

Annex C. Example of a letter of expectation – Hidroelectrica

LETTER OF EXPECTATION

Within the recruiting process of six member positions within the Supervisory Board of SPEEH HIDROELECTRICA S.A.

SPEEH Hidroelectrica SA (“The Company”) is one of the most important of the electric energy producers amongst the generation companies on the energy market, supplying in 2015, 25% of the total of electric energy. The company is the major supplier of ancillary services (at the level of the National Energy System – “SEN”, in the year 2015 it supplied about 58% of the secondary regulation, over 79% of the rapid tertiary reserve and 100% of the service of energy insurance discharged or absorbed from the grid in the voltage regulation secondary band).

Besides the electric energy generation within hydropower plants and electric energy sale, the Company carries out ancillary services for SEN, the management of the waters from its own reservoirs by supplying gross water, flow regulations, protection against floods, flow insurance and such other joint services of water management, shipping insurance on the Danube through lock. The Company controls and insures the flood wave mitigation for transporting catastrophic flows within the hydropower developments on the inside rivers which are under its administration.

This document was drawn up pursuant to the provisions of GEO no. 109/2011 concerning the corporate governance of public enterprises, with its further modifications and amendments brought through the Act no. 111/2016 and the Methodological Norms of application of GEO no. 109/2011, with its further modifications and amendments, approved through the GD no. 722/2016, and represents the wishes of the tutelary public authority and the shareholders of SPEEH Hidroelectrica SA, respectively the Ministry of Energy and Fondul Proprietatea S.A., for the company’s upcoming 4 year progress.

The letter of expectation will be brought to the knowledge of the candidates on the Shortlist, which will be supplied by the company TRANSEARCH Internațional S.R.L., selected for assisting the tutelary public authority within the process of recruiting six member positions within the Supervisory Board of SPEEH Hidroelectrica S.A.

The vision of the tutelary public authority and of the shareholders concerning the company’s mission and objectives

The tutelary public authority and shareholders wish:

- Consolidation and keeping of the company’s leading position within the electric energy generation
- Increase and protection of the company’s value
- Profitable investments and optimization of production capacities operation
- The company’s listing, as in conformity with the provisions of the GD no. 1066/2013 for the approval of the privatization strategy of SPEEH Hidroelectrica SA, with its further modifications and amendments

- Application of the principles of ethics, integrity and corporate governance.

The expectations of SPEEH Hidroelectrica SA's shareholders aim at the following elements:

1. Involvement in preparing and accomplishing the Company's listing
2. Identification and implementation of some solutions for:
 - Modernization and efficiency increase of the Company's activity
 - Optimization of the production capacities functioning
 - Raising awareness in investments
 - Consolidation of the position on the energy and ancillary services wholesale domestic market
3. Refurbishment and modernization of the existent hydropower plants
4. Increasing the efficiency of the Company's maintenance function
5. Clarification of the status of the hydropower developments within the Company's patrimony, which have a limited energy component
6. Optimization and increase of the efficiency of the Company's organizational structure
7. Drawing up a Company's predictable politics of dividends, which should contribute to shape an image of the potential investors concerning the Company's financial structure
8. A Company's regional expansion through the identification of new business opportunities
9. Implementation of corporate governance principles and of a code of ethics and integrity
10. Development of capabilities of reporting, control and risk management
11. A responsible and active involvement in actions of social corporate responsibility.

Evaluation of the tutelary public authority and of the shareholders concerning the risks to which the company is exposed and the actions required to reduce the risks and of reaching the objectives

Starting from the complexity of its activity, the Company can face risks coming from various areas and different fields.

- a) *The operational risk* is tightly linked to the position on the market, to the identification and the evaluation of investments, to the profits/ generated losses, to possible fines, penalties, sanctions, to a stabilization or a deficient administration of the contractual obligations.
- b) *The Risk associated to the economic environment* – presupposes a special attention in identifying and estimating the investments, in meeting the contracts of credit and such other obligations.
- c) *The hydrologic risk* – presupposes a careful monitoring of the climate conditions, a careful approach of the contractual obligations and taking some strategies of production diversification into consideration.
- d) *The pricing risk* associated to the energy sale transactions on the market for the Day-Ahead Market (DAM), due to the price's instability on this market.
- e) *The environment risk* – new upcoming regulations that involve the revision of the environment agreements and drawing up some new adequate assessment studies and some environment impact assessment reports of the project; in the protected areas there are some risks related to the possibility of transporting the water volumes from a hydrographic basin into another.
- f) *The risk associated to the maintenance/ refurbishing works* – appears in a tight connection with the company's funds, the procurement and maintenance planning, the personnel's structure and professional training.

Having in view the above-mentioned perspective, the next Supervisory Board is expected to contribute to raise the clients' confidence and the interested parties' conviction, to enhance both the mandatory and voluntary manner of reporting, the means of control, to assure themselves that resources are efficiently allocated as to mitigate the risk, to limit the Company's losses.

The risk management must become an essential and indispensable component of each project, a part in decision-making, in prioritizing the actions/ investments.



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