost, determining useful lives of production plant and equipment, and capacity utilization rates, among other things. The management involved an external valuation expert to assist them in making those significant judgements and assumptions.</p> <p>Due to the above factors, coupled with the magnitude of the amounts involved, we considered the area to be a key audit matter.</p>	<ul style="list-style-type: none"> - for the market approach – by reference to publicly available market price information for similar assets, adjusted, where necessary, for differences in key asset characteristics; - for the net replacement cost method, by: <ul style="list-style-type: none"> o tracing the construction cost and price change indices to external technical catalogues applicable to the industry and other publicly available external resources, respectively; o tracing asset useful lives to those in specialized reference catalogues for similar assets; o tracing external and functional depreciation to the Company's historical data on the capacity utilization rate per hydroaggregate; o benchmarking the assets' revalued amounts per Megawatt installed at hydroaggregate level against the metrics presented within industry technical studies; • evaluating the key assumptions in the economic obsolescence test (based on a discounted cash flow model), as follows: <ul style="list-style-type: none"> - revenue and costs projections – by reference to the most recent approved budgets; - discount rate – by reference to publicly available external sources; • assessing the accuracy and completeness of the revaluation and fair value-related disclosures in the separate financial statements against the requirements of the relevant financial reporting standards.
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Other Information

Management is responsible for the preparation and presentation of other information. The other information comprises the Management Board's Report and other information included in the Annual Report, and the Remuneration Report, which we obtained prior to the date of this auditors' report, and the Sustainability Report, which is expected to be made available to us after that date. The other information does not include the separate financial statements and our auditors' report thereon.





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

In connection with our audit of the separate financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we have obtained prior to the date of this auditors' report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the Sustainability Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Other Reporting Responsibilities Related to Other Information – Management Board's Report

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

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

- a) the information given in the Management Board's Report for the financial year for which the separate financial statements are prepared is consistent, in all material respects, with the separate financial statements; and
- b) the Management Board's Report has been prepared, in all material respects, in accordance with OMPF no. 2844/2016, articles 15-19 and 26-28 of the accounting regulations.

In addition, based on the knowledge and understanding of the Company and its environment obtained in the course of our audit, we are required to report if we have identified material misstatements in the Management Board's Report and other information that we obtained prior to the date of this auditors' report. We have nothing to report in this regard.

Other Reporting Responsibilities Related to Other Information – Remuneration Report

With respect to Remuneration Report, we read the Remuneration Report in order to determine whether it presents, in all material respects, the information required by article 107, alin (1) and (2) of Law no. 24/2017 regarding the issuers of financial instruments and market operations and related amendments. We have nothing to report in this regard.

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

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

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

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



Auditors' Responsibility for the Audit of the Separate Financial Statements

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

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

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

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

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

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



Report on Other Legal and Regulatory Requirements - Report on Compliance with the ESEF Regulation

In accordance with Law no. 162/2017 on statutory audits of annual financial statements and consolidated financial statements and amendment of certain regulations, we are required to express an opinion on compliance of the separate financial statements authorised by the Supervisory Board on 27 March 2024, as included in the Annual Report, with the requirements of the Commission Delegated Regulation (EU) 2019/815 of 17 December 2018 supplementing Directive 2004/109/EC of the European Parliament and of the Council with regard to regulatory technical standards on the specification of a single electronic reporting format (the "RTS on ESEF").

Responsibilities of Management

Management is responsible for the preparation of the separate financial statements in a digital format that complies with the RTS on ESEF. This responsibility includes the preparation of the separate financial statements in the applicable xHTML format, including ensuring consistency between the digital format and the signed separate financial statements and the design, implementation and maintenance of internal controls relevant to the application of the RTS on ESEF.

Auditors' responsibilities

Our responsibility is to express an opinion on whether the separate financial statements included in the Annual Report comply, in all material respects, with the RTS on ESEF, based on the evidence we have obtained. We conducted our reasonable assurance engagement in accordance with International Standard on Assurance Engagements 3000 (Revised), Assurance Engagements Other than Audits or Reviews of Historical Financial Information (ISAE 3000) issued by the International Auditing and Assurance Standards Board.

A reasonable assurance engagement in accordance with ISAE 3000 involves performing procedures to obtain evidence about compliance with the RTS on ESEF. The nature, timing and extent of procedures selected depend on the auditor's judgment, including the assessment of the risks of material departures from the requirements set out in the RTS on ESEF, whether due to fraud or error. Our procedures included evaluating the appropriateness of the digital format of the separate financial statements and assessing consistency between the digital format and the signed and audited separate financial statements, stamped by us for identification purposes.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the separate financial statements of the Company as at and for the year ended 31 December 2023 as included in the Annual Report have been prepared, in all material respects, in accordance with the requirements of the RTS on ESEF.

Report on Other Legal and Regulatory Requirements - Public Interest Entities

We were appointed by the General Shareholders' Meeting of the Company on 23 December 2021 to audit the financial statements of the Company for the year ended 31 December 2023. Our total uninterrupted period of engagement is 6 years, covering the years ended 31 December 2018 to 31 December 2023.



We confirm that:

- Our audit opinion is consistent with the additional report presented to the Audit Committee of the Company, which we issued on 26 March 2024. We also remained independent of the audited entity in conducting the audit.
- We have not provided to the Company prohibited non-audit services referred to in article 5(1) of EU Regulation no. 537/2014.

The engagement partner on the audit resulting in this independent auditors' report is Andreea Vasilescu.

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

Andreea Vasilescu

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

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

Bucharest, Romania

27 March 2024

Autoritatea pentru Supravegherea Publică a
Activității de Audit Statutar (ASPAAS)

Auditor financiar: **VASILESCU ANDREEA**
Registrul Public Electronic: **AF2689**

Autoritatea pentru Supravegherea Publică a
Activității de Audit Statutar (ASPAAS)

Firma de audit: **KPMG AUDIT S.R.L.**
Registrul Public Electronic: **FA9**



KPMG Audit SRL
DN1, Bucharest - Ploiești Road no. 89A
Sector 1, Bucharest
013685, P.O. Box 18 - 191
Tel: +40 372 377 800
Fax: +40 372 377 700
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Independent Auditors' Report

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

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

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Societatea de Producere a Energiei Electrice in Hidrocentrale Hidroelectrica S.A. ("the Company") and its subsidiary (together "the Group") as at and for the year ended 31 December 2023, which comprise the consolidated statement of financial position as at 31 December 2023, the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising material accounting policies and other explanatory information.

The consolidated financial statements as at and for the year ended 31 December 2023 are identified as follows:

- | | |
|----------------------------|--------------------|
| • Net assets/Total equity: | RON 25,066,557,508 |
| • Net profit for the year: | RON 6,365,330,521 |

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2023, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Order of Minister of Public Finance no. 2844/2016 for approval of accounting regulations in accordance with International Financial Reporting Standards, and related amendments ("OMPF no. 2844/2016").

Basis for Opinion

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



Key Audit Matters

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

Revenue recognition electricity supply

Revenue – Electricity supplied to final consumers (retail sales): RON 4,935,575,996 for the year ended 31 December 2023 (RON 2,148,982,593 for the year ended 31 December 2022)

Trade receivables – electricity supply segment (retail): RON 2,684,192,429 gross as at 31 December 2023, of which RON 1.046.861.308 represents unbilled revenues (RON 959,412,230 gross as at 31 December 2022, of which RON 767,611,526 represents unbilled revenues)

Refer to Notes 7(c) (accounting policies), 11 and 20 (explanatory disclosures) to the consolidated financial statements.

Key audit matter	How the matter was addressed in our audit
<p>The share of the electricity supply segment in the Group's total revenues increased significantly in 2023, reaching 40% (23% of total revenues in 2022).</p> <p>Revenue from supply of electricity to final consumers is recognised as the product of the lower of the agreed contractual prices with customers and, where applicable, the capped electricity prices as per legislation, and the electricity consumption of each consumer determined based on meter readings, self-readings or volumes estimated by distribution operators, as applicable.</p> <p>Further, in 2022 the Group started the implementation of a new billing system that continued during 2023, which, combined with a significant increase in the number of retail clients, lead to significant delays in the Group's billing process and a resulting material balance of unbilled revenues in the electricity supply segment as at both 31 December 2023 and 31 December 2022.</p> <p>In addition, the Group could not rely on its IT systems in the determination of the electricity supply revenues, due to the prolonged period of implementation of the new billing system. Instead, the process relied on substantial manual input and end-user computing, with large amount of data processed. Accordingly, our audit was characterised by an increased reliance on substantive procedures.</p>	<p>Our audit procedures in the area included, among others:</p> <ul style="list-style-type: none"> • updating our understanding of the Group's electricity supply revenue recognition process; • obtaining an independent confirmation from the electricity transmission operator of the total electricity volume transmitted to final consumers during the year and tracing the volume confirmed to the Group's records; • for a sample of electricity supply revenue transactions recognized during the year, checking whether the underlying prices are within the legal requirements of the capping mechanism, tracing the contractual prices to customer contracts and the volumes sold to those reported in the electricity distribution operators' monthly reports, whose relevance and reliability we independently assessed; • developing an independent expectation of the electricity supply revenues based on the volumes reported by the electricity distribution operators, as discussed in the preceding procedure, and the contractual prices or the capped electricity prices as per legislation, as applicable; • for a sample of retail business customers, obtaining independent confirmations therefrom for the reporting-date receivables balances;



<p>Due to the factors mentioned above, we considered the area to be associated with a significant risk of a material misstatement, which required our increased attention in the audit. As such, we considered it to be a key audit matter.</p>	<ul style="list-style-type: none"> • for a sample of retail household customers tracing the reporting-date receivables balances to underlying contracts and invoices, and to subsequent collections, if applicable; • developing an independent expectation of the unbilled supply revenues based on inputs such as volumes reported by the electricity distribution operators for the year, the unbilled portion thereof and average supply unit price; • assessing the accuracy and completeness of the Group's revenue-related disclosures in the consolidated financial statements against the requirements of the relevant financial reporting standards.
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Property, plant and equipment carried under the revaluation model	
<p><i>Property, plant and equipment carried under the revaluation model: RON 19,661,103,166 as at 31 December 2023 (RON 18,552,897,033 as at 31 December 2022)</i></p> <p><i>Revaluation reserve: RON 12,076,640,610 as at 31 December 2023 (RON 11,084,018,512 as at 31 December 2022)</i></p> <p><i>Increase in revaluation recognized in other comprehensive income, net: RON 1,678,289,692 in 2023 (RON 2,116,549,254 in 2022)</i></p> <p><i>Increase/decrease in revaluation recognized in profit of loss, net: revaluation loss of RON 79,347,843 in 2023 (revaluation gain of RON 39,967,879 in 2022)</i></p>	
<p>Refer to Notes 7(h) (accounting policies), 22 and 23(b) (explanatory disclosures) to the consolidated financial statements.</p>	
Key audit matter	How the matter was addressed in our audit
<p>Property, plant and equipment represents a significant portion of the Group's total assets. The Group carries all of its property, plant and equipment, other than assets under construction and leased assets, under the revaluation model, with most recent revaluations performed as at 31 December 2023 and 31 December 2022.</p> <p>In the Group's case, the fair value of property, plant and equipment is estimated based on the following principal methods:</p> <ul style="list-style-type: none"> - market approach – for land and certain equipment and vehicles; and - net replacement cost method (including the economic obsolescence test) – for hydro-power 	<p>Our audit procedures in the area, performed assisted, where applicable, by our own valuation specialists, included, among others:</p> <ul style="list-style-type: none"> • assessing the appropriateness and consistency of application of the methods and models used in estimating the fair values of property, plant and equipment against the requirements of the relevant financial reporting standards and generally accepted valuation methods; • evaluating relevance and reliability of data applied by the Group in its measurement of fair values of the items of property, plant and equipment;



<p>industry-specific constructions, plant and equipment.</p> <p>Estimating the assets' fair value requires management to make significant judgments and complex assumptions, including those made in selecting the appropriate valuation methods, identifying comparable transactions and information for the determination of the replacement cost, determining useful lives of production plant and equipment and capacity utilization rates, among other things. The management involved an external valuation expert to assist them in making those significant judgements and assumptions.</p> <p>Due to the above factors, coupled with the magnitude of the amounts involved, we considered the area to be a key audit matter.</p>	<ul style="list-style-type: none">• evaluating key assumptions in the Group's valuation models, as follows (in all cases for a sample of assets):<ul style="list-style-type: none">- for the market approach – by reference to publicly available market price information for similar assets, adjusted, where necessary, for differences in key asset characteristics;- for the net replacement cost method, by:<ul style="list-style-type: none">○ tracing the construction cost and price change indices to external technical catalogues applicable to the industry and other publicly available external resources, respectively;○ tracing asset useful lives to those in specialized reference catalogues for similar assets;○ tracing external and functional depreciation to the Group's historical data on the capacity utilization rate per hydroaggregate;○ benchmarking the assets' revalued amounts per Megawatt installed at hydroaggregate level against the metrics presented within industry technical studies;• evaluating the key assumptions in the economic obsolescence test (based on a discounted cash flow model), as follows:<ul style="list-style-type: none">- revenue and costs projections – by reference to the most recent approved budgets;- discount rate – by reference to publicly available external sources;• assessing the accuracy and completeness of the revaluation and fair value-related disclosures in the consolidated financial statements against the requirements of the relevant financial reporting standards.
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Other Information

Management is responsible for the preparation and presentation of other information. The other information comprises the Management Board's Report and other information included in the Annual Report, and the Remuneration Report, which we obtained prior to the date of this auditors' report, and the Sustainability Report, which is expected to be made available to us after that date. The other information does not include the consolidated financial statements and our auditors' report thereon.



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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we have obtained prior to the date of this auditors' report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the Sustainability Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Other Reporting Responsibilities Related to Other Information – Management Board's Report

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

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

- a) the information given in the Management Board's Report for the financial year for which the consolidated financial statements are prepared is consistent, in all material respects, with the consolidated financial statements; and
- b) the Management Board's Report has been prepared, in all material respects, in accordance with OMPF no. 2844/2016, articles 15-19 and 26-28 of the accounting regulations.

In addition, based on the knowledge and understanding of the Group and its environment obtained in the course of our audit, we are required to report if we have identified material misstatements in the Management Board's Report and other information that we obtained prior to the date of this auditors' report. We have nothing to report in this regard.

Other Reporting Responsibilities Related to Other Information – Remuneration Report

With respect to Remuneration Report, we read the Remuneration Report in order to determine whether it presents, in all material respects, the information required by article 107, alin (1) and (2) of Law no. 24/2017 regarding the issuers of financial instruments and market operations and related amendments. We have nothing to report in this regard.

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

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

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

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



Auditors' Responsibility for the Audit of the Consolidated Financial Statements

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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



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

Report on Other Legal and Regulatory Requirements - Public Interest Entities

We were appointed by the General Shareholders' Meeting of the Company on 23 December 2021 to audit the financial statements of the Group for the year ended 31 December 2023. Our total uninterrupted period of engagement is 6 years, covering the years ended 31 December 2018 to 31 December 2023.

We confirm that:

- Our audit opinion is consistent with the additional report presented to the Audit Committee of the Company, which we issued on 26 March 2024. We also remained independent of the Group in conducting the audit.
- We have not provided to the Group prohibited non-audit services referred to in article 5(1) of EU Regulation no. 537/2014.

The engagement partner on the audit resulting in this independent auditors' report is Andreea Vasilescu.

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

Andreea Vasilescu

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

Bucharest, Romania

27 March 2024

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

Autoritatea pentru Supravegherea Publică a
Activității de Audit Statutar (ASPAAS)
Auditor financiar: **VASILESCU ANDREEA**
Registrul Public Electronic: **AF2689**

Autoritatea pentru Supravegherea Publică a
Activității de Audit Statutar (ASPAAS)
Firma de audit: **KPMG AUDIT S.R.L.**
Registrul Public Electronic: **FA9**



KPMG Audit SRL
DN1, Bucharest - Ploiești Road no. 89A
Sector 1, Bucharest
013685, P.O. Box 18 - 191
Tel: +40 372 377 800
Fax: +40 372 377 700
www.kpmg.ro

Independent Auditors' Report

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

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

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Societatea de Producere a Energiei Electrice in Hidrocentrale Hidroelectrica S.A. ("the Company") and its subsidiary (together "the Group") as at and for the year ended 31 December 2023, which comprise the consolidated statement of financial position as at 31 December 2023, the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising material accounting policies and other explanatory information.

The consolidated financial statements as at and for the year ended 31 December 2023 are identified as follows:

- Net assets/Total equity: RON 25,021,234 thousand
- Net profit for the year: RON 6,365,330 thousand

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2023, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards adopted by the European Union ("IFRS EU").

Basis for Opinion

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



Key Audit Matters

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

Revenue recognition - electricity supply

Revenue – Electricity supplied to final consumers (retail sales): RON 4,935,576 thousand for the year ended 31 December 2023 (RON 2,148,983 thousand for the year ended 31 December 2022)

Trade receivables – electricity supply segment (retail): RON 2,684,192 thousand gross as at 31 December 2023, of which RON 1,046,861 thousand represents unbilled revenues (RON 959,412 thousand gross as at 31 December 2022, of which RON 767,612 thousand represents unbilled revenues)

Refer to Notes 6(c) (accounting policies), 10 and 19 (explanatory disclosures) to the consolidated financial statements.

Key audit matter	How the matter was addressed in our audit
<p>The share of the electricity supply segment in the Group's total revenues increased significantly in 2023, reaching 40% (23% of total revenues in 2022).</p> <p>Revenue from supply of electricity to final consumers is recognised as the product of the lower of the agreed contractual prices with customers and, where applicable, the capped electricity prices as per legislation, and the electricity consumption of each consumer determined based on meter readings, self-readings or volumes estimated by distribution operators, as applicable.</p> <p>Further, in 2022 the Group started the implementation of a new billing system that continued during 2023, which, combined with a significant increase in the number of retail clients, lead to significant delays in the Group's billing process and a resulting material balance of unbilled revenues in the electricity supply segment as at both 31 December 2023 and 31 December 2022.</p> <p>In addition, the Group could not rely on its IT systems in the determination of the electricity supply revenues, due to the prolonged period of implementation of the new billing system. Instead, the process relied on substantial manual input and end-user computing, with large amount of data processed. Accordingly, our audit was characterised by an increased reliance on substantive procedures.</p>	<p>Our audit procedures in the area included, among others:</p> <ul style="list-style-type: none"> • updating our understanding of the Group's electricity supply revenue recognition process; • obtaining an independent confirmation from the electricity transmission operator of the total electricity volume transmitted to final consumers during the year and tracing the volume confirmed to the Group's records; • for a sample of electricity supply revenue transactions recognized during the year, checking whether the underlying prices are within the legal requirements of the capping mechanism, tracing the contractual prices to customer contracts and the volumes sold to those reported in the electricity distribution operators' monthly reports, whose relevance and reliability we independently assessed; • developing an independent expectation of the electricity supply revenues based on the volumes reported by the electricity distribution operators, as discussed in the preceding procedure, and the contractual prices or the capped electricity prices as per legislation, as applicable; • for a sample of retail business customers, obtaining independent confirmations therefrom for the reporting-date receivables balances;



<p>Due to the factors mentioned above, we considered the area to be associated with a significant risk of a material misstatement, which required our increased attention in the audit. As such, we considered it to be a key audit matter.</p>	<ul style="list-style-type: none"> • for a sample of retail household customers, tracing the reporting-date receivables balances to underlying contracts and invoices, and to subsequent collections, if applicable; • developing an independent expectation of the unbilled supply revenues based on inputs such as volumes reported by the electricity distribution operators for the year, the unbilled portion thereof and average supply unit price; • assessing the accuracy and completeness of the Group's revenue-related disclosures in the consolidated financial statements against the requirements of the relevant financial reporting standards.
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Property, plant and equipment carried under the revaluation model	
<p><i>Property, plant and equipment carried under the revaluation model: RON 19,661,103 thousand as at 31 December 2023 (RON 18,588,177 thousand as at 31 December 2022)</i></p> <p><i>Revaluation reserve: RON 12,038,616 thousand as at 31 December 2023 (RON 11,021,335 thousand as at 31 December 2022)</i></p> <p><i>Increase in revaluation recognized in other comprehensive income, net: RON 1,678,289 thousand in 2023 (RON 2,116,546 thousand in 2022)</i></p> <p><i>Increase/decrease in revaluation recognized in profit of loss, net: revaluation loss of RON 79,347 thousand in 2023 (revaluation gain of RON 40,002 thousand in 2022)</i></p>	
<p>Refer to Notes 6(h) (accounting policies), 21 and 22(b) (explanatory disclosures) to the consolidated financial statements.</p>	
Key audit matter	How the matter was addressed in our audit
<p>Property, plant and equipment represents a significant portion of the Group's total assets. The Group carries all of its property, plant and equipment, other than assets under construction and leased assets, under the revaluation model, with most recent revaluations performed as at 31 December 2023 and 31 December 2022.</p> <p>In the Group's case, the fair value of property, plant and equipment is estimated based on the following principal methods:</p> <ul style="list-style-type: none"> - market approach - for land and certain equipment and vehicles; and - net replacement cost method (including the economic obsolescence test) - for hydro-power industry-specific constructions, plant and equipment. 	<p>Our audit procedures in the area, performed assisted, where applicable, by our own valuation specialists, included, among others:</p> <ul style="list-style-type: none"> • assessing the appropriateness and consistency of application of the methods and models used in estimating the fair values of property, plant and equipment against the requirements of the relevant financial reporting standards and generally accepted valuation methods; • evaluating relevance and reliability of data applied by the Group in its measurement of fair values of the items of property, plant and equipment; • evaluating key assumptions in the Group's valuation models, as follows (in all cases for a sample of assets):

<p>Estimating the assets' fair value requires management to make significant judgments and complex assumptions, including those made in selecting the appropriate valuation methods, identifying comparable transactions and information for the determination of the replacement cost, determining useful lives of production plant and equipment and capacity utilization rates, among other things. The management involved an external valuation expert to assist them in making those significant judgements and assumptions.</p> <p>Due to the above factors, coupled with the magnitude of the amounts involved, we considered the area to be a key audit matter.</p>	<ul style="list-style-type: none"> - for the market approach – by reference to publicly available market price information for similar assets, adjusted, where necessary, for differences in key asset characteristics; - for the net replacement cost method, by: <ul style="list-style-type: none"> o tracing the construction cost and price change indices to external technical catalogues applicable to the industry and other publicly available external resources, respectively; o tracing asset useful lives to those in specialized reference catalogues for similar assets; o tracing external and functional depreciation to the Group's historical data on the capacity utilization rate per hydroaggregate; o benchmarking the assets' revalued amounts per Megawatt installed at hydroaggregate level against the metrics presented within industry technical studies; • evaluating the key assumptions in the economic obsolescence test (based on a discounted cash flow model), as follows: <ul style="list-style-type: none"> - revenue and costs projections – by reference to the most recent approved budgets; - discount rate – by reference to publicly available external sources; • assessing the accuracy and completeness of the revaluation and fair value-related disclosures in the consolidated financial statements against the requirements of the relevant financial reporting standards.
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Emphasis of Matter

We draw attention to Note 2 to the consolidated financial statements, which describes that the consolidated financial statements have been prepared in connection with the Company's reporting obligations under Law no. 24/2017 regarding issuers of financial instruments and market operations, and related amendments. As described in Note 2, the Group also published consolidated financial statements prepared in accordance with another general purpose framework, Order of Minister of Public Finance no. 2844/2016 and related amendments ("OMPF no. 2844/2016"), on which we expressed an unmodified audit opinion in our report dated 27 March 2024. Our opinion is not modified in respect of this matter.





Other information

Management is responsible for the preparation and presentation of other information. The other information comprises the Management Board's Report and other information included in the Annual Report, and the Remuneration Report, which we obtained prior to the date of this auditors' report, and the Sustainability Report, which is expected to be made available to us after that date. The other information does not include the consolidated financial statements and our auditors' report thereon.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we have obtained prior to the date of this auditors' report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the Sustainability Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Other Reporting Responsibilities Related to Other Information – Management Board's Report

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

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

- a) the information given in the Management Board's Report for the financial year for which the consolidated financial statements are prepared is consistent, in all material respects, with the consolidated financial statements; and
- b) the Management Board's Report has been prepared, in all material respects, in accordance with OMPF no. 2844/2016, articles 15-19 and 26-28 of the accounting regulations.

In addition, based on the knowledge and understanding of the Group and its environment obtained in the course of our audit, we are required to report if we have identified material misstatements in the Management Board's Report and other information that we obtained prior to the date of this auditors' report. We have nothing to report in this regard.

Other Reporting Responsibilities Related to Other Information – Remuneration Report

With respect to Remuneration Report, we read the Remuneration Report in order to determine whether it presents, in all material respects, the information required by article 107, alin (1) and (2) of Law no. 24/2017 regarding the issuers of financial instruments and market operations and related amendments. We have nothing to report in this regard.

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

Management is responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with IFRS EU, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.



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

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

Auditors' Responsibility for the Audit of the Consolidated Financial Statements

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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



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

Report on Other Legal and Regulatory Requirements - Report on Compliance with the ESEF Regulation

In accordance with Law no. 162/2017 on statutory audits of annual financial statements and consolidated financial statements and amendment of certain regulations, we are required to express an opinion on compliance of the consolidated financial statements authorized by the Supervisory Board on 27 March 2024, as included in the Annual Report, with the requirements of the Commission Delegated Regulation (EU) 2019/815 of 17 December 2018 supplementing Directive 2004/109/EC of the European Parliament and of the Council with regard to regulatory technical standards on the specification of a single electronic reporting format (the "RTS on ESEF").

Responsibilities of Management

Management is responsible for the preparation of the consolidated financial statements in a digital format that complies with the RTS on ESEF. This responsibility includes:

- the preparation of the consolidated financial statements in the applicable XHTML format;
- the selection and application of appropriate iXBRL tags, using judgment where necessary;
- ensuring consistency between digitised information in the machine- and human-readable formats and the signed consolidated financial statements; and
- the design, implementation and maintenance of internal controls relevant to the application of the RTS on ESEF.

Auditors' Responsibilities

Our responsibility is to express an opinion on whether the consolidated financial statements included in the Annual Report comply, in all material respects, with the RTS on ESEF, based on the evidence we have obtained. We conducted our reasonable assurance engagement in accordance with International Standard on Assurance Engagements 3000 (Revised), Assurance Engagements Other than Audits or Reviews of Historical Financial Information ("ISAE 3000") issued by the International Auditing and Assurance Standards Board.

A reasonable assurance engagement in accordance with ISAE 3000 involves performing procedures to obtain evidence about compliance with the RTS on ESEF. The nature, timing and extent of procedures selected depend on the auditor's judgment, including the assessment of the risks of material departures from the requirements set out in the RTS on ESEF, whether due to fraud or error. Our procedures included, among other things:

- obtaining an understanding of the tagging process;
- evaluating the design and implementation of relevant controls over the tagging process;
- tracing the tagged data to the consolidated financial statements of the Group presented in human-readable digital format and to the signed and audited consolidated financial statements, stamped by us for identification purposes;
- evaluating the completeness of the Group's tagging of the consolidated financial statements;
- evaluating the appropriateness of the Group's use of iXBRL elements selected from the ESEF taxonomy and creation of extension elements where no suitable element in the ESEF taxonomy has been identified;
- evaluating the use of anchoring in relation to the extension elements;



- evaluating the appropriateness of the digital format of the consolidated financial statements; and
- assessing consistency between the digitised information in the machine- and human-readable formats and the signed and audited consolidated financial statements, stamped by us for identification purposes.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the consolidated financial statements of the Group as at and for the year ended 31 December 2023 as included in the Annual Report have been prepared, in all material respects, in accordance with the requirements of the RTS on ESEF.

Report on Other Legal and Regulatory Requirements - Public Interest Entities

We were appointed by the General Shareholders' Meeting of the Company on 23 December 2021 to audit the financial statements of the Group for the year ended 31 December 2023. Our total uninterrupted period of engagement is 6 years, covering the years ended 31 December 2018 to 31 December 2023.

We confirm that:

- Our audit opinion is consistent with the additional report presented to the Audit Committee of the Company, which we issued on 26 March 2024. We also remained independent of the Group in conducting the audit.
- We have not provided to the Group prohibited non-audit services referred to in article 5(1) of EU Regulation no. 537/2014.

The engagement partner on the audit resulting in this independent auditors' report is Andreea Vasilescu.

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

Andreea Vasilescu

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

Bucharest, Romania

27 March 2024

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

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Auditor financiar: **VASILESCU ANDREEA**
Registrul Public Electronic: **AF2689**

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Firma de audit: **KPMG AUDIT S.R.L.**
Registrul Public Electronic: **FA9**