



Sustainability » Report 2019



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Message from the CEO

GRI: 102-14



Dear readers,

We are pleased to make available to the stakeholders, for the fourth year in a row, the Sustainability Report of Electrica Group, which transparently shows the impact of our Company on the economy, the environment and the society. Because sustainability is our business model, we have focused our efforts on having, in addition to business excellence and accountability to our 3.8 million users, an active involvement in the lives of the communities in which we operate and of which we like to believe that we are an integral part.

In fact, as it resulted from the stakeholder consultation process, the material indicators analyzed in the report keep the economic, social and environmental aspects in focus. And for us, these are not only an indicator in terms of topics of interest related to the Company's activity, but also an element of continuity on which we rely in the constant improvement of sustainability issues.

One of our main objectives at Group level is to have a positive impact on communities, both at a business level, by developing services and solutions tailored to the increasingly complex needs of the customers, and at a social level, by supporting local initiatives that bring a major change for the better.

In 2019, we also held the fourth edition of the Grants Program "Electrica puts Romania in a different light", which included initiatives aimed at changes in areas such as health and social services, education and culture. Out of the over 80 registered projects, initiated by teams from 27 counties, 5 were selected for funding, which have an impact on over 25,000 direct beneficiaries.

We are the only Romanian listed company in the areas of electricity supply and distribution, and we serve residents from all regions of the country.

This, as well as our experience of more than 120 years, make us aware of the fact that each community has its specificity, and through this program, and also through the rest of the social responsibility activities in which we are involved, we believe that we have managed to act in concrete directions, with a real impact for each concerned community.

We continue to invest more and more, and not just in networks and services. We invest in people, both in our employees and in our future colleagues. In this sense, we have started to support the establishment of dual system professional classes, with electrical profile, in order to contribute to the formation of a new generation of professionals in the field of energy, which we all need. Also in terms of investments, it is worth mentioning that, due to its stable performances, Electrica Group obtained in 2019 the corporate rating of BBB issuer (Investment Grade), with a stable perspective, from the rating agency Fitch Ratings. It reflects the Group's solid financial profile, its leading position in the fields of distribution and supply of electricity, as well as the potential to maintain a high level of investment in the following period.

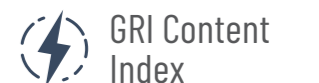


Another important achievement in 2019 was the continuation of the ambitious investment plan. In the distribution area, we commissioned projects worth more than RON 600 million, over 43% more compared to the minimum level imposed by ANRE, with a significant economic impact throughout the value chain. In the five years since the Company's listing on the Stock Exchange, we have reached a total of approximately RON 3.4 billion, Electrica thus becoming the largest investor in Romania's energy infrastructure.

Globally, humanity is facing the challenge of finding sustainable, environmentally friendly and accessible solutions. Of course, we are also concerned about this issue, one of the major objectives for the next period being to identify such solutions and reduce the carbon footprint, so as to respect the directions set by the Green Deal Environmental Pact.

Last but not least, at the end of 2019 we launched the Electrica Group strategy for a 5-year period, where the watchword is *sustainability*. The new strategy enhances the benefits of the transformation processes deployed so far and, at the same time, provides many opportunities to prepare the Group for further sustainable development, having among its key elements the involvement in the communities in which we operate and the care for the environment. "

Georgeta Corina Popescu,
CEO Electrica



01 About this Report

GRI: 102-40, 102-42, 102-43, 102-44, 102-46, 102-47, 102-50, 102-52, 102-53, 102-54, 102-55, 102-56

Electrica Group launches the fourth Sustainability Report, which mainly includes non-financial information from 1 January 2019 to 31 December 2019. The Report refers to the main challenges and opportunities of the Group in the field of sustainability, which are found in the activity of our companies and analyzes the economic, social and environmental impact that it generates.

This Report is prepared according to the Global Reporting Initiative Standard (GRI) - Core option, as well as with the Energy Sector Specific Supplement of the Standard. The Report complies with the requirements of the EU Directive on non-financial reporting 2014/95/EU and with its transposition into national law by Order of the Minister of Public Finance No. 1938/2016.



Your opinion is important to us. Please contact us through the Communication, PR & CSR Department of Societatea Energetică Electrica S.A. at the telephone number: 021 208 5999 or at the e-mail address: csr@electrica.ro.

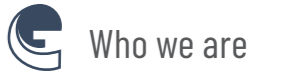
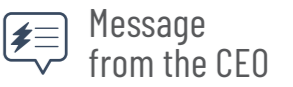
Stakeholder Engagement

As in each of the last four years, this year also we have used a complex process of stakeholder consultation, both internal and external, to determine the structure and content of the Report. Understanding and identifying stakeholder expectations is one of the most important steps in the materiality analysis process we conduct each year. In order to identify the material aspects relevant to reporting, we went through a process of identifying important topics for both internal and external stakeholders, topics that were validated by the management of the Electrica Group.

A list of 22 topics from 4 different areas (environment, employees, market and economic) relevant for Electrica Group's operations was evaluated during the consultation. Following the confirmation of the topics, we developed an online questionnaire to quantify the importance of the topics for stakeholders (internal and external). Thus, we collected a total of 705 responses, of which 43 from the external environment. Once more our employees were involved and interested in the annual Sustainability Report. 662 of them answered the questionnaire, an increase of over 75% compared to the previous year.

The analysis of the results of the questionnaire revealed a set of material topics of interest to the stakeholders, as well as the areas in which the Company should be involved.

The questionnaire was presented to 81 stakeholders from outside the Group, including: suppliers, contractors, consultants, companies with the same object of activity, customers, regulators, NGOs and associations, financial analysts, educational institutions, local authorities, mass media.



List of Material Topics

As a result of the stakeholder consultation, we identified 19 material issues that are included in the Sustainability Report of the Electrica Group for 2019. Given the reporting history (the first report of the Group was published in 2016), there is a recurrence of several material issues relevant to the stakeholders, including:

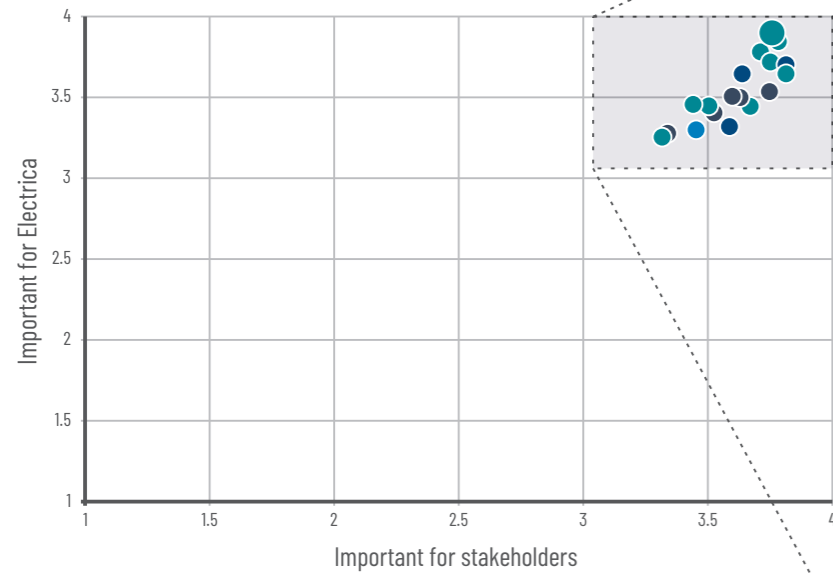
- **Quality and availability of services;**
- **Occupational health and safety;**
- **Compliance with regulations, ethics, integrity, anti-corruption and non-discrimination in business and society.**

In addition to the obvious concern for economic performance and the Company's impact on the Romanian economy, stakeholders are increasingly concerned about issues related to **the social impact on local communities** and, in general, the social responsibility activities of the Group.



List of Material Topics	Sustainability Standard
Performance and economic growth	GRI 201
Impact on the Romanian economy	GRI 203
Hazardous and non-hazardous waste management	GRI 306
Compliance with environmental legislation and regulations	GRI 307
Climate change strategy and the transition to energy from renewable sources	GRI 413
Biodiversity	GRI 304
Network efficiency	EU 12
Social impact on local communities	GRI 413
Social responsibility - CSR activities	GRI 413
Compliance with regulations, Ethics, Integrity, Anti-corruption and non-discrimination in business and society	GRI 205
Electrica employees	GRI 401
Occupational health and safety	GRI 403
Diversity and equal opportunity	GRI 405
Training and Education	GRI 404
Consumer health and safety	GRI 416
Consumer data protection	GRI 418
Services quality and availability	EU 6
Innovation /New technologies /Research and development	EU 8
Acces	EU 26 EU 27

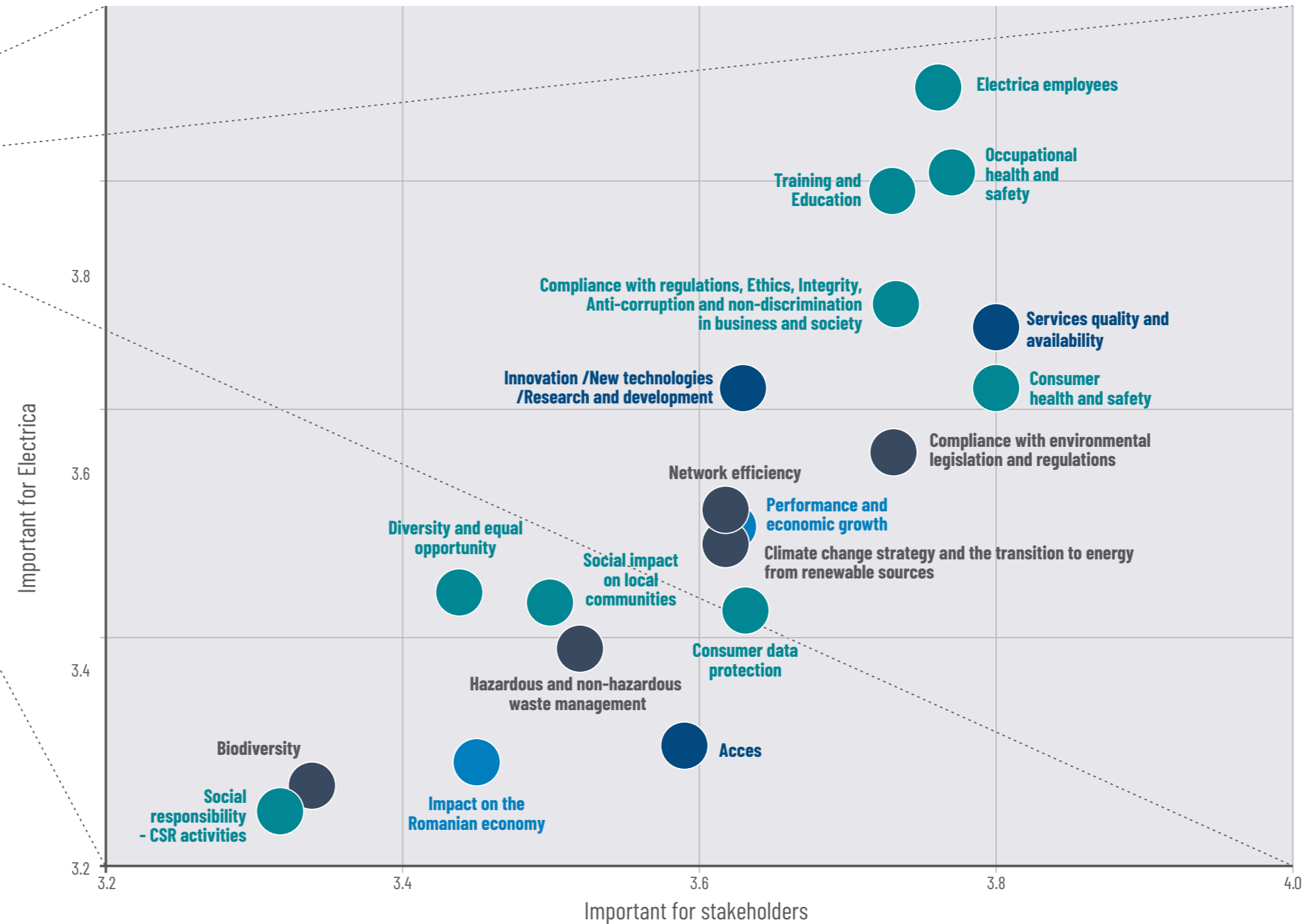
Materiality matrix



Legend

4 - Very important, I am looking forward to find out more information;
 3 - Important, I will read the information if it is available in the report;
 2 - Less important, it seems to me this is an additional information;
 1 - Not important.

Figure 1 - Materiality Matrix



02 Who we are

GRI: 102-1, 102-2, 102-3, 102-4, 102-5, 102-6, 102-7, 102-8, 102-9, 102-10, 102-13, 102-16, 102-18, 102-19, 102-22, 102-23, 102-24, 102-25, 102-30, 102-35, 102-36, 205-1, 205-2, 205-3, 418-1

"The strategic directions approved for the period 2019 - 2023 respond to market developments and are meant to strengthen the position of the Electrica Group. All our energy is directed towards sustainable development, both to new areas by obtaining synergies with our traditional fields of activity, but also by continuing efforts to improve operational performance throughout the organization.

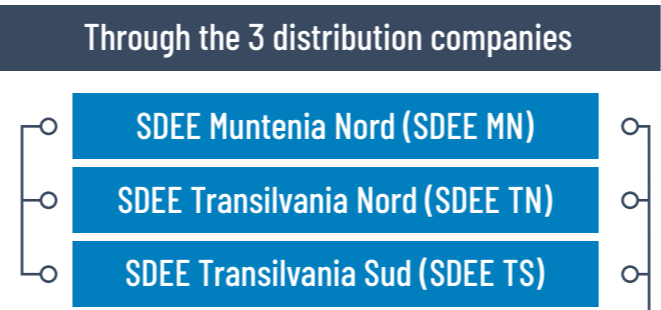
A partnership-based approach, always keeping in focus the long-term vision, the safety of operations and the integration of relevant skills are the elements that will support us in our endeavors, being fully aware of our responsibility to our employees, customers and not least our shareholders."



Anamaria Acristini,
Chief Corporate
Development Officer

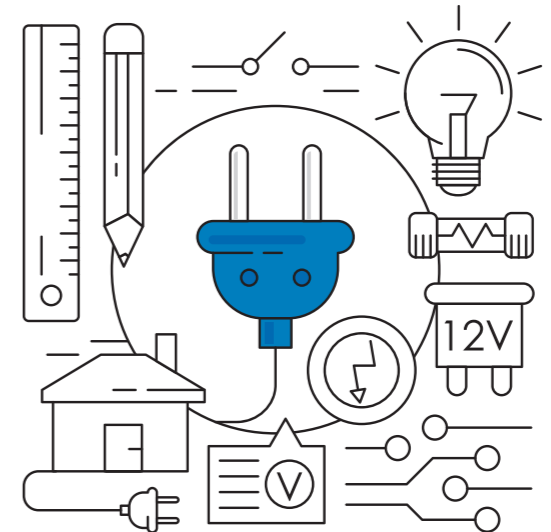


Electrica Group is one of the major players on the Romanian energy market, with a history of more than 120 years. The main activities of the Group are the distribution and supply of electricity to final customers. The Company is also active in the gas supply market and is one of the major players in the energy services market.

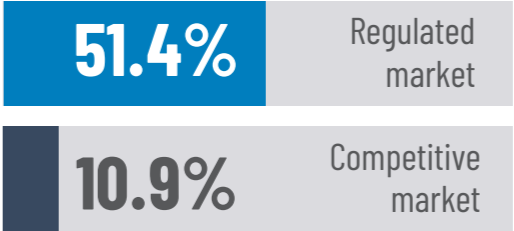


Electrica ensures the distribution of electricity in **18 counties** being the operator that manages the largest distribution network in Romania.

Electrica Furnizare is the largest supplier at national level with a market share of over 51.7% on the regulated market and over 10.9% on the competitive market. Electrica Furnizare (EFSA) is also the main supplier of electricity in the areas where the Group also provides distribution services.



Market share



In addition, the Group successfully operates on the energy services market through the two companies **Electrica Serv (EL SERV) + Servicii Energetice Muntenia (SEM).**



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○ Supply of electricity and natural gas and of energy services present throughout the country

● Distribution

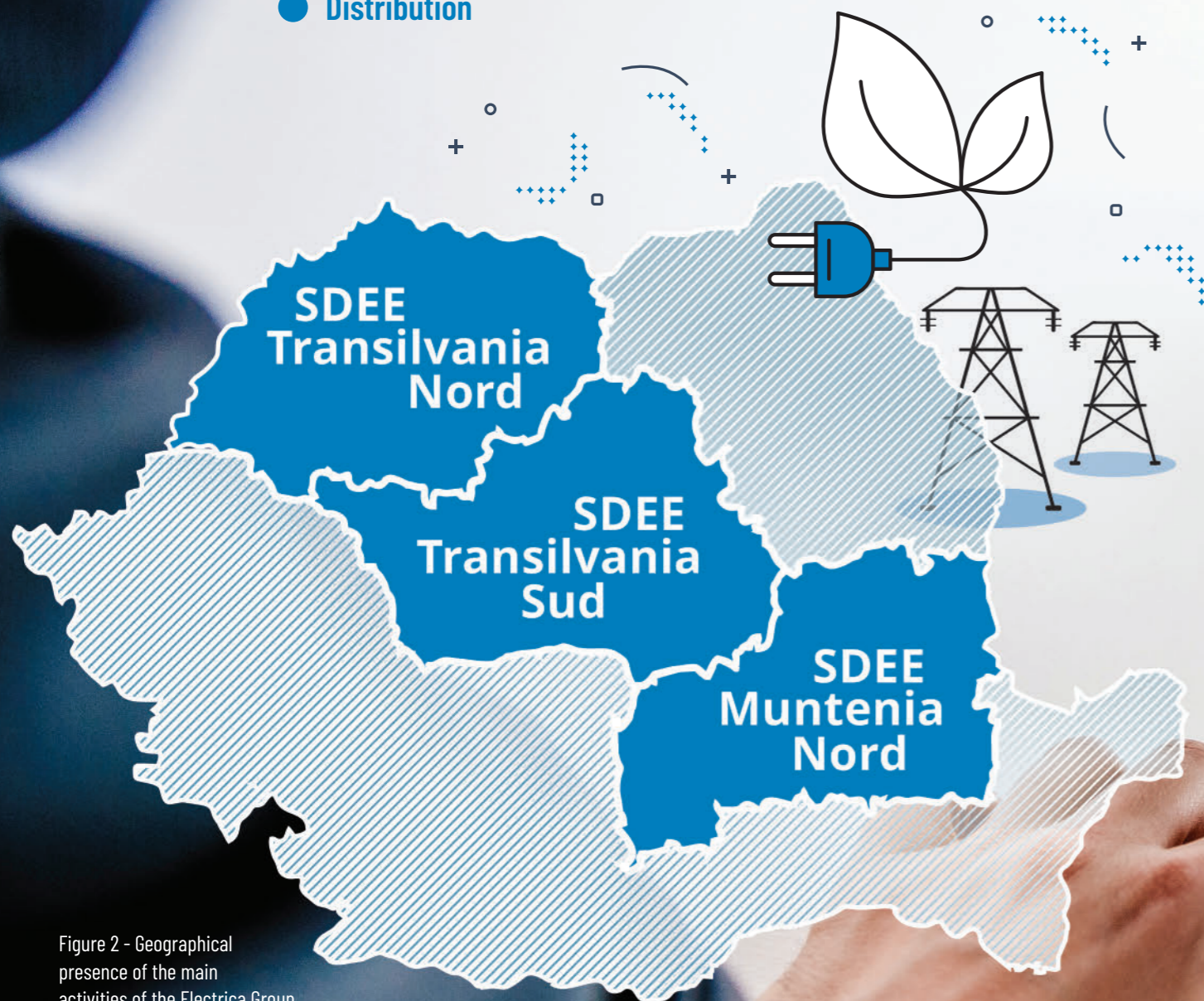


Figure 2 - Geographical presence of the main activities of the Electrica Group

electrica

one of the most valuable Romanian brands

Electrica remains one of the most valuable Romanian brands, according to Brand Finance Romania Top 50 (2019), given the reputation gained in the relationship with customers, employees and other stakeholders.

By presenting sustainability reports on the operations in Romania since 2016, Electrica also remains one of the most appreciated companies in Romania in terms of transparency and this places the Group in a small cluster of entities that actively invest in order to ensure and increase transparency towards all stakeholders.



Group Structure and Shareholders

All the Group companies are owned by Electrica S.A., which defines the strategic directions, principles and policies of corporate governance, business ethics and risk management for all companies. Electrica also coordinates operations and strategic initiatives.

Following the steps taken in 2019, Electrica expects to receive in 2020 the formal approval from the Board of Directors for the merger by absorption of the three electricity distribution companies within the Group - SDEE TN, SDEE TS and SDEE MN, the absorbing company being SDEE TN.

The approval for the merger of the two energy services companies within the Group is also expected: FISE Electrica Serv SA and Servicii Energetice Muntenia SA, with FISE as the absorbing company. These decisions of the Board of Directors are an important step in the implementation plan of the Group Strategy for the period 2019 - 2023.

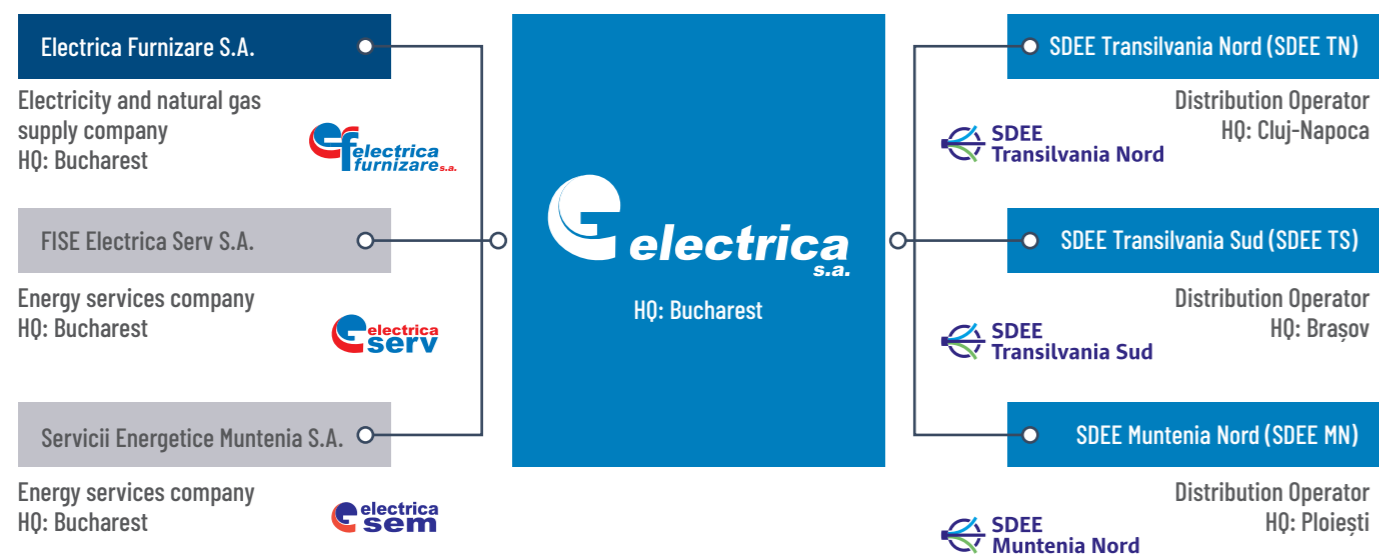


Figure 3 - Structure of the Electrica Group

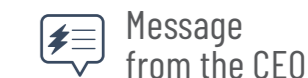
Since July 2014, the time of the initial public offering, Electrica has been a company with majority private capital. The Company's shares are listed on both the Bucharest Stock Exchange (BSE) and the London Stock Exchange (LSE), where the listing covers global certificates of deposit (GDR), each certificate holding 4 shares.



London Stock Exchange

The most important **decisions of the BoD** in the financial year 2019:



- Election of the Chairman of the BoD and establishment of the composition of the advisory committees;
- Reviewing and approving the revenue and expenditure budgets related to ELSA and the Company's subsidiaries for the financial year 2019;
- Analysis and approval of the financial statements of ELSA and of the Group companies;
- Quarterly analysis of the financial results obtained, respectively of the budget execution;
- Initiation, development and completion of the ELSA share capital increase procedure, according to the delegation granted by the EGMS.



Secondary public offer carried out in 2019

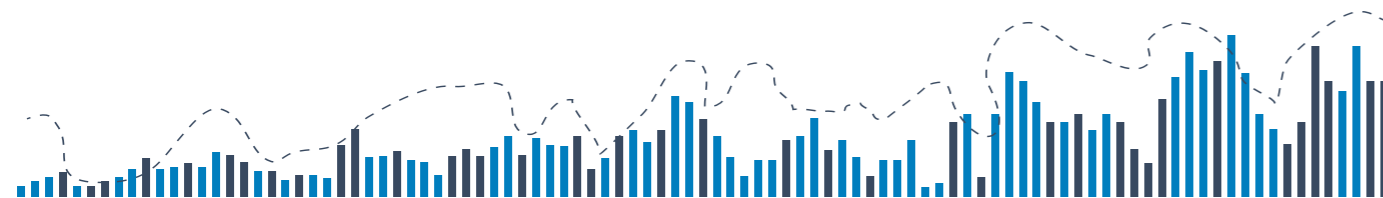
In the Ordinary General Meeting of Shareholders of 25 April 2019, the shareholders decided to increase the Company's share capital, and delegated to the Board of Directors the tasks related to the accomplishment of these operations.

Thus, on 4 October 2019, the Board of Directors approved the increase of the share capital with the amount of RON 6,049,830 as a result of the evaluation report of 30 September 2019.

Of the amount approved for the increase	RON 2,951,140 	+ and the remaining part up to RON 3,098,690 
	is the in-kind contribution of the Romanian State, consisting of 9 land plots	is represented by new shares offered for cash subscription to existing shareholders, as a result of preference rights granted to other shareholders.

During the share capital increase operation, 208,554 new shares were subscribed, with a nominal value of 10 RON /share, the total nominal value being RON 2,085,540. The amount represents 67.3% of the total new shares offered for sale, that is:

207,466 ordinary shares;
1,088 shares represented in the form of 272 global certificates of deposit (GDR) issued in accordance with the regulations in force, each GDR representing 4 subscribed shares;
101,315 unsubscribed shares within the offer were canceled.



Thus, in December 2019, eight months after the shareholders' approval of the launch of the share capital increase operation, the mandate granted by the GMS to the Board was successfully completed by the share capital increase amounting to RON 5,036,680 million, increasing from RON 3,459,399,290 to RON 3,464,435,970. Within this operation, 503,668 new, registered shares were issued with a nominal value of RON 10 /share.

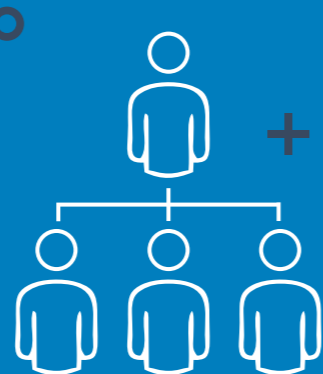
Shareholder Name	No. of Shares held	Holding (% of Share Capital)
The ROMANIAN STATE through the Ministry of Economy, Energy and Business Environment, Bucharest, ROU	169,046,299	48.7948%
EUROPEAN BANK FOR RECONSTRUCTION AND DEVELOPMENT, London, GBR	17,355,272	5.0096%
ELECTRICA S.A., Bucharest, ROU	6,890,593	1.9890%
BNY MELLON DRS, New York, USA	3,824,592	1.1040%
Other legal entities	134,039,676	38.6902%
Individuals	15,287,165	4.4126%
TOTAL	346,443,597	100.0000%

Table 1 - Shareholding structure as at 31 December 2019

At the end of 2019, the largest shareholder of Electrica is still the Romanian State, represented by the Ministry of Economy, Energy and Business Environment, with a holding of 48.79%, following the secondary public offering carried out in 2019.

Corporate Governance

The principles of good corporate governance are elements of great importance for the Group, as they are the basis for sustainable development and the creation of sustainable value for both shareholders, customers and employees.



Dual listing, on the Romanian market managed by BSE and on the international market in London managed by LSE, means that Electrica is subject to the strictest and highest standards of corporate governance. In order to align with these requirements, especially to increase competitiveness and attractiveness of investors, and also to ensure a suitable position to exploit new opportunities, the Group is constantly concerned with developing and adapting the corporate governance model and business practices.

For this reason, the degree of compliance of Electrica with the Corporate Governance Code of the Bucharest Stock Exchange is constantly evaluated, and the Company notifies the market if there are internal changes or updates to the code that lead to a change in compliance. For 2019, the Company complied with all the provisions of the BSE corporate governance code, according to the “Comply or Explain” statement. This also ensures compliance with the principles of good governance that must be demonstrated in relation to shareholders and other stakeholders.

The Company’s general principles and rules of conduct, responsibilities, obligations and business approach are contained in the Company’s Corporate Governance Code. This code addresses the terms of reference, as well as the main responsibilities of the administrative and executive management and the committees set up to support the oversight mechanism. This set of principles and rules can also be found in the Articles of Association of Electrica S.A.

Electrica has adopted a unitary management system, which helps to ensure a rapid and efficient exchange of information and supports business development.

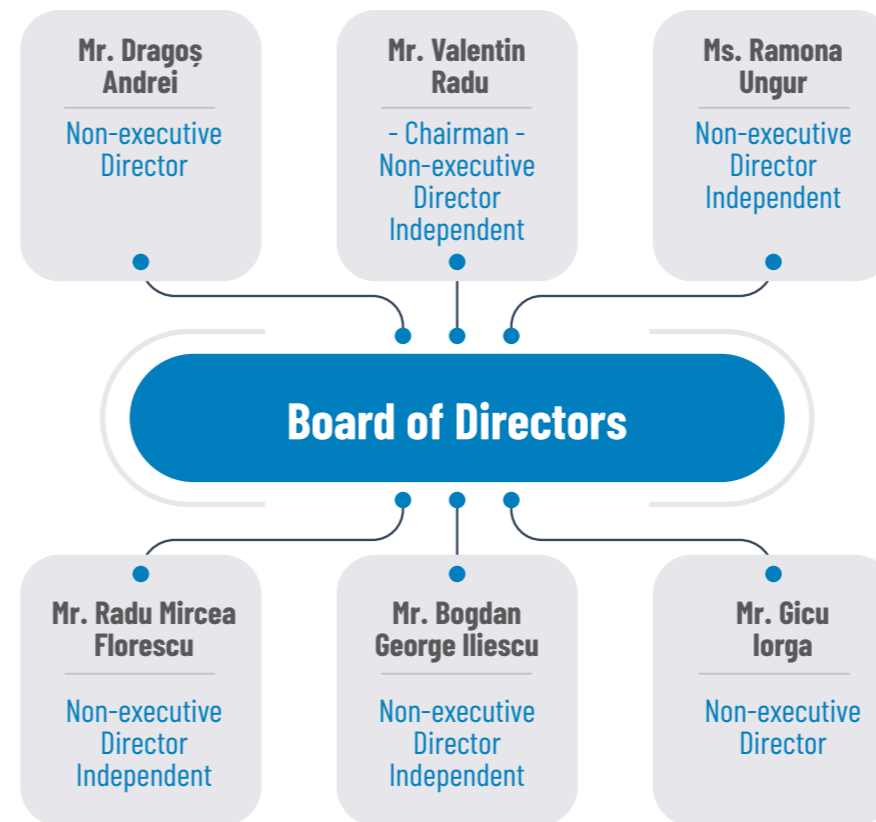


Figure 4 - Members of the Board of Directors as at 31 December 2019

Nomination and Remuneration Committee	Audit and Risk Committee	Strategy and Corporate Governance Committee
Bogdan George Iliescu Chairman	Ramona Ungur Chairman	Dragoș Andrei Chairman
Valentin Radu Member	Bogdan George Iliescu Member	Radu Florescu Member
Gicu Iorga Member	Cristian Bosoancă* Member	Valentin Radu Member

Figure 5 - Composition of the Advisory Committees at the time of the publication of the report

This system incorporates two main bodies that perform the functions of management and supervision of the Company’s business: The General Meeting of Shareholders (establishes the long-term strategic directions) and the Board of Directors together with the executive management (responsible for taking and implementing the necessary measures to carry out the Company’s business).

The Board relies on the work of three advisory committees, namely: Nomination and Remuneration Committee, Audit and Risk Committee, Strategy and Corporate Governance Committee.

* In the General Meeting of Shareholders of 29 April 2020, Mr. Iulian Cristian Bosoancă was elected as member of the CA to fill the vacancy after the renunciation by Mr. Nicolae Havrișet, Member of the Audit and Risk Committee since 13 May 2020.

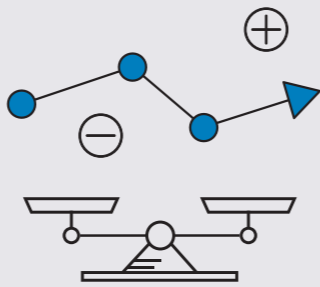
Between 4 July 2014 (the date of the Company's listing) and 26 November 2019, **Electrica shares reported an aggregate yield of approximately 35%, which is a compound annual growth rate of 5.09%.** The highest volatility during this period was reported by Nuclearelectrica (1.59), followed by Conpet (1.07). At the same time, **Electrica is the BET company with the most stable annual dividend yield, between 5.2% and 7.3%.**



Evolution of Shares

Electrica remains the company with the most stable evolution of the adjusted price in the Romanian energy sector

Company	Volatility analysis, expressed as the ratio between the maximum deviation (difference between the highest and the lowest adjusted price) and the adjusted average price
Electrica	0.46
Transelectrica	0.57
OMV Petrom	0.78
Transgaz	0.85
Romgaz	0.88



Delegation of Authority

During 2019, the Group made sustained efforts to implement new principles of authority delegation in order to further streamline the approval processes and the degree of management work load, by creating intermediate levels of responsibility. The new principles of delegation of authority, responsibility and accountability form the new Delegation Policy in Electrica. Based on this document, the mechanisms and the way in which the authority is delegated on economic, social and environmental issues have been reviewed.

Remuneration Policy

The Remuneration Policy for Directors and Chief Executive Officers is based on good practices used both nationally and internationally. It describes the main pillars that make up the remuneration, terms and conditions on which the level of benefits is determined, as well as the non-financial benefits of the members of the Board of Directors and the executive management.

The latest version in force of the Remuneration Policy was approved during the OGMS meeting on 9 February 2018. Shareholders approve the policy for directors and the general limits of executives' remunerations. The exact level of remuneration and other benefits for the executive management shall be determined based on the recommendations of the Nomination and Remuneration Committee. This committee reviews the remuneration policy annually, and the novelties are approved in the GMS.

The remuneration structure is defined separately for the members of the Board of Directors and for the members of the executive management. Thus, the remuneration system for executive management members consists of a fixed and a variable component based on performance, this being one of the best practices in the market. In addition, the remuneration system also provides for non-financial benefits.



Vision, Mission, Strategy

In 2019, Electrica Group developed a new strategy applicable until 2023, which responds to the changes and new paradigms of the energy market. The Group's mission, vision and values were also defined, following an extensive process that included internal consultations.

Our Mission

Energy - Anywhere, anytime, for anyone!

We bring energy where people materialize their dreams.

In practice, Electrica Group's mission and vision translate into a series of transformations that take place at the level of the Group's structure, investment strategy and processes. Only if we intervene on the entire value chain, will our operations be sustainable and generate value to customers, employees and investors.

We want to strengthen our position as a Group in the energy market and, in addition to our supply and distribution activities, which remain the core of our business, to make our expertise available to our customers in order to offer them our support.

Our Vision

Excellence and robustness for the traditional segments, innovation and flexibility in new approaches.

Promoter for electrification and green energy.

OUR VALUES

Trust



We are the partner you can rely on, now and in the future

Competence



We build with skill. We are proud of the role our work gives us within society

Safety

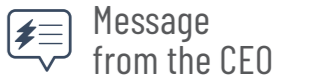


We are always careful with the safety of our employees, our collaborators and the communities in which we work

Sustainability



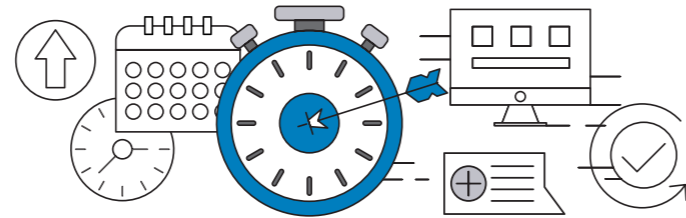
Our solutions are long term and friendly for the environment as well as for the people





Strategy and Objectives

Our strategy addresses all business areas in an integrated way and recognizes that we are in a period of general transformation of the energy industry, taking the European legislation into account.



Strategic Objectives of the Group for the period 2019 - 2023

- 01** Expand in related fields and obtain synergies with our fields of operation;
- 02** Improve operational performance in order to continuously increase the quality of services provided to customers;
- 03** Continue investments to improve infrastructure reliability;
- 04** Increase performance and strengthen sustainability of economic results.

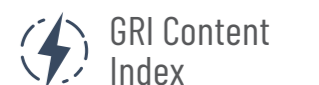
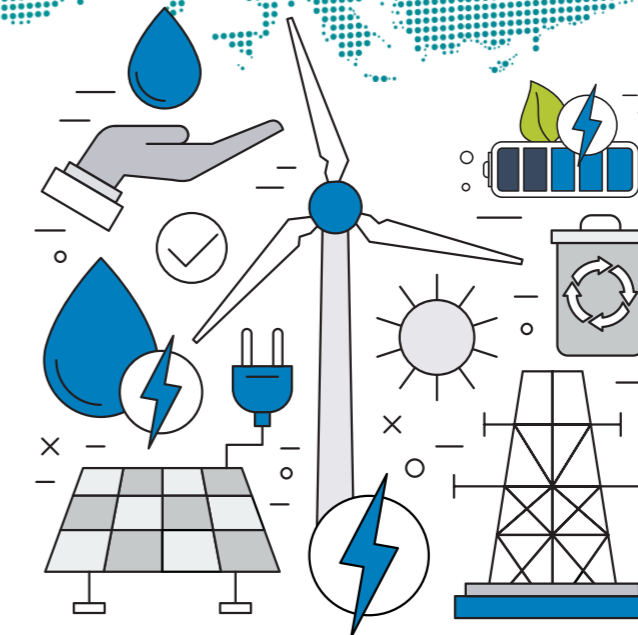
For example, the adoption of the European Green Deal, which aims to make Europe the first carbon-neutral continent, would change the entire value chain.

At the macroeconomic level, investment in innovation and research will be needed, by redesigning the functioning of the entire economy and changing industrial development policies.

At the energy industry level, a first impact would be the medium and long-term transformation of the business model, through greater **flexibility, from producers to distributors and customers.**

Adapting to the requirements of relevant European legislation requires radical changes in the medium and long term. To this end, we performed the first analyses on the potential benefits, both in the short term, and especially in the long term, which would result from the integration of the activities of the three distribution operators.

Europe the first carbon-neutral continent



The Electrica Group's strategy is built on a set of trends and assumptions, the IT field being essential in implementing the business objectives we propose, such as accelerating digitalization or increasing operational efficiency. In this regard, we will continue our efforts to support investments in IT tools and automation, both to streamline processes and to increase the performance of our distribution networks.



Another critical element of the success of the strategic plan for 2019 - 2023 is the Company's Human Resources Strategy. Thus, Electrica aims to provide the qualified and competent staff necessary to implement the initiatives proposed by the Group, an important objective, especially considering the extremely dynamic labor market.

In the distribution area, the transformation process initiated in 2017 was continued in 2019, through the initiatives derived from it (e.g., the continued large-scale implementation of the Lean methodology). Also, a very important role continues to be played by investments in infrastructure, which will be reflected in the operational performance of the network, in increasing the base of regulated assets and in sustainable results for shareholders, while ensuring flexibility to accommodate new investments in photovoltaic or wind parks.



Thus, the Group's new strategy is mainly supported by continued investment in infrastructure. **For 2020, Electrica has allocated an investment budget of approximately RON 600 million to continue improving continuity indicators and quality of service of electricity distribution, to reduce waste and increase operational efficiency.** Although the budget is declining compared to previous years, the level of forecasted investments exceeds the value imposed by ANRE and remains at a significant level to ensure a significant increase of BAR. **Investments of more than RON 2.8 billion are forecast for the current regulatory period (2019 - 2023).**

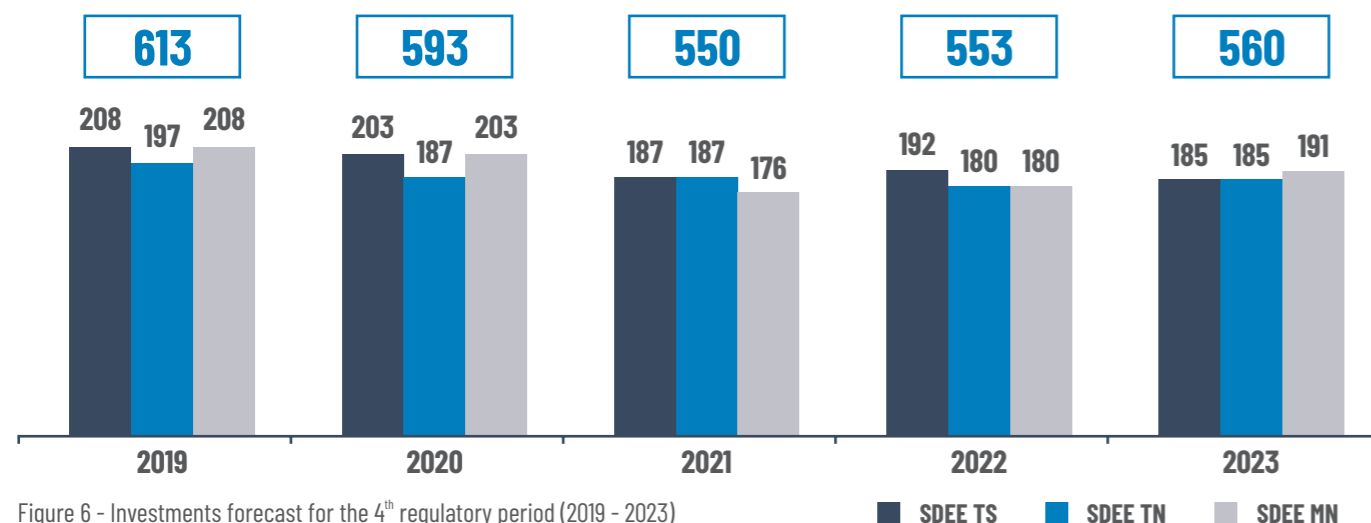


Figure 6 - Investments forecast for the 4th regulatory period (2019 - 2023)

For supply and service activities we have a set of common objectives that are transposed into an extensive portfolio of products and complement the traditional offer. The supply company has started a project of optimization and alignment with the market needs, which mainly involves streamlining processes, improving customer experience and optimizing costs.

All these steps are complemented by the launch of the merger process of the energy service companies, whereby we want to grow on the energy services market and to optimize this business segment of the Group.



IT Strategy

Modernization and Innovation in IT&C: Electrica's efforts aim to develop a culture based on innovation, on improving digital literacy of its employees and on the implementation of new business technologies, which will support the activities in the Distribution, Supply and Services areas.



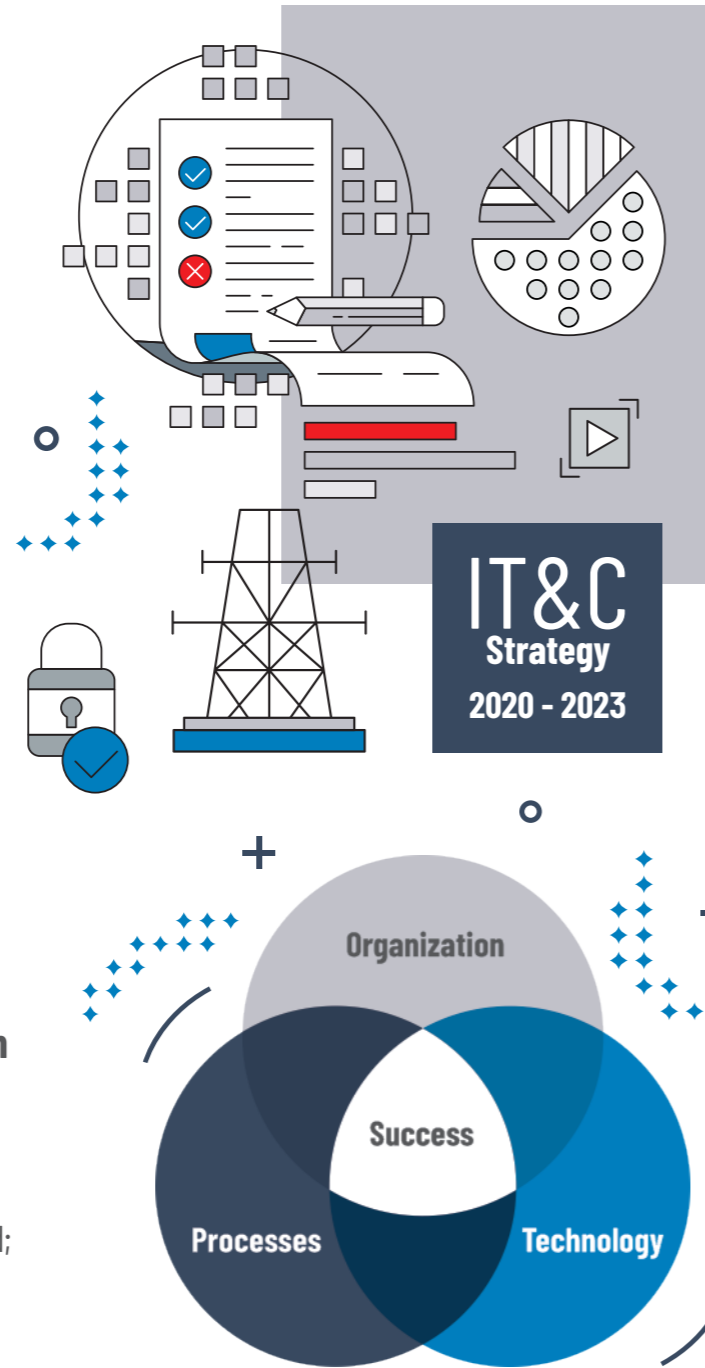
Mircea Toma Modran, Chief Information Officer

The IT&C organization develops specialized competence centers, which maximize the reaction and operational resilience capacity of IT&C, in parallel with the testing and implementation of advanced architectures and functionalities in the area of information technology and operational technology.

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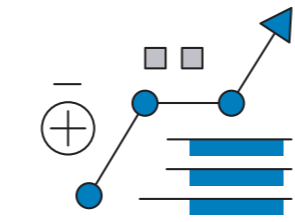
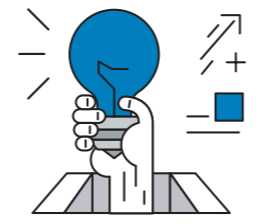
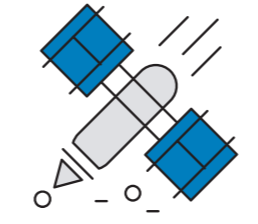
The new IT&C Strategy for the period 2020 - 2023 was approved in 2019. It aims to meet business requirements by:

- ◆ Identifying new ways to expand the value of existing assets;
- ◆ Implementing new architectures and IT solutions to control and monitor business processes in a highly efficient and safe manner;
- ◆ Extending initiatives to increase the quality of user interaction;
- ◆ Continuing the process of distribution networks control automation;
- ◆ Ensuring human resources, training and attracting new skills.



The implementation of the IT&C strategy is based on the operationalization of the relationship between:

- ◆ Efficiency of the organizational structure;
- ◆ Maturity of specific IT&C processes implemented;
- ◆ Capabilities and functionality of the technology used.

IT&C Objectives	Implementation for 2020 - 2023
<p>Maximized operational efficiency</p> 	<ul style="list-style-type: none"> ◆ Consolidated governance and operational structure of the IT&C organization based on competence centers; ◆ Implementation of IT Service Management at a target level 4 of process maturity; ◆ Implementing IT&C planning based and prioritized on added value for business.
<p>Competitive human resources</p> 	<ul style="list-style-type: none"> ◆ Ensuring specialization and assuming operational responsibility for IT&C at Group level; ◆ Creating specialization opportunities in advanced fields and exchanging experience within geographically distributed teams; ◆ Encouraging initiative and continuous improvement.
<p>Preparation and adoption of advanced technologies</p> 	<ul style="list-style-type: none"> ◆ Implementation of departments specialized in advanced technologies; ◆ Priority promotion of the effort in ultra-specialized areas (cyber security, robotics, machine-learning, etc.).



Priority projects to streamline and modernize IT&C area with the implementation of the strategic business objectives adopted in 2019:

- ◆ **A new Telecommunications Strategy for the period 2020 - 2028**, which proposes a massive reorganization of telecommunications capacity and the use of this tool to promote smart grid elements, digitalization, control and security of distribution networks.
- ◆ **Requirements alignment project and preparation of migration to the SAP S/4 HANA Platform** - The first 2 phases (impact analysis and assessment of the current state of alignment with IT&C standards) of the strategic assessment and migration preparation project for the new SAP S/4 HANA platform have been completed. Careful planning of the leap to the new platform will require the implementation of innovative business processes, with redesign during independent stages.
- ◆ **Implementation of a single IT&C Services Quality Monitoring center of the Electrica Group (NOC)** involves strengthening and expanding independent initiatives of the Electrica Group entities in order to achieve the efficiency leap expected and demanded by the business.
- ◆ **Implementation and extension of advanced technologies such as RPA, Machine Learning etc.**

These technologies are expected to support efforts to improve the quality of interaction between the various legal entities that form the Group and the end customer.

Ethics and Compliance

The values and principles

adopted by the Group and promoted at the level of each company are essential in building a culture of ethics, integrity and sustainability. Strongly supported by the executive management, but also by each individual employee, they have the role of further cultivating the image capital, materialized by the trust and recognition that the company enjoys.

Ethics and compliance remain a priority, as the Group considers them necessary conditions for the sustainable development of the Group.

Based on these principles, the Group has adopted a proactive attitude and updated the necessary provisions of the compliance framework to ensure the highest possible degree of adequacy with the concrete aspects and specifics of the Group's companies, but also to implement best practices in the field. Therefore, in October 2019, the Policy on Avoiding and Combating Conflicts of Interest was revised and updated, in line with current developments of the organization and the legal framework.





During 2019, information on the Code of Ethics and Professional Conduct and the Electrica Group's policies on business ethics and anti-corruption was provided for all hierarchical levels, through the secretariat of the BoD, information e-mails, website posts, workplace posts, substantiation notes and submitting information and documentation to new employees by the Human Resources Department. The percentage of the Group companies' employees that have been informed is 100%.



The Group continues to strive to analyze, adapt and implement best practices in the field, so that no allegations of corruption have been reported in any of the Group's entities.

Permanent support was provided and the continuous exchange of information with the ethics and compliance structures in the subsidiaries was ensured at the Group level. During the year, a monthly update, control and dialogue mechanism was created, implemented and followed between the ethics and compliance managers of the subsidiaries and the subordinated structures. All officers in charge of ethics participated in a course on Expert Prevention and Combating Corruption. Thus, in addition to the emphasis on the policy of preventing and combating conflicts of interest, attention continued to be given to the Policy on gifts, business entertainment expenses and the prohibition of facilitation payments.

In 2019, the contractual clause through which the business partners were further informed about the principles and **provisions of the Code of Ethics was introduced in over 90% of the contracts signed** by the Group's creditworthy companies.

Also, the transactions with related parties within the Electrica Group were carried out without generating conflicts of interest.

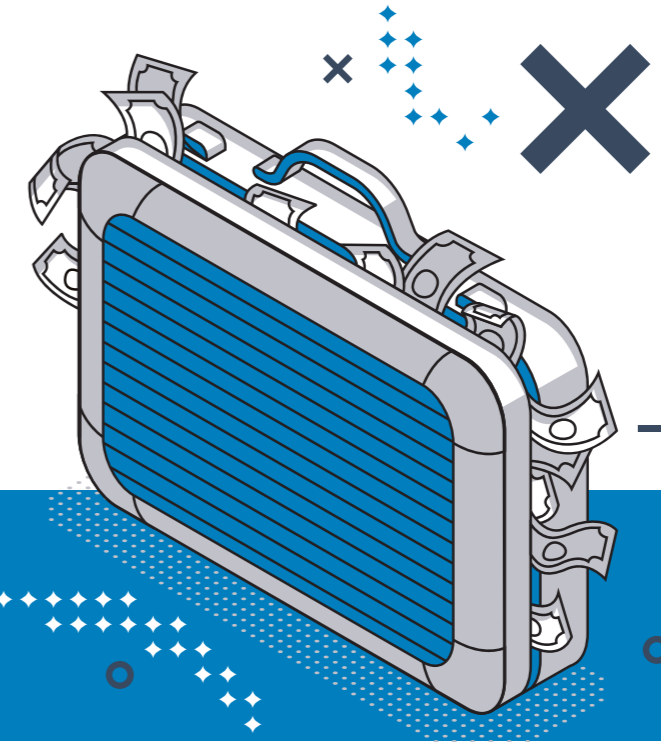
The definition of the Anti-Harassment Policy was initiated, as well as a Project to update the Money Laundering Policy, through a coordinated project integrated at Group level.



In terms of ethics and compliance, Electrica's short-term goal is to obtain the ISO 37001 certification - the anti-corruption management system. It helps to reduce the risks of giving and taking bribes, while ensuring both the existence of measures to protect stakeholders and the use of internationally recognized good practices.

At the ELSA level, there is already a procedure in place to report ethical violations, irregularities or any violations of the law that could cause commercial or image damage, or that could attract legal penalties, thus affecting the Company's image capital or profitability.

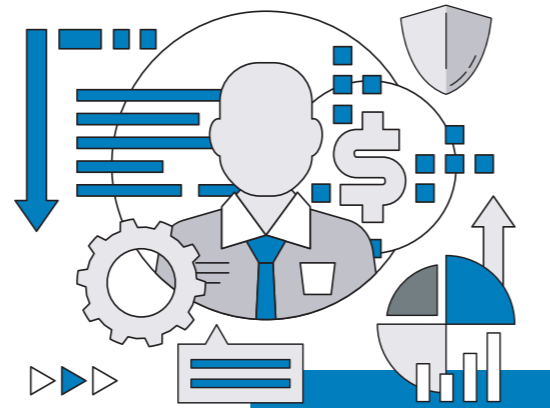
Thus, in 2019, none of the Group's entities reported any justified complaints regarding the violation of customers' rights and/or loss of personal data, notifications regarding incidents of discrimination or acts of corruption.



Risk Management

The year 2019 marked the beginning of a Group-wide alignment on how enterprise risk management (ERM) is understood and implemented.

This alignment was mainly based on best practices in the field, but also on the implementation of particular issues in accordance with the provisions of ISO 31000.



Thus, at Group level, the risk management initiatives were limited to a formal, unitary framework, implemented in all structures of the Group, within a large-scale process that covered all Electrica subsidiaries. We present below some of the specific implementations that have become part of the risk governance within Electrica in 2019:

Organizational design, as well as the definition of the role and responsibilities related to the risk management competence at the level of each entity by identifying the necessary resources and qualifications: attracting specialized personnel, establishing competencies, ways of organization (departments and committees of risk supervision undertaken in the risk management area);

Implementing a risk management approach in three lines of defense: Raising responsibility of the first line concerns the operational aspect of identification, and where possible, of evaluation, but also of ad-hoc mitigation of an analyzed risk. **The second line** provides for the aggregation, monitoring and reporting of relevant information on the identified risks in order to achieve a decision-making manner based on the awareness of the assessed risks. **The third line** is represented by the internal and external audit component that validates the effectiveness and efficiency of the risk management system;



Semantic and taxonomic alignment: by establishing a universe of risks at the level of the entire group of companies, defining and establishing the risk appetite, but also by implementing a scale of quantitative and /or qualitative assessment to describe the identified risks and their aggregation;

Establishing the basic requirements for an integrated risk management system and for technological solutions that could allow the implementation of ERM as part of an Integrated Management System;



Procedural alignment: by transposing reference documents at Group level: policy, procedures, plans, registers and forms, other types of deliverables (e.g. reports);

The effective implementation of these initiatives was achieved by pursuing both staff training and effective involvement in the construction of deliverables that underlie the risk management process;



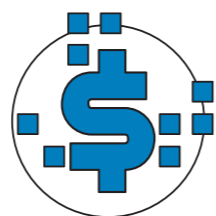
Development of extensive one-off approaches to risk categories materialized in recent history or with significant potential impact, for example: market risk (e.g. electricity price) or counterparty;

Establish a plan of measures to address the identified and assessed risks, as well as to monitor its implementation and the effectiveness of the proposed measures.

Apart from this approach, specific activities have been identified in the particularities of the energy system, as found in the structure of the Group (we refer to the areas of distribution, maintenance, trading and supply), which are subject to detailed secondary regulations and whose risk management component is most often embedded in the regulated operational flow (e.g.: occupational safety rules, technical intervention rules etc.). The integration of these risks will be the subject of a future initiative.



Among the risk categories covered by this report, we cite the following examples resulting from the use of financial instruments: credit risk, liquidity risk and market risk (currency and interest rate).



A challenge arising from the process also stems from the multiple regulations with risk reporting or quantification requirements that are based on distinct methodologies (e.g.: ORNISS, GDPR, Corruption, OSH, security risk etc.) and sometimes significantly different from those that have been undertaken at the corporate level. Aggregate reporting and building a relevant database for future risk analyzes become, in this context, challenges for the future implementation schedule.

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Certifications

Giving importance to customers, employees and the environment, the Group has implemented and certified integrated quality - environment - health and safety at work management systems within its companies in accordance with the standards SR EN ISO 9001: 2015 "Quality Management System", SR EN ISO 14001: 2015 "Environmental Management System" and SR ISO 45001: 2018 or OHSAS 18001:2007 "Occupational Health and Safety Management System".

In the context of the organizational transformations that marked the 2017 - 2019 period, the companies of the Electrica Group redefined one by one their integrated quality - environment - OSH management systems by redesigning and re-documenting the processes with the revision of the applicable procedural framework.

Throughout 2019, the distribution operators within the group, took an approach to align the process documentation of their integrated quality - environment - OSH management systems, aiming to simplify and streamline processes, with emphasis on operational activity and the development component (investment).



For Electrica S.A., the year 2019 meant the transition of the integrated quality - environment - OSH management system from OHSAS 18001:2007 to SR ISO 45001:2018 and its recertification by the certification body SRAC Cert affiliated to IQNet, in October 2019.

The end of 2019 marked the start of redefining the integrated quality - environment - OSH management system by redesigning EFSA specific processes in the context of the Brâncuși Project and the transition to SR ISO 45001:2018, the project calendar setting its completion for 2020.

In 2019, the companies within the Group successfully completed the external recertification or supervision audits of their own integrated management systems quality - environment - OSH carried out by the accredited certification body SRAC Cert affiliated to the international network IQNet, all of them maintaining their certifications.



Affiliations



Electrica is one of the strongest and most valuable brands in Romania. The Company therefore has a significant responsibility to the society, customers, employees and business partners. The sustainable approach in the Company's activities is not limited to internal issues only, therefore the Group continuously contributes to the sustainable development of the business environment of which it is part, together with its affiliated partners. Electrica has access to national and international best practices, to the expertise of other companies in the field, as well as to the latest research and development, thus benefiting from affiliation with various associations and organizations. The Group's history, experience and status as an expert in the field facilitate its access to and the involvement in the latest trends and strategic orientations in the field. This is a factor that contributes to the long-term development of the Company and the identification of opportunities.

In 2019, Electrica was a member of the following organizations:

ACUE - Federation of Associations Companies Utilities Energy is established for the purpose of representing, supporting and protecting its members' interests in the relationships with public authorities, trade unions and other legal entities and individuals, both nationally and internationally, according to its By-Laws and the legal provisions. The Federation also focuses its activities on developing, implementing and supporting market competition rules. (Website: <https://www.acue.ro/>)

A-LST-R - Romanian Association for Under Voltage Working (Website: <http://www.smartsb.ro/alstr/>)

ARIR - Romanian Investor Relations Association - the purpose of the Association is to provide current and prospective issuers a platform to develop professional investor relations and contribute to the implementation of best practices in communication with investors and corporate governance. (Website: <https://www.ir-romania.ro/>)

AASRO - Romanian Standardization Association (Website: <https://www.asro.ro/>)

CIGRE - International Council on Large Electric Systems is an organization that aims to develop, promote and spread scientific and technical knowledge in the production, transport and distribution of electricity, in consonance with the objectives of the International Council on Large Electric Systems. (Website: <https://www.cigre.org/>)

CIREN - Congrès International des Réseaux Electriques of Distribution - is the most important International Conference and Exhibition on electricity. It is the main forum that brings together, every two years, the international electricity distribution community. The position of Chairman of the Romanian Affiliated Committee CIREN is held by the Chief Executive Officer of Electrica, the Company within which the committee is coordinated and operates. (Website: <http://www.cired.net/>)

CNR CIGRE - Romanian National Committee Association CIGRE (Website: <https://www.cigre.org.ro/>)

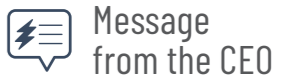
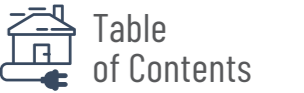
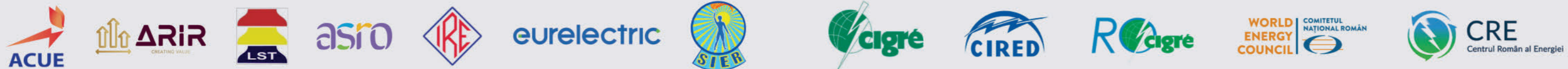
CNR-CME: Association of the Romanian National Committee of the World Energy Council is one of the founding members of the World Energy Council organization and over time has had substantial contributions in developing energy policy in our country and in promoting Romanian interests abroad. (Website: <http://cnr-cme.ro/>)

CRE - Romanian Center of Energy - is a professional organization whose main objective is to represent the interests of Romanian institutions in the energy sector (electricity, gas, oil, water, nuclear, coal, non-conventional energy, design institutes energy) in relation to the European institutions, other representative international institutions and organizations in the field, and in particular those based in Brussels. (Website: <http://www.crenerg.org/>)

EURELECTRIC - Union of the Electricity Industry is the sectoral association that represents the common interests of the electricity industry at pan-European level. (Website: <https://www.eurelectric.org/>)

IRE - Romanian National Institute for the Study of Development and Use of Energy Sources partner of public authorities and energy industry in discussing and promoting the sector reform and in internationally defending Romania's interests in this area. (Website: <https://ire.ro/>)

SIER - Society of Power Engineers in Romania is a professional, autonomous organization that actively contributes to increasing the efficiency of power engineers to continue the development of the Romanian energy sector for the benefit of the national economy. (Website: <http://www.sier.ro/>)



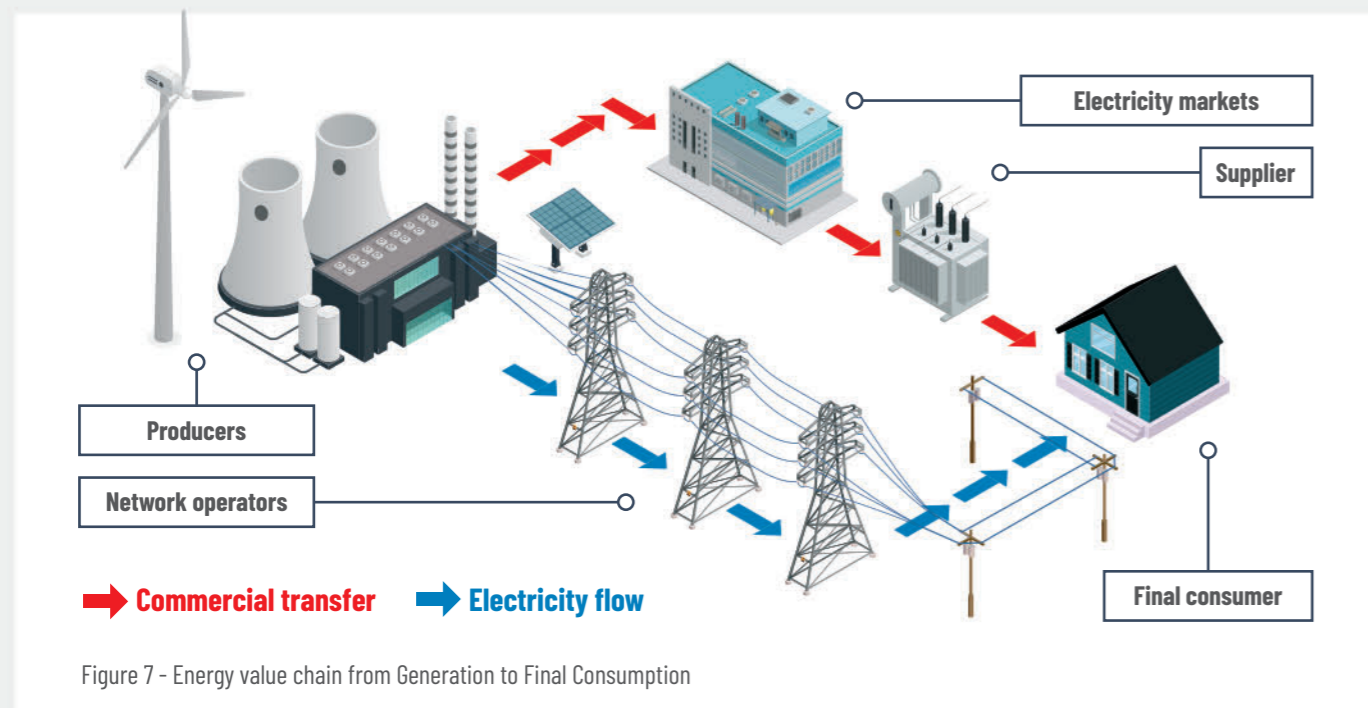
03 Our Services

GRI: 102-3, 102-4, 102-6, 102-7, 102-9, 103-1, 103-2, 203-1, 416-1, EU 6, EU 8, EU 12

The Group's main activities are focused on electricity distribution and supply services.

Electrica is a partner with tradition in Romania and one of the most important energy companies, being part of the national system of production-transmission-distribution-supply of electricity.

In the physical flow of electricity in the National Energy System (SEN), which includes all facilities for generation (producers), transmission (Transelectrica), distribution (licensee Distribution Operators) and consumption (end users), Electrica ensures the proper conduct of business distribution of electricity through the three Distribution Operators: SDEE TN, SDEE TS and SDEE MN.



The commercial flow of electricity consists of the energy trading through OPCOM (Operator of the Romanian Electricity and Natural Gas Market), of the supply (suppliers) and of the energy consumption (final customers). On the commercial flow, Electrica supplies electricity for household customers and the business environment across the country.

In Romania, the supply market is divided into the competitive segment and the regulated segment. Electrica is present in both markets. The group carries out its supply activity through Electrica Furnizare (EFSA).

Since 2019, EFSA has diversified its supply, including the supply of natural gas, as well as its packages in various combinations of electricity, gas and/or value-added services, such as emergency technical assistance or property insurance.

Therefore, Electrica customers benefit from a new level of flexibility and comfort, in addition to the security of electricity and gas supply.

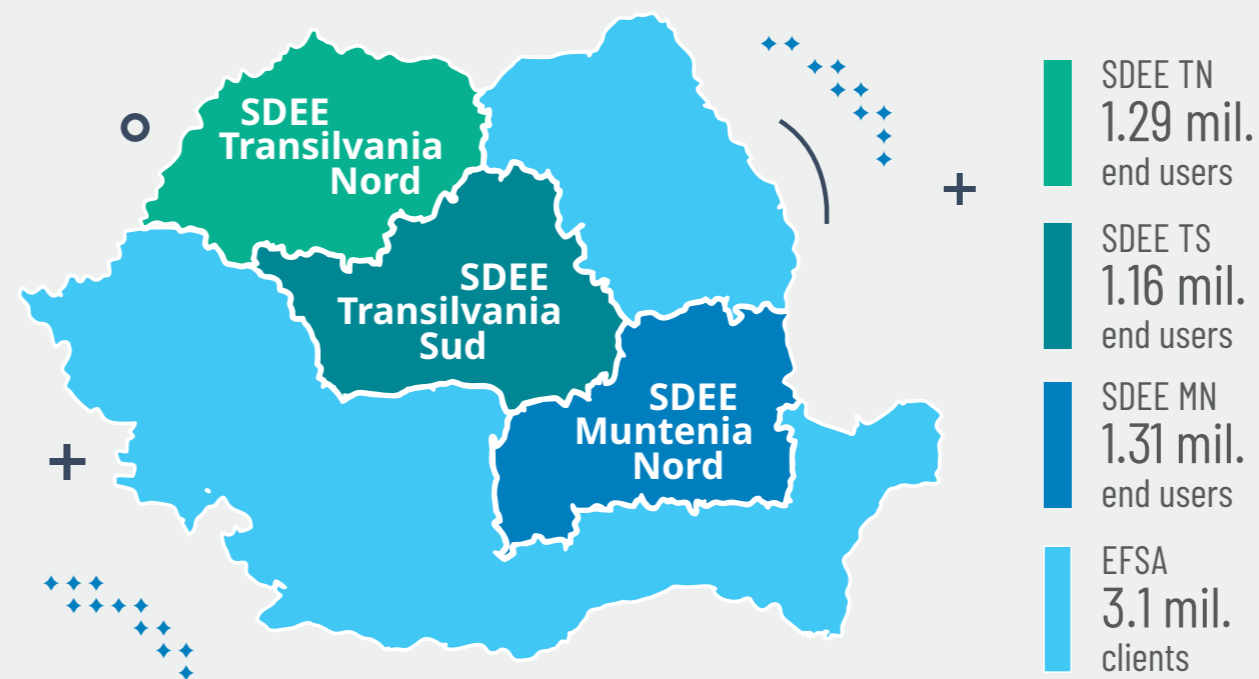


Figure 8 - Geographical coverage of distribution and supply services

Supply Activity



Electrica Group keeps the customer at the center of its activities. We remain equally concerned with the continuous increase of the quality of our services, new products identification that will add comfort and quality to the lives of our customers, and the online channels development that facilitate customer-supplier communication.

We are involved in transforming the Company into the customers' preferred partner for contracting innovative products and solutions, designed to improve their lives and support progress.

Digitalization is one of the key factors behind the implementation of our strategy and helps us meet our customers' growing expectations.

We are a company with tradition and experience gained in the supply area, alongside other attributes such as: financial strength reflected into digitalization investments, company stability, and communication channels adapted and sized to meet the needs of all customers.

Cătălina Popa, Chief Sales Officer



Electrica ensures the supply of electricity and natural gas to more than 3.5 million customers, covering 18.69% (2019) of Romania's energy needs.

Electrica has the largest number of customers on the regulated market, with over 51% market share, representing an increase of approximately 5 percentage points compared to 2018. EFSA operates throughout Romania, offering quality services both as SoLR (supplier of last resort) for the geographical areas served by the three distribution companies of the Group, and as a nation-wide provider of integrated services on the free market.

No. of supply customers - 2019	Household	Small business (<100 kW)	Large business (≥100 kW)
3,553,606	3,331,741	212,109	9,701

Table 2 - Number of EFSA consumers in 2019

Being a SoLR for the territories covered by SDEE TN, SDEE TS and SDEE MN, EFSA has the obligation to ensure the supply of electricity to final customers benefiting from the universal service, respectively to non-household customers who have not exercised their eligibility right, or they were taken over because they did not have electricity supplied from any other source.

Electrica supports the production and use of green energy by purchasing electricity from renewable sources (RES) and also by purchasing green certificates. Of the total of 9.3 TWh supplied in 2019, 1.8 TWh originated from renewable sources (the procurement structure is presented in the adjacent chart). Almost 90% represents energy produced by hydropower plants. In 2018, energy acquisition from renewable sources totaled 2.4 TWh, compared to a sales portfolio of 8.5 TWh.

88.4%	Hydropower
5.8%	Solar Power
4.9%	Wind Power
0.9%	Biomass

Table 4 - Situation of purchase of RES energy by types of sources (total 1.8 TWh)

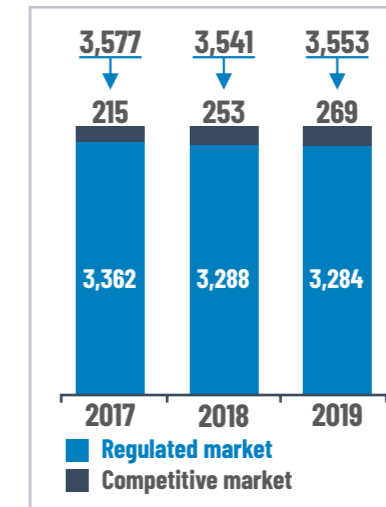


Table 3 - Evolution of EFSA's number of consumers (thousands)

In total, EFSA purchased approximately 3.8 million green certificates from hydro, wind, photovoltaic and biomass power producers, thus being the largest purchaser of green certificates in Romania.

Development Strategy and Plans

Electrica Group remains committed to balancing enhance value for its customers and maximizing profit for shareholders, while maintaining its ambition to become a regional player in the energy field. In the supply area, the goal set in 2019 is to transform into a flexible, agile and competitive organization that offers a wide range of services to its customers.

The Group has set the following supply area targets for the upcoming period:

- ◆ Expansion of the products and services portfolio;
- ◆ Modernization of the sales and interaction channels with customers;
- ◆ Optimization of the energy acquisition position;
- ◆ Positioning as a dual supplier of electricity and natural gas.

To achieve our goal of becoming an integrated, modern and efficient supplier, we benefit from a dynamic team, whose challenges are to understand customer's needs, and from a holistic strategy on digitalization as a tool that will help us become a more flexible and efficient organization.

Initiatives carried out under the EFSA transformation project:

- ◆ Implementation of a new IT application to manage the purchase of electricity;
- ◆ Developing and optimizing the billing and customer management application;
- ◆ Launching a new version of the **MyElectrica** mobile application;
- ◆ Modernization of call center activities.

Promoting customer-focus, EFSA launched in 2019 an ambitious transformation project that aims to meet market challenges, and whose mission is to optimize the supply activity.

The project was initiated aiming at transforming EFSA into an organization capable of successfully responding to current and future energy market challenges, including improving the financial situation, the NPS, defining a competitive business program, improving positioning and transforming the organization into an agile one.

In 2019, EFSA (partnered with Electrica Serv) diversified its service portfolio by launching **new services for non-household customers (B2B /B2M)**, which promotes and contributes directly to the decrease of the greenhouse gas (GHG) emissions:

Photovoltaic solutions

for self-consumption and /or network delivery;

E-mobility:

complete solutions for electric vehicle charging infrastructure;

Energy efficiency solutions:

energy audit, reactive energy compensation, connection solutions, intelligent lighting solutions, energy consumption monitoring.

In addition, Electrica has completed its traditional offer of supplying electricity and natural gas offer with essential services for household customers.

Therefore, Electrica welcomes its customers with complete packages of electricity and gas or electricity and value-added services, designed to offer them more flexibility and more comfort.



"Together" Package

- ◆ Package supply of electricity and natural gas

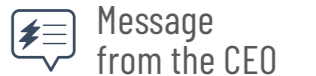


"3 in 1" Package

- ◆ Electrical power
- ◆ Emergency technical assistance
- ◆ Property insurance

In order to remain close to its customers, during 2019, EFSA maintained its extensive footprint of customer relationship center, taking into account their need for proximity to the service provider. As a result of all these initiatives, Electrica has managed to recover some of its customers who have migrated to other suppliers, thus achieving one of its strategic objectives to increase its customer portfolio.

EFSA aims to continue to diversify its offerings portfolio to remain tailored to customer needs and to maximize their satisfaction level.



Distribution Activity



“As a result of the record investments made in recent years, as well as of the constant efforts to optimize the basic processes, Electrica Group maintains the positive trend of sustainable reduction of SAIDI and SAIFI quality indicators, which demonstrates our permanent concern for improving the quality of distribution service to consumers.

Reducing losses in the distribution grids is a central objective of the actions designed to contribute to an increase of the energy efficiency in the area served by the Distribution Operators of Electrica Group.

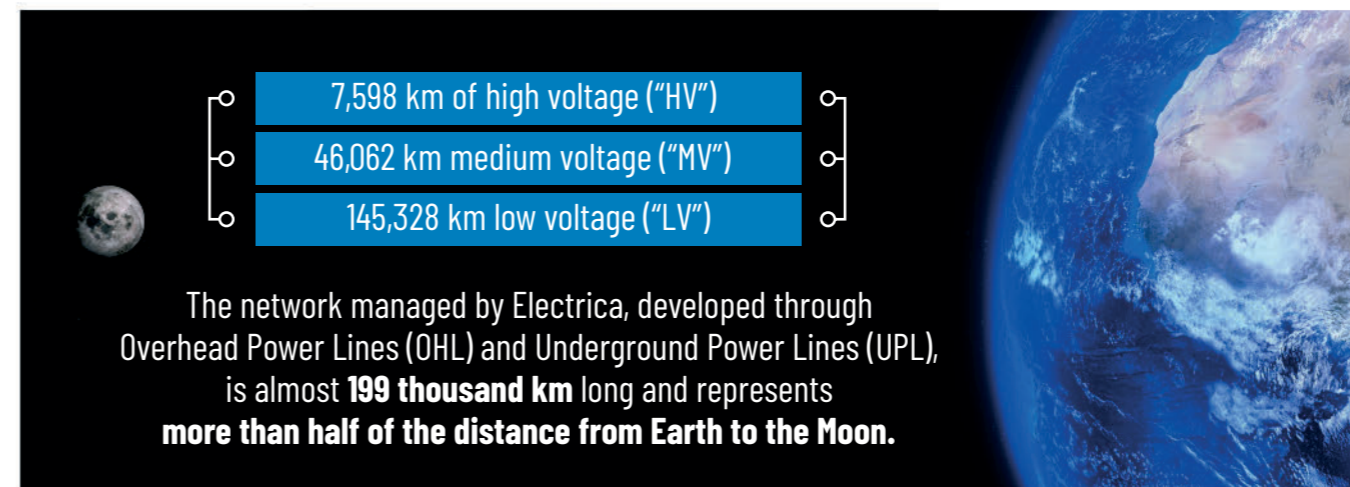
Efficient, safe, environmental-friendly and community-friendly automation and operation of the grids, concern for modernizing the locations where we operate by installing photovoltaic panels, this is how we understand to contribute both to consumer comfort and to achieving the targets set for the reduction of GHGs at national level, by reducing energy sources and adopting renewable energy sources where possible.”

Livioara Şujdea, Chief Distribution Officer



In terms of the distribution activity, Electrica is an important pillar of the national system, providing electricity to about 3.8 million end users, representing about 40% of the amount of electricity distributed nationally.

The Group’s distribution activity is carried out through the three Distribution Companies of Electrica: SDEE Transilvania Nord, SDEE Transilvania Sud and SDEE Muntenia Nord. The three distribution companies ensure the management of their own grid and the continuity and quality of the distribution service in the geographical area which they are responsible for. Each of distribution companies are in charge of 6 counties.



	SDEE MN	SDEE TS	SDEE TN	TOTAL
Counties covering the geographical area under the responsibility of each distribution company	Prahova Buzău Dâmbovița Brăila Galați Vrancea	Brașov Alba Sibiu Mureș Harghita Covasna	Cluj Maramureș Satu Mare Sălaj Bihor Bistrița-Năsăud	18 served counties
Covered geographical area (km²)	28,962	34,072	34,162	97,196
No. of grid km	71,191	57,892	69,905	198,988
No. of served end users	1,312,486	1,162,604	1,292,957	3,768,047

Table 5 - General presentation of the Distribution Companies of the Electrica Group



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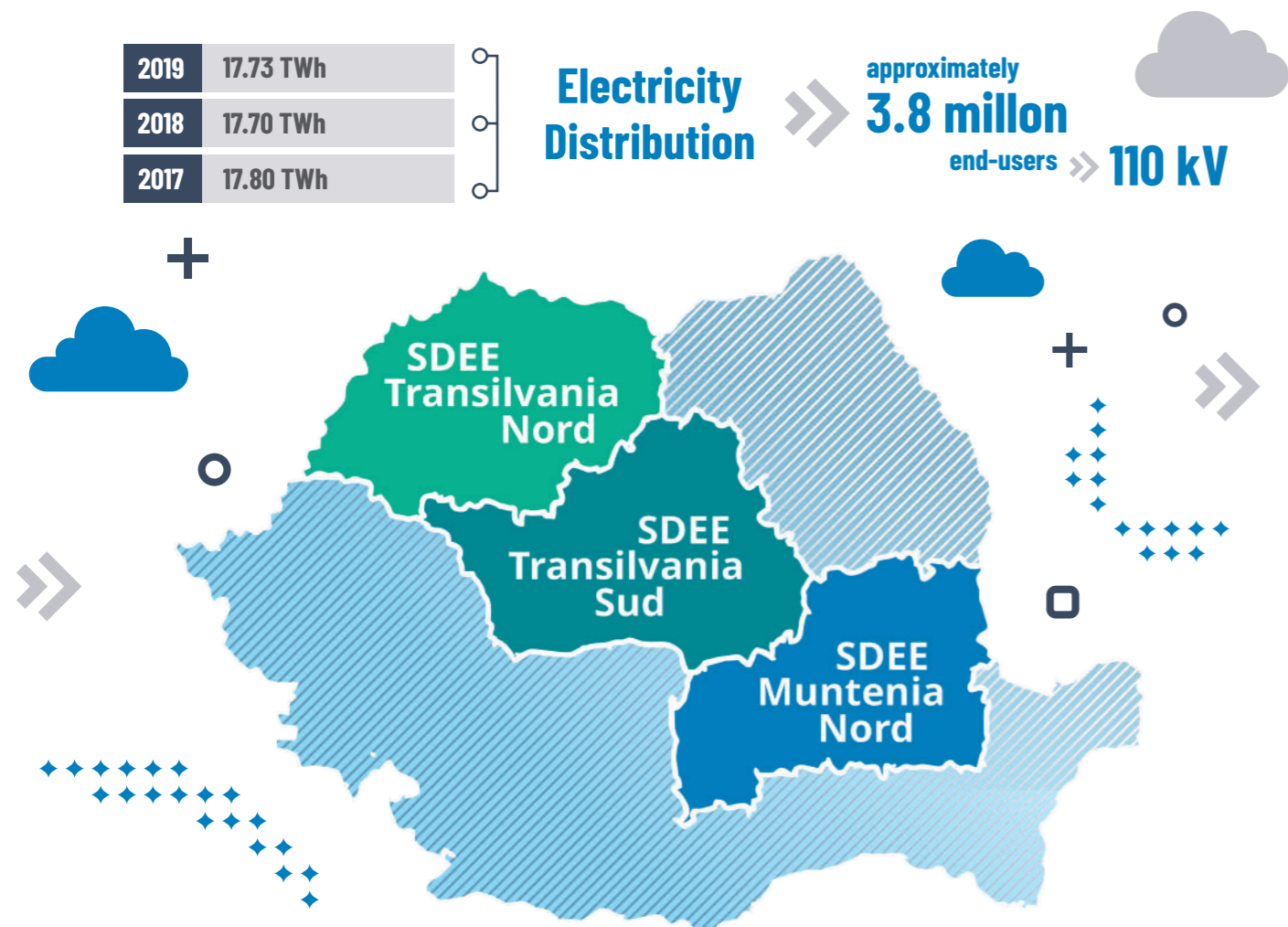
Social Responsibility

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Glossary

Energy from producers, either taken directly or through the national transmission network, is further distributed to the approximately 3.8 million end-users through high-voltage (110 kV), medium-voltage and low-voltage networks, managed by the distribution companies.

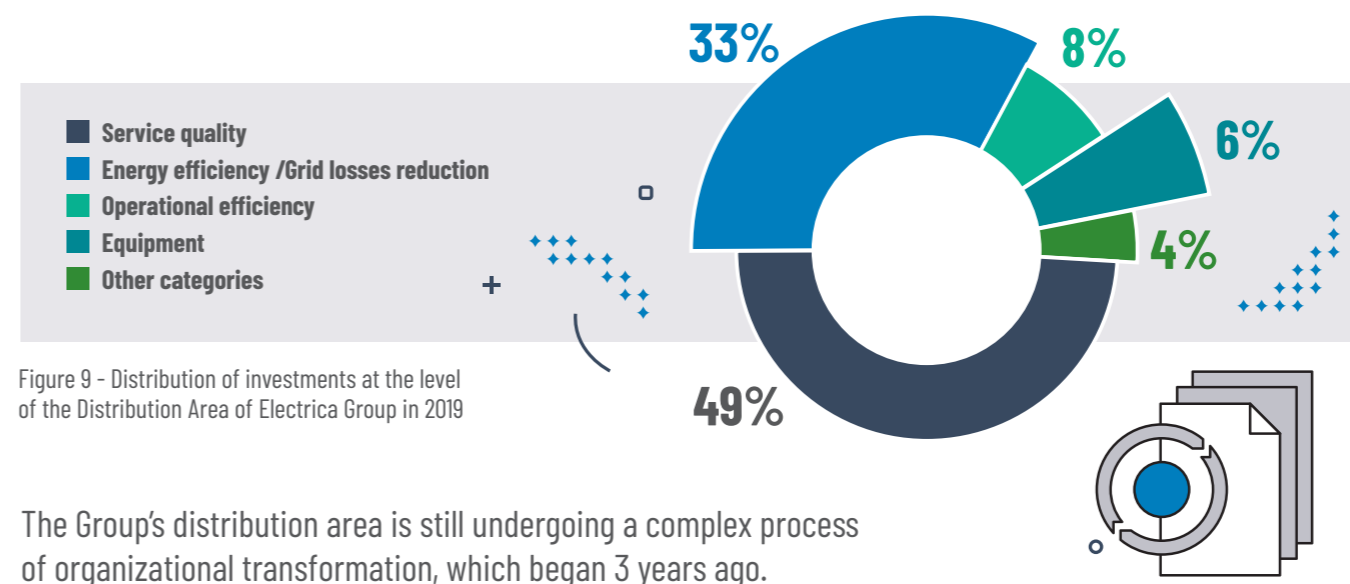
In 2019, Electrica distributed a total amount of 17.73 TWh of electricity, a level comparable to 2018 (17.7 TWh) and 2017 (17.8 TWh).



Investments

Consumer and environmental care is of particular importance within the Group, so as the distribution companies are constantly investing in improving infrastructure.

Therefore, Electrica has become the largest investor in the modernization and refurbishment of electricity distribution grids, with a total of approximately **RON 3.4 billion** invested in the last five years. Thus, the quality and efficiency of the services offered by the distribution companies have been significantly improved, contributing to the sustainable development of the Group.



The Group's distribution area is still undergoing a complex process of organizational transformation, which began 3 years ago.



The year 2019 brought a series of new modernization initiatives, many of them aimed at streamlining and continuously improving the activity, such as several pilot projects to optimize processes through the Lean methodology and a project to automate the process of issuing technical approvals and connection certificates using RPA (Robotic Process Automation) technology but also the modernization of the Customer Relationship Centers.

With a Regulated Asset Base of **RON 5.5 billion in 2019**, Electrica invests annually and steadily in the development and modernization of distribution grids, reaching a total of almost **199,000 km** of overhead and underground power lines, **over 3,000 km more than in 2016**, the first reporting year on the Group's sustainability.

Degree of Achievement of the 2019 Investment Plan



SDEE TN: **100.2%**



SDEE TS: **100.1%**



SDEE MN: **97.9%**

During 2019, Electrica carried out important investment projects to increase energy and operational efficiency and improve the quality of services offered to users, amounting to over **RON 730 million**. These aim to improve SAIDI and SAIFI indicators, as well as to increase operational efficiency.

We list below only some of the types of work that was done during the reporting period:

- ◆ Infrastructure modernization works resulting into the improvement of continuity indicators for the consumers supply and into the technical quality of the electricity distribution service;
- ◆ Works aimed to switch to networks with insulated conductors from non-insulated active conductors (with risk of injury or fire);
- ◆ Works aimed to improve the voltage level at the users' premises;
- ◆ Works aimed to reduce circuits length, to use the medium voltage distribution to improve energy and operational efficiency;
- ◆ Works aimed to switch to 20 kV to increase the energy efficiency of distribution facilities and improve the distribution service quality;
- ◆ Works for the digitalization of the medium voltage electrical distribution network by mounting switching, automation and protection equipment for defect isolation, with their integration in SCADA command systems;
- ◆ Works for the digitalization of transformer stations by replacing primary and secondary electrical equipment and integrating them into SCADA command systems.

Investment Lines	SDEE MN	SDEE TN	SDEE TS	TOTAL
Service Quality	81	149	130	360
Energy Efficiency /Reduction of grid losses	93	43	108	244
Operational Efficiency	26	11	20	57
Equipment	13	14	14	41
Other Categories	7	9	11	27
Total	221	226	282	730

Table 6 - Investments made by the Distribution Operators of Electrica Group in 2019 [RON thousand]

Electrica has prioritized a number of investment projects, mainly taking into account the age and wear degree of the distribution companies' assets, having as main objective the increase of the distribution service quality, the level of operational safety as well as improving the energy efficiency. The Group continues to invest into the development of the distribution grid by installing intelligent network infrastructure systems, such as SCADA, SAD, electricity metering systems etc.

Regarding the transition to smart grids, Electrica's distribution companies have made progress in implementing smart metering systems and replaced more than 54,000 meters in 2019.

Status 2019	
SDEE MN: 13,091	SDEE TS: 27,267
SDEE TN: 13,661	TOTAL: 54,019

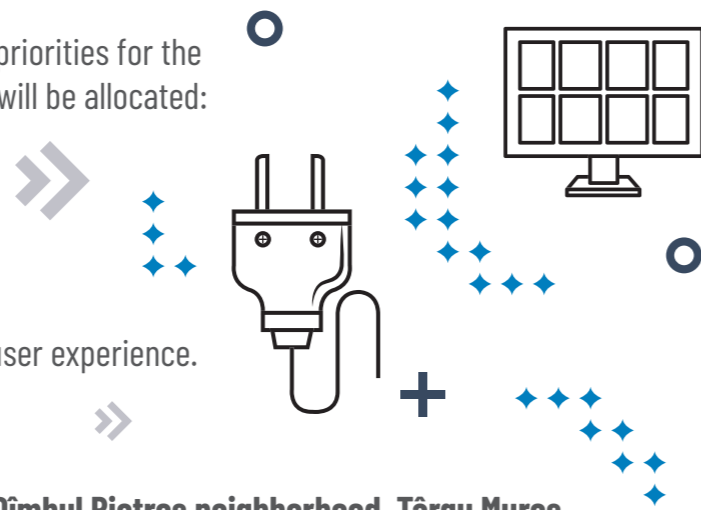
Table 7 - Degree of SMI implementation according to ANRE

The Group aimed to undertake such investments that contribute in a sustainable way to the development of the distribution activity and to the creation of optimal conditions for energy consumers' and producers' access to the network.

Electrica aims to accelerate the program for the implementation of smart metering systems, to offer consumers complex pricing options, as well as consumption profile data. Thus, users will be able to make informed decisions about their own energy consumption, while actively participating in consumption reduction. At the same time, an increase of the use flexibility and reduction of demand during peak periods have become possible.

For the next period, the Group has set the following priorities for the distribution area, for which significant investments will be allocated:

- ◆ Smart grid and promotion of smart metering;
- ◆ Reducing network losses;
- ◆ Improving the quality of the distribution service;
- ◆ Increasing operational efficiency;
- ◆ Digitizing processes and improving the network user experience.



SDEE TS Investment Project:

Modernization of the Transformer Station in the Dîmbul Pietros neighborhood, Târgu Mureș

Consumers in the Dîmbul Pietros neighborhood (1848) of Târgu Mureș Municipality are supplied by the 110 /20 /6kV Târgu Mureș Transformer Station through 6kV underground power lines. The underground lines were made of old cables and the transformer stations were commissioned between 1974 and 1980. For such equipment, in addition to the moral use, there were also difficulties in the supply of spare parts, some protections with low performances and an inadequate state of the constructions.

Therefore, an extensive project was required to modernize the existing MV and LV equipment (cells, transformer station, TDRI) and building repairs, through which the following were achieved:

- ◆ Bringing the physically and morally used installations to a technical level that corresponds to the technical requirements in force;
- ◆ Improving the security and protection measures of the facilities;
- ◆ Ensuring the qualitative parameters of electricity.



The work was completed in December 2019, with a total value of over RON 15 million. Following the SCADA integration of the 23 transformer stations in the 1848 neighborhood, which supply a total of 10,019 households and business users, the resupply time in case of medium voltage faults was significantly reduced. The modernization works carried out also resulted into a reduction of technological grid losses by approximately 50% of the initial situation.



SDEE TN Investment Project:

Modernization of the 110 /20 kV Unirea Transformation Station

The 110 /20kV Unirea transformer station of Bistrița Năsăud was commissioned in 1988. This station supplies both the city of Bistrița and the rural consumers, the area being in continuous development.

To address the physical and moral use of the primary and secondary equipment, and the lack of spare parts, SDEE TN needed to modernize the transformer station.



Thus, the old equipment was replaced with state-of-the-art equipment, in compliance with environmental regulations, the total value of the works reaching over RON 6.2 million. Moreover, the Unirea transformer station was integrated into the SCADA remote control system.



As a result of the successful implementation of the modernization project of the Unirea station, **SDEE TN obtained significant benefits in ensuring the performance indicators** regarding user supply of the users and the reduction of the operating expenses.

SDEE MN Investment Project:

Modernization of distribution facilities in the area of Hipodrom - Obor - Victoriei neighborhoods, Brăila Municipality

Electricity consumers of the Municipality of Brăila, Hipodrom, Obor and Victoriei neighborhoods, were served through transformer stations commissioned during 1960 - 1970. With an outdated service life and an advanced state of degradation, the facilities needed to be brought up to current standards of operational safety and efficiency regarding consumer supply.

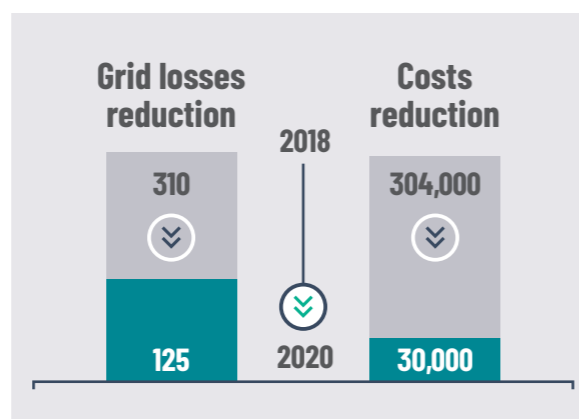
Moreover, due to increased electricity consumption within the three presented areas, it was necessary to build network transformer stations that could no longer be connected to 6 kV.

The investment amounts to RON 8.7 million and aims to increase energy efficiency by switching the network from 6 kV to 20 kV, as well as to integrate the transformer stations into the existing SCADA - SAD system at SDEE MN.



The **benefits** targeted at the end of the project started in May 2018, with a deadline in August 2020, are estimated by:

- ◆ **Grid losses reduction** from 310 MWh /year to 125 MWh /year;
- ◆ **Reducing maintenance costs** from over RON 304,000 /year to RON 30,000 /year.



Operational Performance

Electrica managed to meet its ambitious investment plan for 2019, with obvious results in terms of network performance. Through the investments made every year and continued in 2019, the Electrica Group maintained the trend of reducing the frequency and average duration of unplanned outages.

The performance of the distribution area is best captured by three basic indicators, which together reflect the full picture of the network efficiency level operated by the three distribution companies: SAIDI, SAIFI and Grid losses.

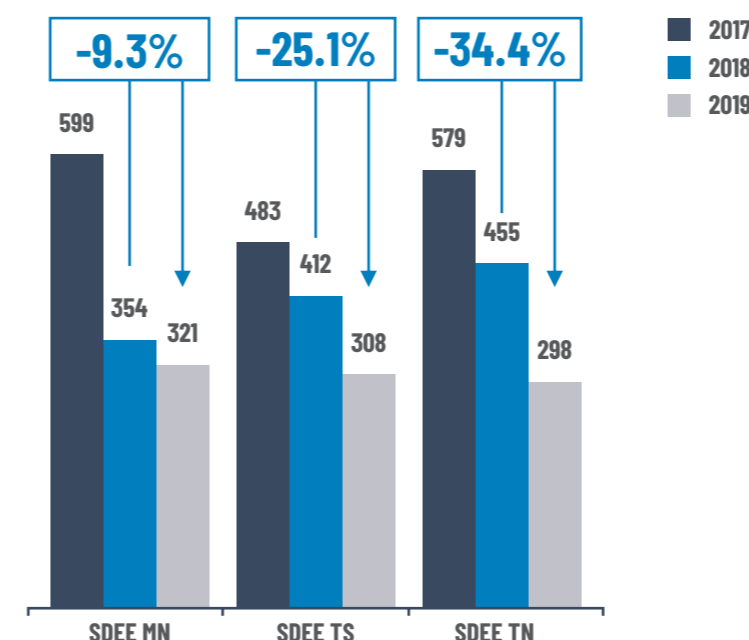


Figure 10 - Global SAIDI evolution
Average duration of interruptions per customer [min /year]

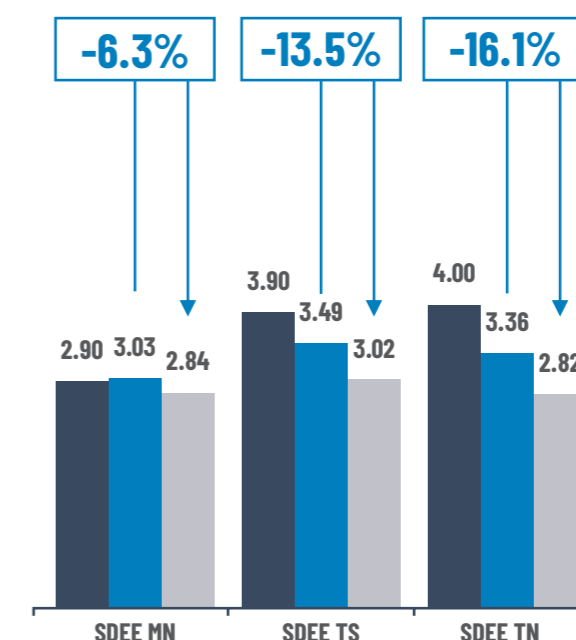


Figure 11 - Global SAIFI evolution
Average number of outages per customer [outages /year]

The evolution of the SAIDI and SAIFI indicators is the best benchmark in terms of the Group's efforts to improve the quality of the distribution service, and Electrica succeeded in significantly reducing both the frequency and the average duration of interruptions over the last three years.

Each of the three distribution operators managed to reduce SAIDI in 2019 compared to the values at 2018:

- ◆ SDEE TN obtained the shortest average duration of interruptions historically reported by any distribution operator of the Group (298 min./year in 2019, 157 minutes less than in 2018);
- ◆ SDEE MN marked the largest annual reduction in the Group (321 min./year in 2019, 213 minutes less than in 2018);
- ◆ SDEE TS continued the annual trend of improving the SAIDI and achieved a reduction of over 25% compared to the previous year (308 min./year in 2019, 104 minutes less than in 2018).

A decreasing trend can also be seen in terms of the average number of annual interruptions (SAIFI). Electrica's distribution companies reached similar values in 2019 and all managed to improve their performance compared to previous years:

- ◆ SDEE TN reported a 16% decrease in SAIFI in 2019 vs. 2018, reaching 2.82 outages per customer per year;
- ◆ SDEE TS obtained 13% reduction of SAIFI compared to 2018, with 3.02 interruptions per customer per year;
- ◆ SDEE MN also decreases its SAIFI in 2019 by 6% compared to 2018, reaching a value extremely close to SDEE TN that is 2.84 interruptions per customer per year.

In the meantime, all distribution companies of the Group reported grid losses reductions in 2019 as well, on absolutely all voltage levels ranging between -0.2% and -12% in 2019 compared to 2018.

Such a performance is all the more important as the amount of energy distributed in 2019 is similar to that reported in 2018 and 2017.

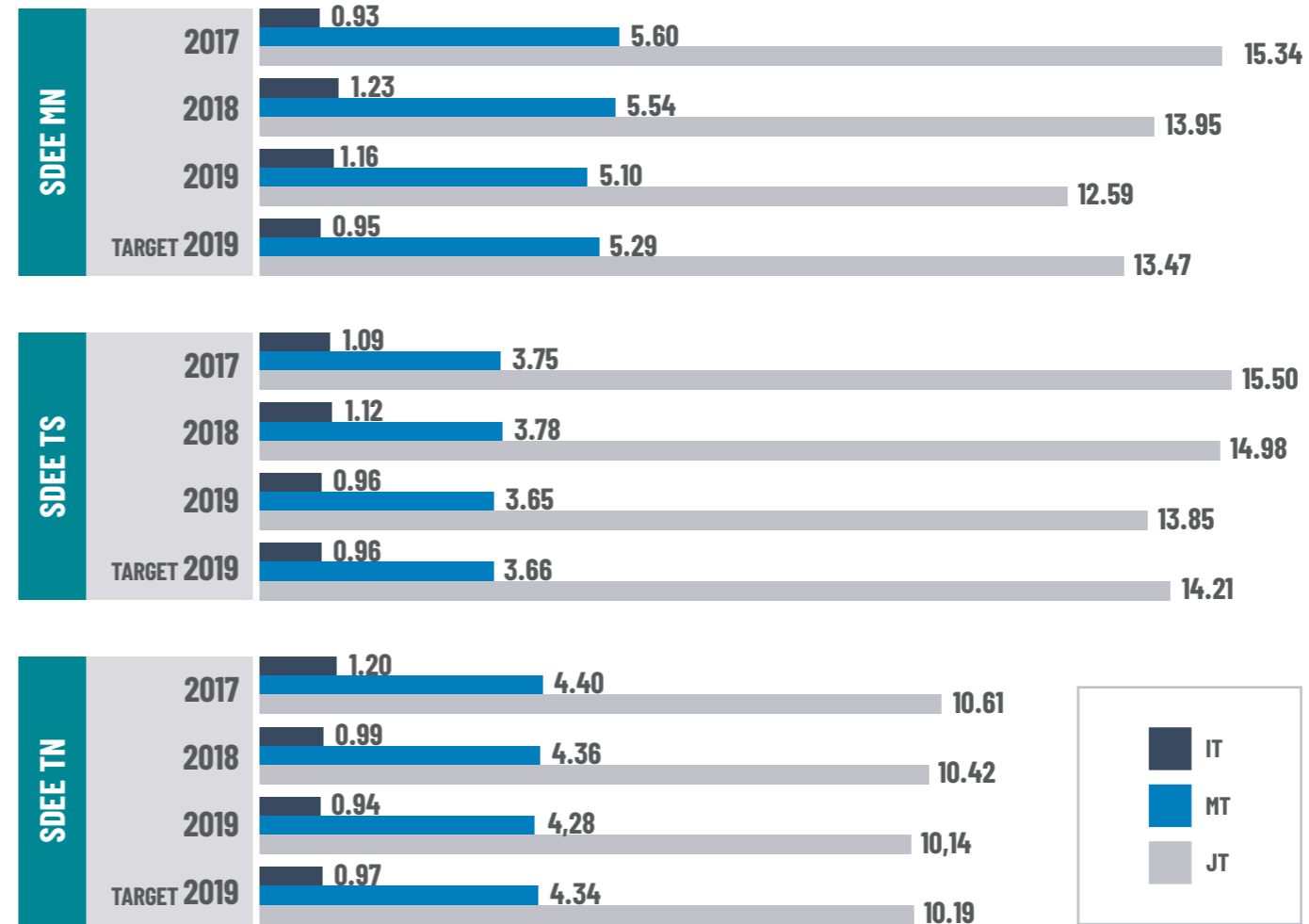
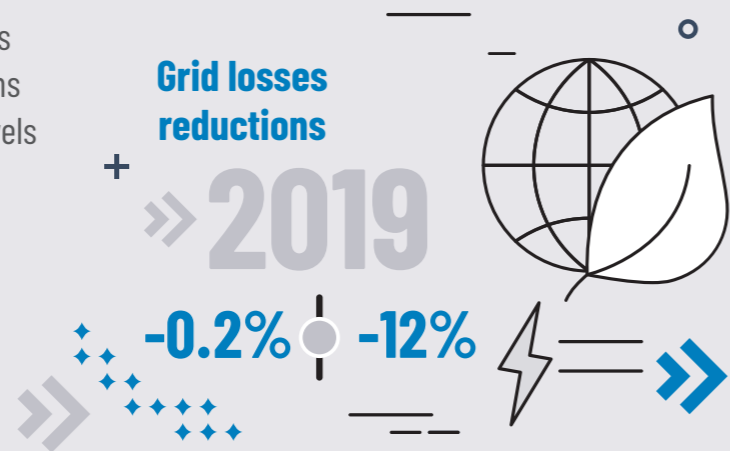


Figure 12 - Grid losses evolution for the 3 Distribution Companies of Electrica

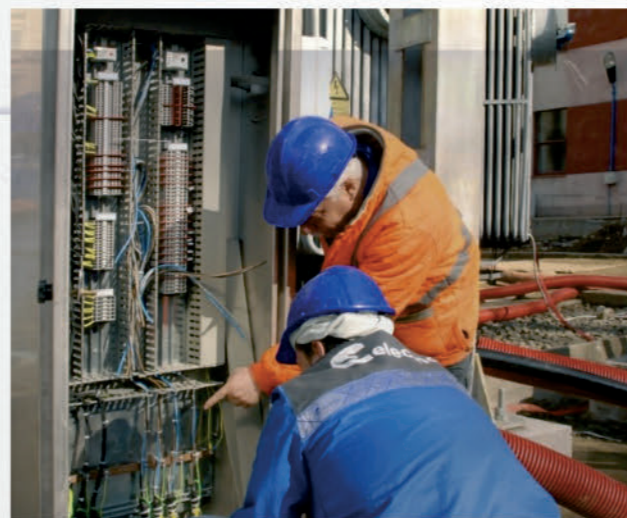
In 2019, Electrica continued the major organizational transformation program started in 2017, whose actions already have effects in the performance of the distribution area. Within this complex program, new strategic initiatives were defined and planned for the new regulatory period started in 2019 (RP4) and the implementation of Lean solutions defined in previous years as part of the transformation project was completed. In addition, Electrica carried out the Lean 2 project, defining more than 100 initiatives with significant potential for process improvement.



Energy Services

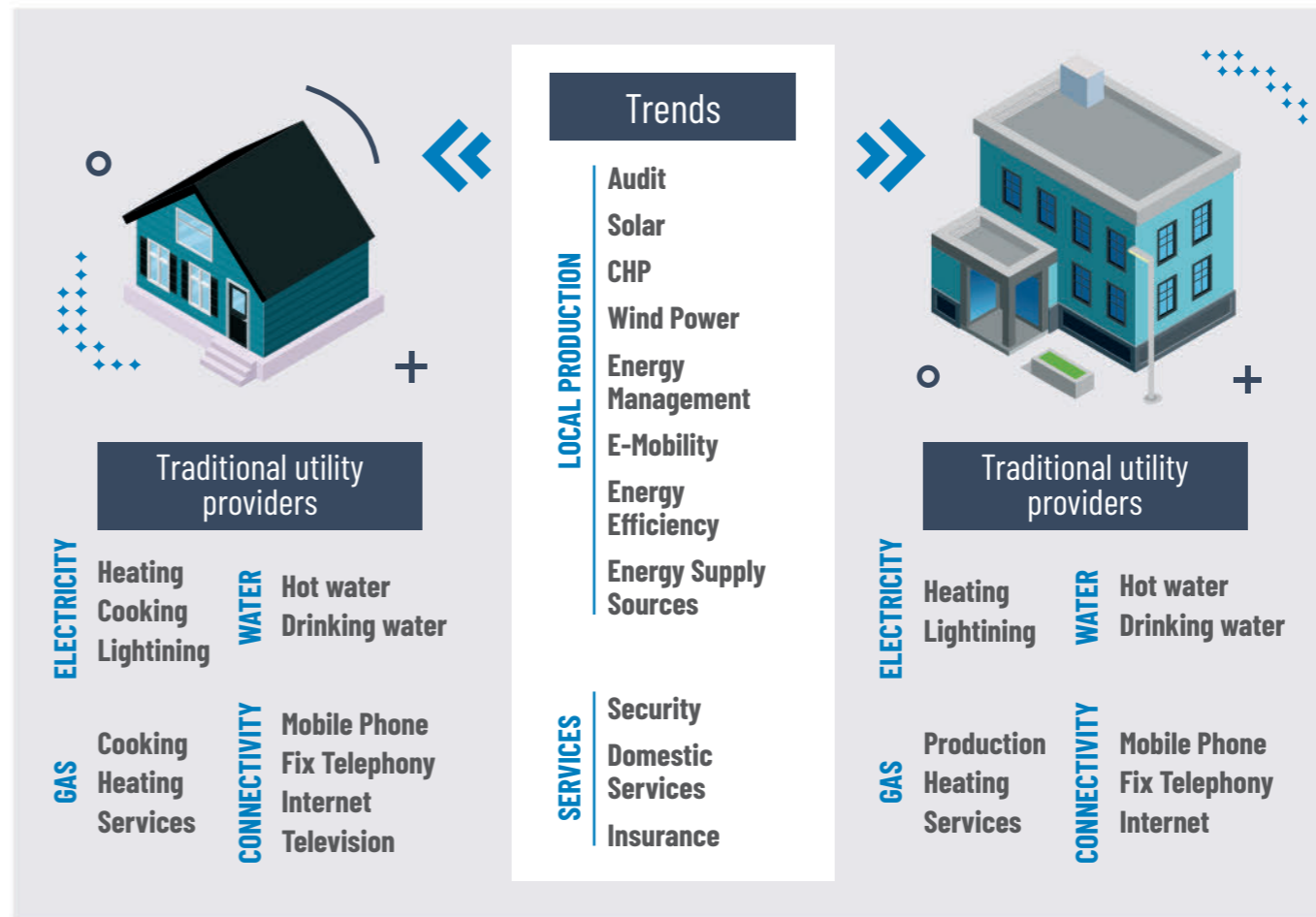
At the end of 2019, Electrica revised its energy services strategy to respond to market developments and to increase competitiveness.

For this purpose, the BoD of Electrica SA approved (subject to obtaining all necessary corporate approvals) the merger process of the two companies of the Group operating in the field of energy infrastructure projects: FISE Electrica Serv and Servicii Energetice Muntenia.



The resulting company may position itself on the services market with a relevant offer at national level, covering both the design and execution area, for the distribution networks and for the electricity production area, but also for business customers (installation of PV panels, lighting solutions etc.).

In addition to achieving organizational synergies and improving the business, we would like to increase the employee knowledge transfer, keep those employees who show potential and increase the quality of work execution, aspects that have a long-term impact on our business.



Integrated services responding to as many customer needs as possible, as a trend of the energy industry

04 Research & Development

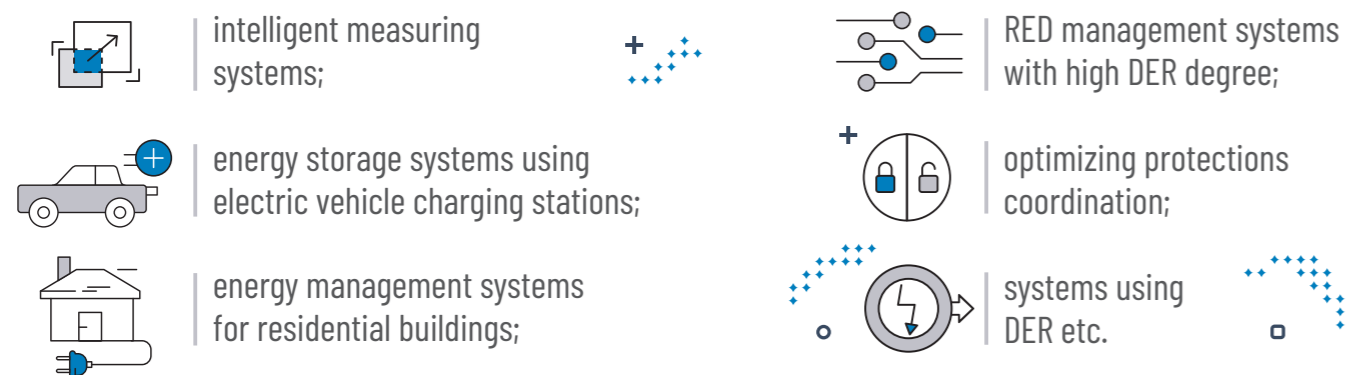
GRI: 103-1, 103-2, EU 8



Electrica supports technological innovation through research and development projects such as **the InteGRIDy project**, which aims to create a platform for the integrated provision of services at the level of the distribution operators.

This program aims to develop solutions that will increase the network's ability to integrate renewable energy, reduce disruptions in energy supply and losses, increase overall flexibility and network stability, and increase competitiveness of companies through the development of innovative services.

The InteGRIDy project involves:



The project is based on four thematic pillars:



Electrica takes part in the operation of a DR pilot project in an area with three blocks of flats, located in Ploiești, which will be used for monitoring and demonstrations related to demand side management (DSM) and DR of the users of the electricity distribution network, and carries out together with another partner an ECCDIS command and control platform, that can be integrated with the existing smart grid components. The company participates in the integration of smart meters with DR and data concentrators related to the Ploiești area in the innovative simulation and command control platform of consumption nodes.

The pilot project in Ploiești carries out the development, testing and validation of smart metering solutions with DR functionalities - associated with the analysis of tariff options meant to stimulate the DR, and its integration into a platform with associated ECCDIS software, which ensures interoperability with InteGRIDy platform.

The implementation of the pilot project in Ploiești has **two major advantages:**

Minimizing the risks of financial and technical implementation in the energy management for the distribution operator;

Ensuring a better forecast of energy consumption and energy losses.

The challenges which the Ploiești project aims to tackle are the following:

Optimizing energy consumption;

Better forecasting of energy consumption and energy losses;

Ensuring the process transparency and the clarity of the roles and responsibilities of the distribution operator;

Network behavior analysis (efficiency and optimization);

Providing DSO flexibility services: congestion management.

Added value includes:

Development of an integrated energy information system (EIIIS) that allows intelligent energy management capability for the distribution operator;

Intelligent capability to forecast energy consumption and losses;

Development of DR modeling algorithms;

Development of a tool for optimization, monitoring and control of energy consumption;

Creation of an intuitive interface dedicated to end users.

05 Our Financial Evolution

GRI: 102-7, 103-1, 103-2, 201-1, 203-1



“The year 2019 marked the beginning of a new regulatory period for the distribution companies within the Group, with specific challenges in terms of adapting the operating model to the new regulatory parameters. The other companies within the Group have also undergone transformations both at the organizational level and at the level of business processes, in order to better respond to market, regulatory and financial challenges.”

A significant part of our efforts were directed towards identifying opportunities to optimize costs, capitalize on synergies at the Group level, identify new sources of revenue and, finally, maximize the value generated for shareholders. We continued our sustained investment efforts, ensuring a diversified financing mix, while maintaining an adequate level of liquidity and solvency.

One of our goals is to ensure long-term value to our shareholders, predictable results, in line with their expectations, based on the implementation of the Group’s strategic objectives.”

Mihai Darie,
Chief Financial Officer

The Group pursued its goal in 2019 to generate value for its shareholders, with a sustainable approach that involves increasing financial performance based on improving operational performance, meeting the highest standards applicable in the field, and especially through the attention and care given to employees.

By providing these foundations, the Group ensures its financial position, contributing significantly to the development of the economy by maintaining and creating jobs both directly and indirectly, by contributing to central and local budgets and, not least, by the investments made every year.

Despite an unfavorable regulatory framework, which led to an increase by approximately 25% of electricity acquisition costs (the cost with the highest share in the financial result), the Group managed to close the year with a **higher consolidated net profit of over 71%** of the forecasted and budgeted value.

In 2019, **the Group’s revenues were 11.9% higher** than in the previous year, recording an increase of RON 667 million. This increase represents both the cumulative positive effect of significant growth, **over RON 773 million**, on the supply segment and the slight increase of revenues from the distribution segment, as well as the negative effects of the decrease of electricity and natural gas sales to third parties and of the decrease of revenues from the services segment related to external distribution networks.

The considerable increase in the supply segment is due to the increase in electricity sales prices on the one hand, as well as the increase in the quantity supplied by 8.3%.

Both the significant development of the natural gas supply activity compared to 2018 and the increase of revenues from green certificates by over RON 140 million contributed to this evolution. The positive evolution of revenues from the distribution segment was mostly generated by the two successive increases of the distribution tariff, as well as by the increase by 0.4% of the distributed volumes.

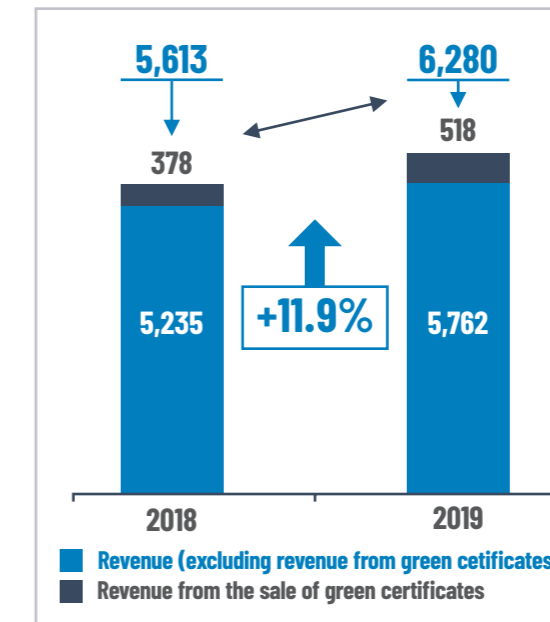


Figure 13 - Consolidated revenues of the Group (RON million)



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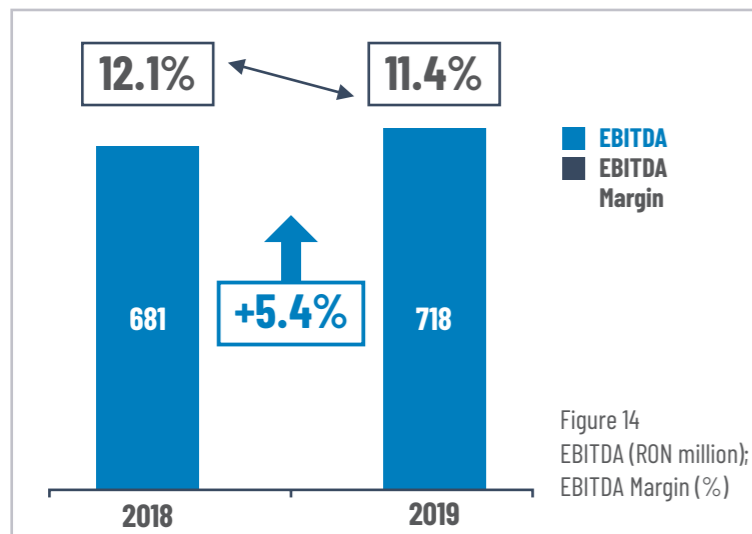
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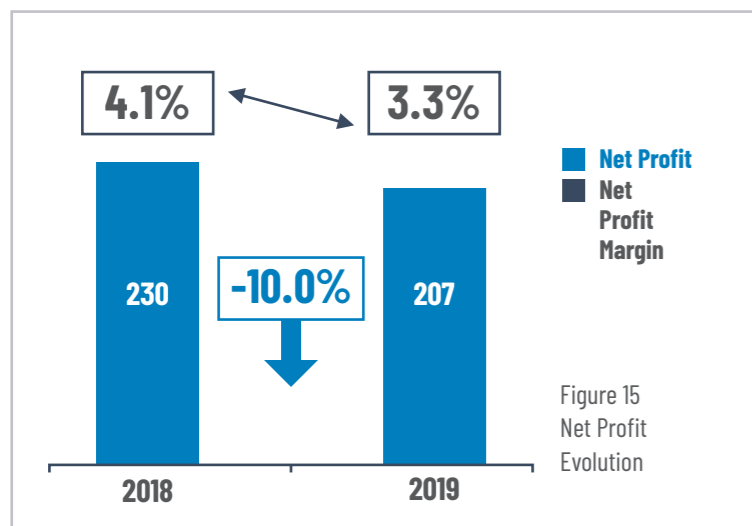
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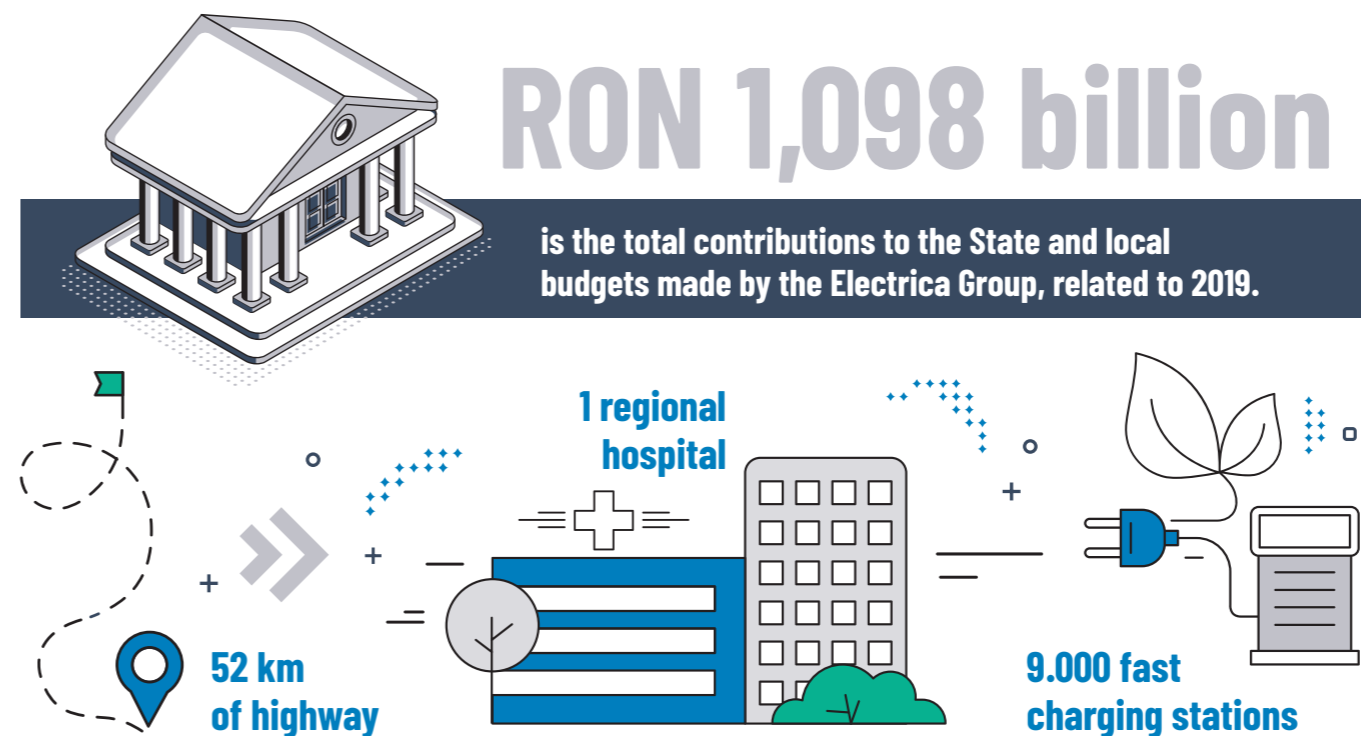


With regard to EBITDA, there was an improvement recorded of 5.4% at Group level compared to the previous year. However, net profit contracted by approximately 10% compared to 2018, the decrease of the net profit by RON 23 million being generated, mainly, by the change of the accounting treatment applied to leasing contracts. At the same time, there was recorded an increase in repair and maintenance expenses in 2019, on the distribution segment.

In 2019, the employee benefits expenses amounted to over RON 620 million, decreasing by approximately RON 51 million as compared to 2018, mainly as a result of the elimination from the CLA (Collective Labor Agreement) of the benefit in the form of electricity granted to employees who retired after 30 September 2000 and the reduction of benefits granted upon termination of employment.



The income tax expense decreased in 2019 to RON 19.4 million. This decrease by RON 13 million compared to 2018 appears as an effect of the reduction of the gross result compared to the previous year, but it is also due to a lower actual income tax rate compared to the previous year. In 2019, the Electrica Group contributed over RON 1 billion to the State and local budgets. Additional information can be found in the 2019 Electrica Group Annual Report (published on the website).



Through these funds, local communities could be decisively influenced by:

- ◆ Construction of approximately 52 km of highway, which can facilitate access to new jobs and community development;
- ◆ Almost 9 thousand "fast DC" 50kW and 400 - 1,000 V direct current charging stations, which will help to promote the purchase of electric vehicles and, implicitly, to reduce greenhouse gas emissions;
- ◆ Construction of a regional hospital with hundreds of beds, operating rooms, intensive care and transplant room.

The stable performance of the Group's financial situation led to obtaining the corporate rating of BBB (investment grade) issuer in 2019, with a stable outlook, rating issued by Fitch Ratings in 2019. Thus, the Group has a better issuer rating than the rating given to Romania, representing the stability and security of future cash flows, the position of national leader in the distribution and supply segment, as well as the existence of the necessary resources to support a high level of future investments.

Our Environmental Concern

GRI: 306-2, 307-1, 304-01, 304-2

The values governing the activity of Electrica Group also include the care for the environment and the communities in which it operates.

The evaluation of environmental aspects with positive or negative effects, associated with specific processes performed at each company level, allowed the identification of environmental risks with significant impact and the promotion of their responsible management in order to prevent pollution and increase environmental performance.

Thus Electrica's major pursuits in the field of environmental protection were set.

Continuing the practice of previous years, in 2019, Electrical Group invested RON 11.68 million in environmental protection; the value is at a level substantially equal to the environmental costs reported in 2018, i.e. RON 11.96 million.

Based on the annual analysis on the degree of compliance with legislative or regulatory requirements in the field of environmental protection, performed at the level of each company as a requirement of the Integrated Management System (EMS) Quality - Environment - Occupational Health and Safety and verified during the external audits of the systems, it was concluded that the environmental legislation as well as the European directives in this field were complied with during 2019. This conclusion is reinforced by the fact that, during the reference period of this report, no fines or penalties were received by the companies within the Electrica Group.

Gradual decommissioning of equipment containing polychlorinated biphenyls (PCBs), in accordance with legal requirements and the national disposal program, with deadline in 2028.



Reducing the impact on the environment by modernizing facilities, promoting smart grids and energy efficient solutions.



Responsible waste management by safely disposing of generated waste and especially highly polluting waste.



Preservation of Biodiversity and Resources.



Energy Efficiency

Electrica Group aspires to contribute both to reducing energy waste and to reducing the consumption impact on the environment, by modernizing the managed facilities, promoting smart electricity grids and energy efficient solutions. Increasing operational performance has had a positive effect not only on the quality of services provided to the consumers, by ensuring their safety and continuity of electricity supply, but also on the environment, by reducing technological losses by streamlining the operation of distribution facilities and optimal allocation of resources.

Through successive campaigns, Electrica Group has implemented the issuance of electronic bills and has encouraged its consumers to choose it over the paper bill, contributing to environmental protection.

This option brings multiple benefits to customers, including:

- ◆ Reduces the volume of paper in the house;
- ◆ The possibility to view the bill immediately after issuance and pay it online, through **MyElectrica** application, saving the allocated time for this activity;
- ◆ Availability of an up to date bills and payments situation for the last 12 months.



Discarding paper based invoices reduces the volume of paper used, each customer saves the amount of cut down and thus contributes to forest protection and the reduction of the volume of CO₂ in the atmosphere.



Figure 16 - Evolution of the total number of electronic bills issued annually

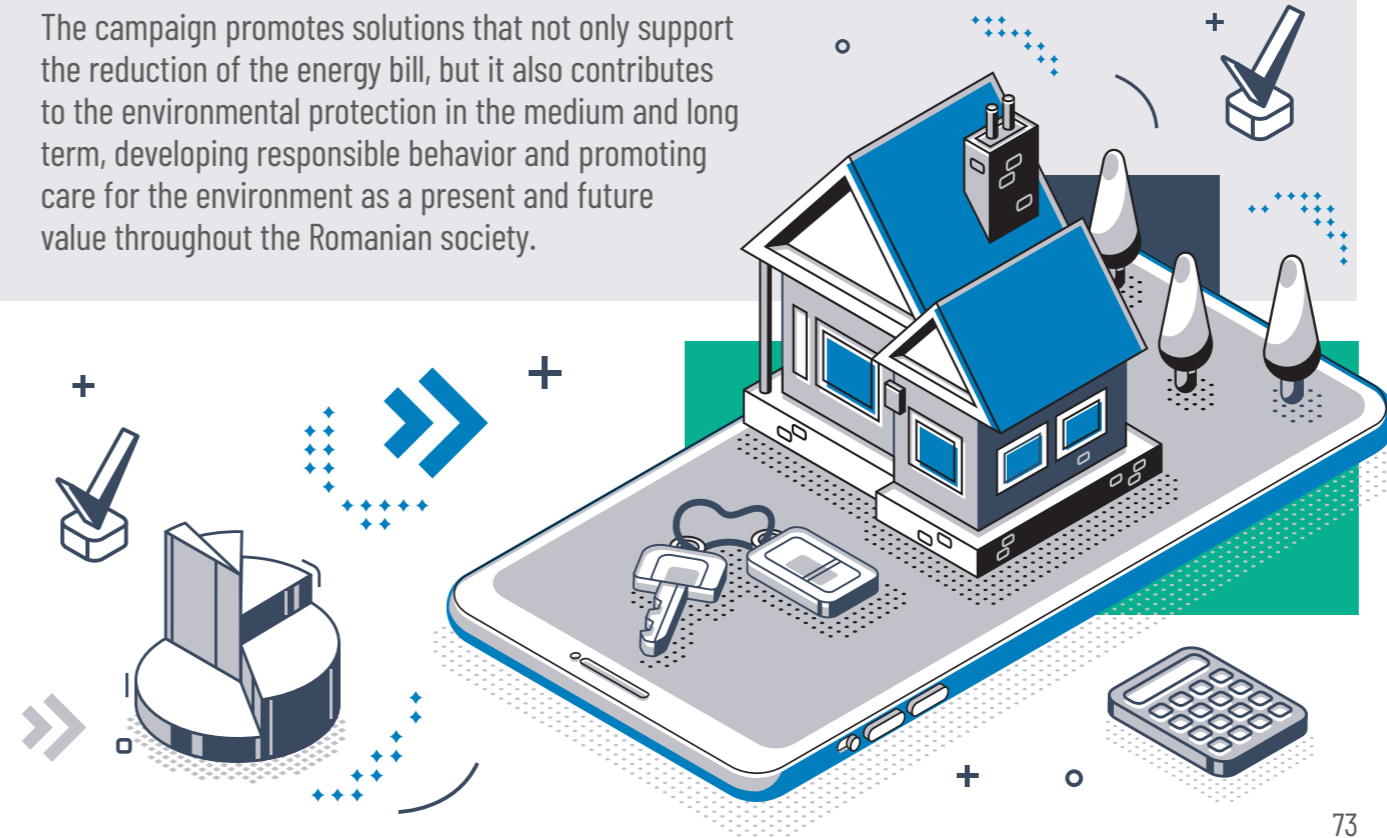
Energy efficiency is an essential concern both for the Group and Romania, the latter being committed to reviewing and adapting its legislative provisions to increase it.

Launched in 2018 by the European Commission, through the General Directorate for Justice and Consumers, and carried out internationally, the "Energy Saving" ("Economie la energie") campaign had the company Electrica Furnizare and ANRE among its partners in Romania.

This campaign focused on familiarizing the household consumer with the topic of energy efficiency and energy saving measures at home, by providing useful tips, educational messages and interactive solutions that can be simply accessed online.

The consumer is informed about ways to reduce energy costs through minor changes in the energy behavior, while benefiting from the same quality services.

The campaign promotes solutions that not only support the reduction of the energy bill, but it also contributes to the environmental protection in the medium and long term, developing responsible behavior and promoting care for the environment as a present and future value throughout the Romanian society.



Considering the interest in the campaign, ANRE obtained the agreement of the European Commission to extend its development in Romania in 2019 as well, through energy efficiency information activities in 27 schools in nine counties - Giurgiu, Tulcea, Hunedoara, Cluj, Prahova, Argeş, Iaşi, Vaslui and Braşov. The aim was to stimulate children's interest to improve their life quality by applying simple and affordable energy saving solutions.



Integration of renewable energy production

Electrica Group encourages the production of energy from renewable sources by supporting prosumers. Prosumers are those who not only consume energy from the electricity grid, but also produce energy from renewable sources for their own consumption and the surplus energy gets injected into the grid, for a fee, based on a contract with the electricity supplier.

The latest regulations in the field establish the ways in which the quality of prosumer who can sell the green energy produced to the electricity supplier can be obtained. The distribution operators within Electrica have attributions regarding the connection of the energy production installation to the network, the certification of the prosumer quality and the measurement of the consumed /injected energy, the resulting data being transmitted to the supplier in order to invoice the financial regularization and report to ANRE on connected prosumers and the amount of injected energy measured. In order to obtain the connection certificate, Electrica comes to the aid of customers who want to become prosumers with a guideline available on the website of its distribution companies.



The number of prosumers who inject surplus energy into the distribution network managed by Electrica operators is growing from year to year and reached almost **90 prosumers** in 2019.



The campaign continued with the support of **ACUE**, of which Electrica is a member of. As a result, specialists from the companies Electrica Furnizare, SDEE MN and SDEE TS got involved **by holding presentations to students in grades V-VIII.**



The campaign was attended by about 2,000 students and 70 teachers, who all showed great interest. After the success of the 2019 campaign, among the proposed topics for future meetings, were considered: **the impact of climate change on the environment, the use of photovoltaic panels, the use of unconventional heating sources, non-polluting and renewable energy sources.**

Responsible Waste Management

Electrica Group is aware of the importance of its activities effects on the environment and assumes the responsibility for limiting negative impacts and enhancing positive ones. The Group's companies focus, in particular, on the responsible use of resources, on the support of ecological projects such as those aimed at recycling, at selective collection of waste generated and its careful treatment, in orderto minimize the negative impact on the environment.

Electrica Group' waste management is therefore governed by the principles of selective collection for all types of generated waste, recycling (whenever possible) and safe disposal, by authorized operators, of all types of waste produced during operation. Thus, all Group companies have concluded contracts with authorized operators for the processing of categories of generated waste, their transport, storage, recycling and/or disposal being the responsibility of those providers, monitored as part of the contracted services.

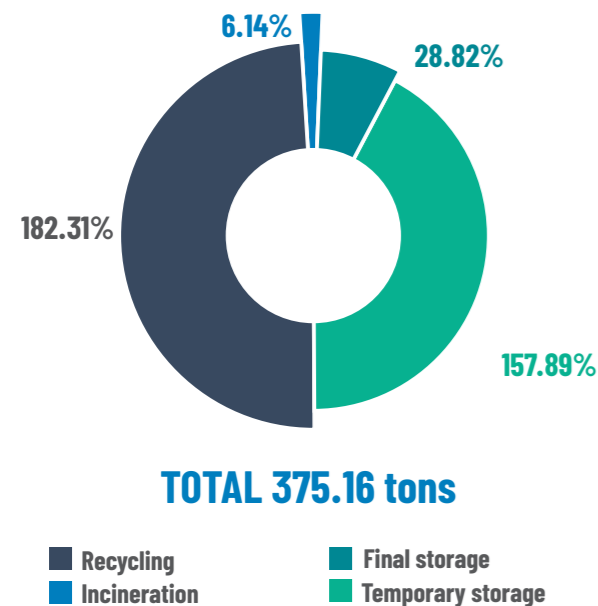


Figure 18 - Hazardous waste management (tons) in 2019

The responsible management of hazardous waste produced by the companies of the Electrica Group during the activities carried out is a topic of continuous interest for each of them.

Therefore, in 2019, out of the total of 375.16 tons of hazardous waste generated at Group level, 48% were recovered and recycled, 42% are temporarily stored for recovery or disposal over the next year, approximately 8% were permanently safely stored (in compliance with all existing environmental regulations at national and European level and cannot be recycled or disposed of), while less than 2% of waste has been disposed of by incineration.

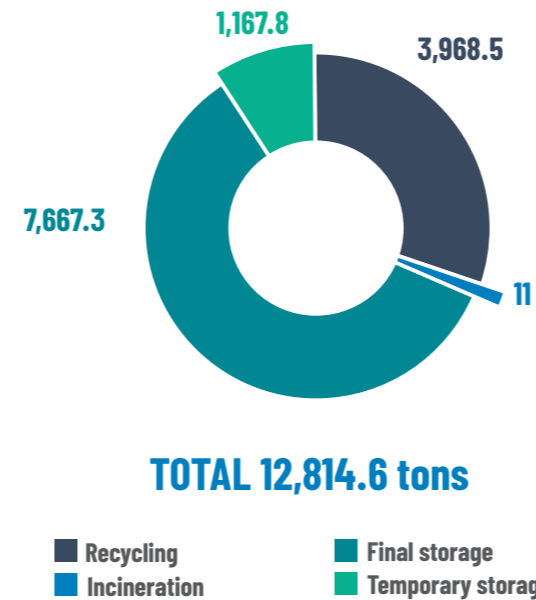


Figure 17 - Non-hazardous waste management (tons) in 2019

Out of a total of 12,814.6 tons of non-hazardous waste generated by the Group in 2019, approximately 30% was recycled, 9% temporarily stored with a view to recovery or disposal during the next year, 0.9 ‰ were disposed of by incineration, and approximately 60% are permanently stored, in compliance with existing national and European environmental regulations.

An important concern for the distribution companies within the Electrica Group is the process of eliminating PCBs from electrical installations in operation, which continued throughout 2019. The programs developed and implemented by companies in this regard are aligned with the national and European requirements and schedule, the objective being pursued by the distribution operators within the Group through the investment projects carried out.

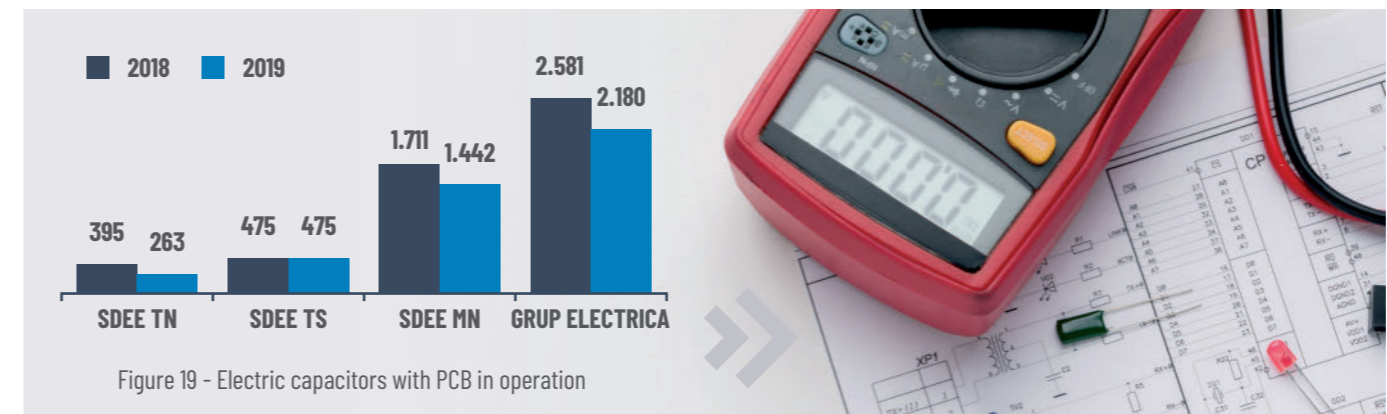


Figure 19 - Electric capacitors with PCB in operation

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These programs, developed based on the risk assessments regarding the use of this type of material, have excellent results, especially at SDEE MN, where even if the number of equipment containing PCBs is higher, the elimination rate is faster, and thus the reduction is significant in 2019 compared to the previous year, which ensures the comfort of companies for early implementation.

Nation-wide PCB elimination program's deadline is 2028, according to the Government Decision No. 1497/2008 and is monitored annually through specific reports.

Another relevant environmental aspect for Electrica, associated with both the current activity and the operating assets, as well as the temporarily stored waste, is represented by the accidental spills of electrical insulating oil. Distribution companies closely monitor equipment operating in functioning substations and service companies watch stored electrical equipment and electro-isolating oil, as well as processes in equipment overhauls and repair shops, to quickly prevent or limit such leaks. For certain locations, soil and water analyses are also performed regularly, so as to detect any past unnoticed leaks, according to the requirements imposed by the environmental permits; they do not indicate contamination for 2019.

Preservation of Biodiversity



Electrica Group places sustainability at the heart of its business strategy, so protecting biodiversity and reducing the harmful impacts of its activities or assets on biodiversity has become a priority.

During 2019, Electrica Group invested almost **RON 3 million** in the field of biodiversity protection.

In this regard, Electrica Group has identified a number of operational sites located in the area or in the vicinity of protected areas, with bird species likely to be affected (especially white stork, starling, common magpie, hawk).

During 2019, the distribution companies of the Electrica Group mainly considered measures targeting the networks that cross the avifauna protected areas and Natura 2000 sites, based on the maps previously drawn up in an extensive dedicated study, which highlights the priority areas for reducing environmental risks and the impact on biodiversity. Because overhead power lines (OHL) with classic conductor (uninsulated) are one of the most important risk factors for certain bird species, as may cause electric shocks, Electrica focuses protecting the birds, both by installing electrical insulating sheaths, and, especially, by restricting the number of lines with such conductors and replacing them with twisted (insulated) conductors, within the developed investment projects. In 2019, 97 electrical insulating sheaths were installed.

Another measure considered to limit the cases of electric shock, dedicated to the white stork, is the installation of special brackets (nests) on the pillars of the low and medium voltage overhead lines, in order to be safely used by the birds. In 2019, 27 such nests were installed, in addition to the 1,010 installed in previous years.

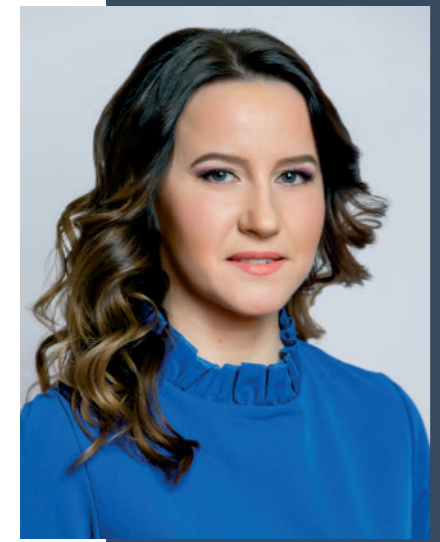


Electrica Group is aware of the fundamental role that forests play in maintaining the planet's ecological balance and their ability to absorb the GHGs generated. To protect them and eliminate the fire risk, the distribution operators within the Group groom the trees on the routes of the managed power lines. As a proactive approach, the Group companies are actively involved in afforestation actions carried out in different areas of Romania. 2019 was the second consecutive year when SDEE MN developed together with ROMSILVA a project for reforestation of deforested areas in Prahova County. They organized the planting of 450 seedlings, together with students of the "Carmen Sylva" Art High School of Ploiești.



07 Our Employees

GRI: 103-1, 103-2, 401-1, 401-3, 403-1, 403-2, 403-3, 403-4, 403-5, 404-1, 404-2, 405-1, 406-1



Bibiana Constantin,
Chief Human
Resources Officer

" We believe in the potential of each employee and that is why we do our best to provide the right context to increase individual professional skills and achieve a high level of performance. The real value comes from several places at the same time: from the creation of leaders to provide inspiration to colleagues, from a successful behavior, organizational agility, as well as through the development of a friendly and safe working environment.

We focus on the continuous professional development of our employees and the advance training of future employees (supporting dual education) to ensure the qualified staff necessary for the sustainable development of the Electrica Group. "



Electrica Group maintained its position in the top of the main employers in the energy field, with approximately **8,300 employees**. Approximately 52% are direct productive staff, and the remaining 48% are indirect productive staff, including technical, economic, social and administrative staff. At the end of 2019, approximately 98% of the Group's employees were union members, the general working conditions being regulated by the Collective Labor Agreement, in force until 3 April 2022, for Electrica S.A., and until 31 December 2021 for the Group's subsidiaries.

The Group's employees work under individual employment agreement concluded for an indefinite period, the share of individual temporary employment contracts being only 2% of the total.

In order to achieve the Group's operational and financial goals, the human resources strategy, approved at the end of 2019, includes a series of initiatives aimed at modernizing the organizational culture, bringing employees closer to general objectives and developing employee skills, including career reorientation.

At the Group level, in 2019 there was a 4% (866 jobs) increase in the number of employees, compared to 2018 (8,000 employees). At the Group level, of the total number of employees, the share of women is 28%. Within ELSA there is a higher number of women vs. men, including leadership structures, 75 women versus 52 men.

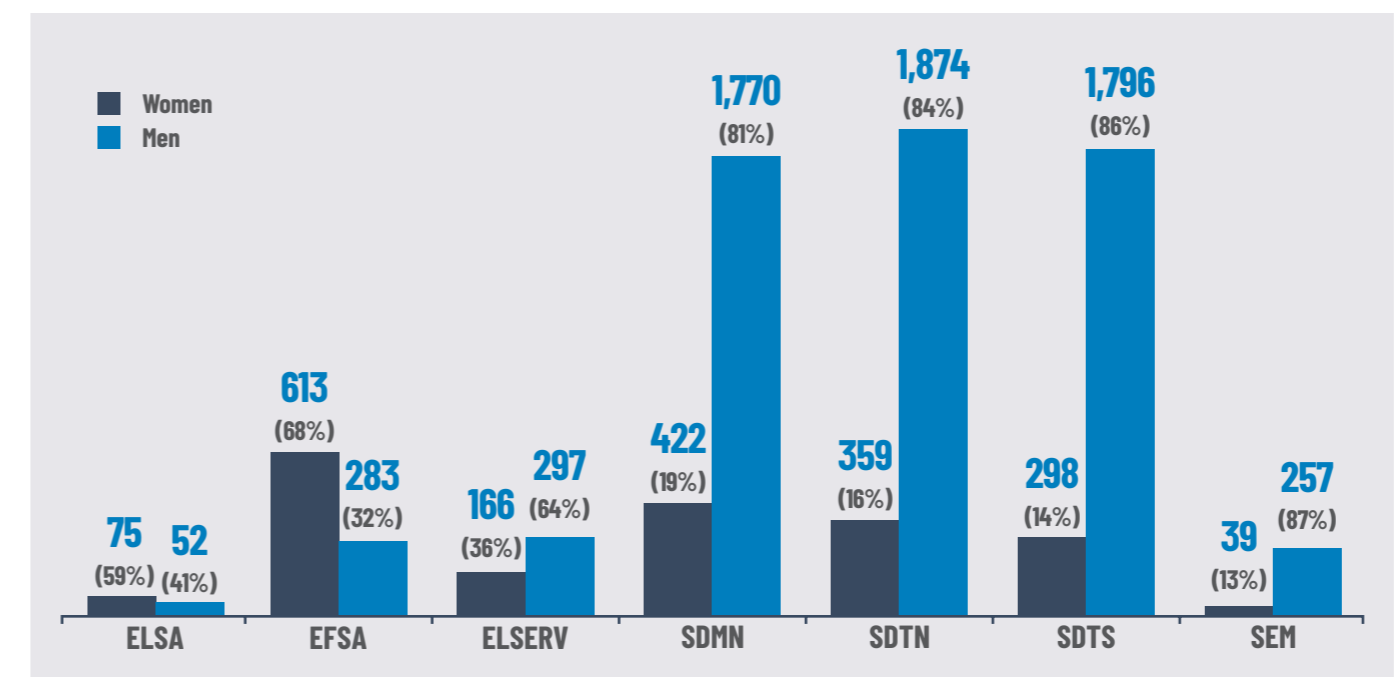


Figure 20 - Number of employees in each company of the Group, at the end of 2019

A fundamental principle of the Group is the absence of any discrimination or harassment on ethnic, racial, sexual, political, and religious or any other nature, in the processes of employment and promotion, as well as in relations with partners, collaborators and our clients.



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Electrica Group offers employees a series of benefits, regardless of the type of contract (undetermined /determined duration), the employee's work schedule or work experience. Salary benefits are established in accordance with the Collective Labor Agreement, and in 2019 they exceeded **RON 620 million**.

Some employee benefits include:

- ◆ Meal vouchers and gift vouchers;
- ◆ Paid days off, other than those declared public holidays, such as: Women's Day, Electrician's Day, the third day of Easter, the third day of Christmas, the employee's marriage, the birth of a child etc.);
- ◆ Work experience bonus and energy system experience bonus;
- ◆ First Jubilee, through which employees are awarded a prize based on their uninterrupted seniority in the company (energy system);
- ◆ Retirement bonus, by which employees are granted a bonus upon retirement, depending on their seniority in the energy system;
- ◆ Fixed salary supplement, on the occasion of the Easter holidays, Energy Day and Christmas;
- ◆ Material allowance for marriage, granted in the month of the event, through which the employees benefit from a material aid in the amount of a basic salary;
- ◆ Material aid for the birth or adoption of a child, through which the Company employees benefit from the amount specified for the aid, for each child;
- ◆ Material aid for temporary incapacity for work;
- ◆ Aid for expensive medical treatments;
- ◆ Aid in case of death of an employee or a member of his /her family.

	Women	Men
Total number of employees who were entitled to parental leave	82	281
Total number of employees who took parental leave	46	29
Total number of employees who returned to work during the reporting period after parental leave	13	5
Total number of employees who returned to work after parental leave and were still employed 12 months after returning to work	20	23

Table 8 - Parental leave and care leave

Diversity and Inclusion

Diversity and inclusion refer to the recognition, appreciation and capitalization of the different perspectives and experiences that make each of us unique. Building a culture of diversity and inclusion is key to the Group's success, individual differences are welcome, and team members join forces to write the future together.

Electrica Group supports innovation and encourages different ways of thinking and acting, the diversity of qualities and skills, experiences and environments.

The Group believes in the importance of promoting equal opportunities, transforming diversity into a resource and improving the unique characteristics of its employees, candidates and collaborators. Also, in order to eliminate any suspicions of forms of discrimination, every effort has been made, including the creation of a specific application, "integrity warning", through which discriminatory behaviors can also be announced. In 2019, no incidents of this nature were recorded within the Group.

Maintaining a balance between the number of women and the number of men in the staff structure is a desideratum of the Company, but this share is also influenced by the profile of activities.

In 2019, employees with executive positions, representing a percentage of 90% of the total employees of the Group, were represented in a percentage of 23% women and 77% men. A significant percentage of women are found in management structures, representing 35% of all employees in these positions.

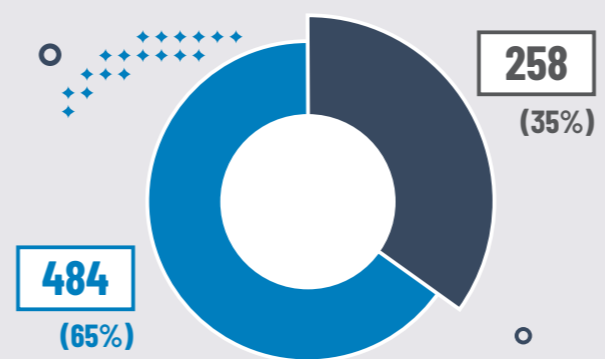


Figure 21 - Gender distribution of management staff

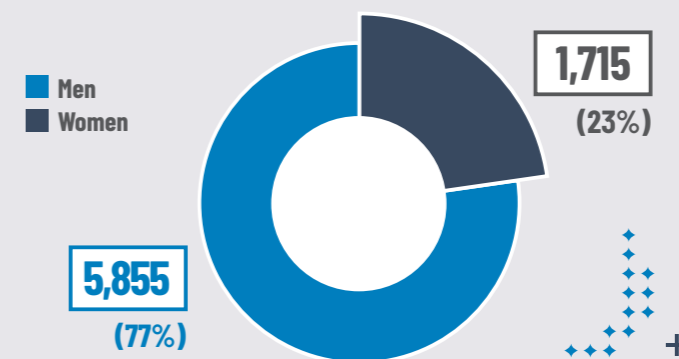


Figure 22 - Gender distribution of qualified staff

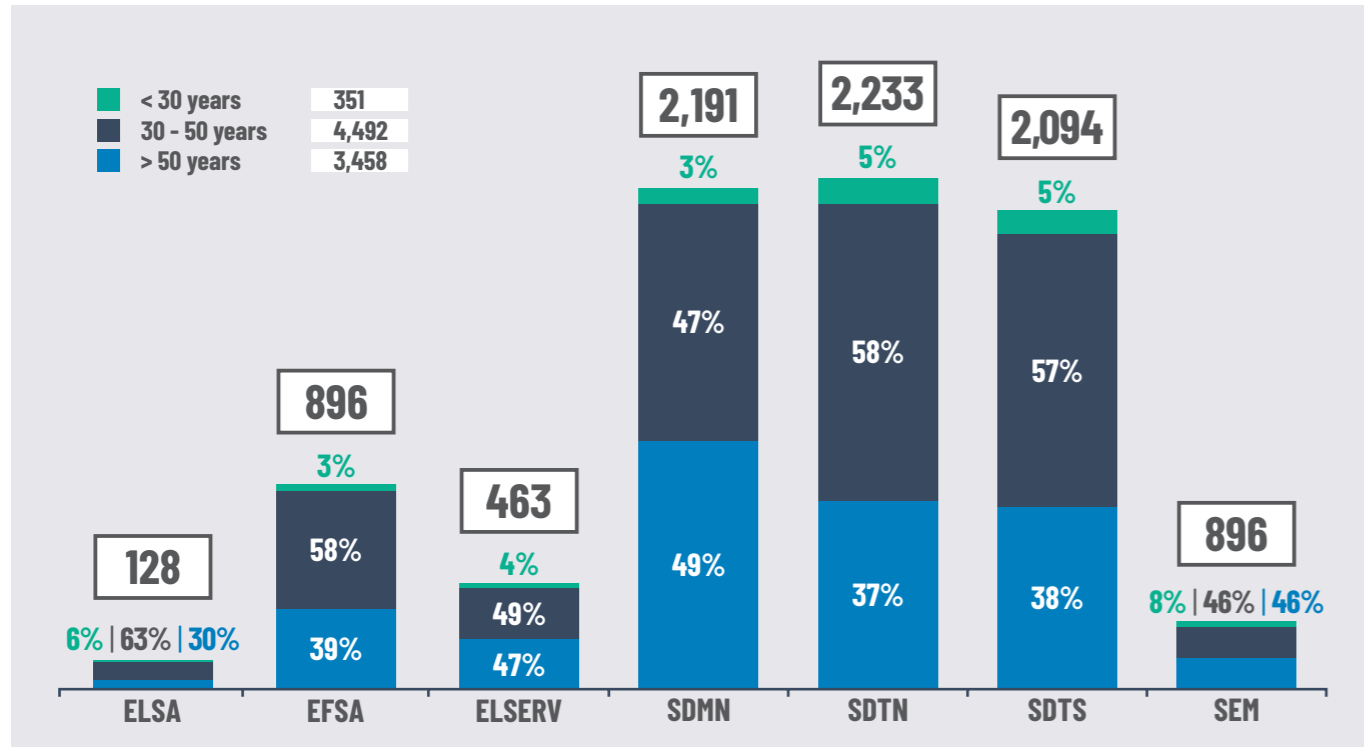
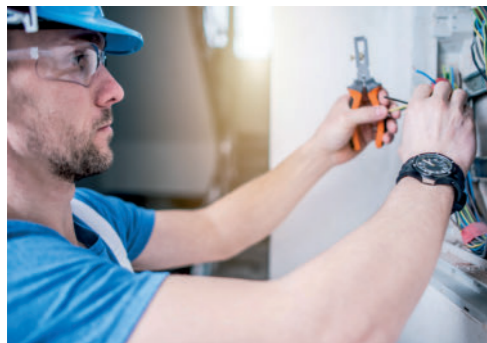


Figure 23 - Structure of employees by age in each company of the Group at the end of 2019

Of the Group's total employees, 42% are over 50 years, compared to 35% in 2018 and 30% in 2017. The increase in the average age of employees is accelerating over time, and in the coming years, the distribution segment will be affected by a significant wave of retirees.

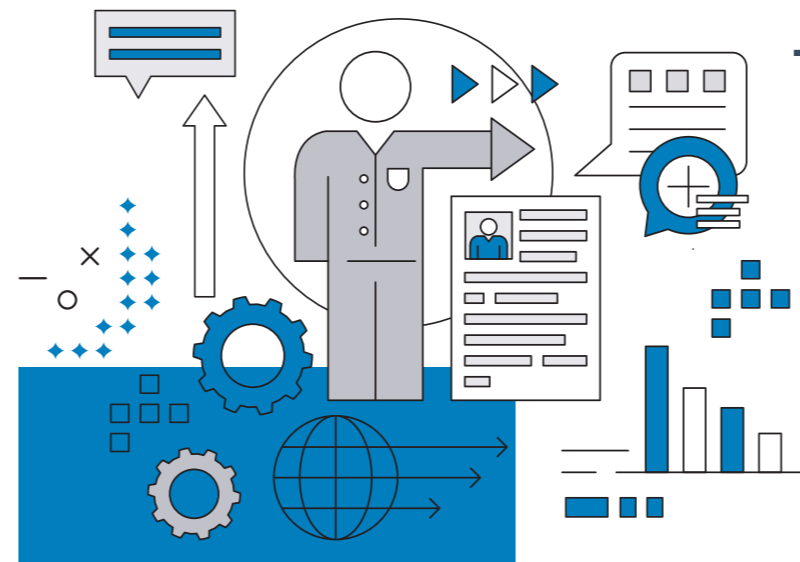


Thus, to ensure business continuity in the operational area and to ensure that we can work with a new generation of highly trained electricians, starting the 2019-2020 school year, the distribution operators support more dual system professional classes (electrical profile). Students prepare according to a program adapted to the market needs, carry out internships in distribution companies and can be easily integrated into teams of specialists, after graduation.

To counteract the effects of the accelerated retirement of employees in the distribution area, Electrica has started a **program to support several professional classes in a dual system, electrical profile.**

Through this project, as well as through mentoring programs, the operational knowledge will be transmitted to the beginner electricians. In essence, the Group's core business, electricity distribution and supply, as well as energy services, do not involve dramatic changes in short intervals, which allows the transfer of knowledge from one generation to another to be consistent and phased. Of course, there is an important component of the activity that is modernized with the help of new technologies, and for these sectors we constantly bring new and modern information to the company's knowledge base, through trainings with external partners, with internationally recognized specialists.

Education, training and modernization of organizational culture and employer image, excellence and safety, concern for professional development and performance appraisal, are strategic objectives of the new human resources strategy for 2019 - 2023, and are aligned with the Mission, Vision and Organization Values.



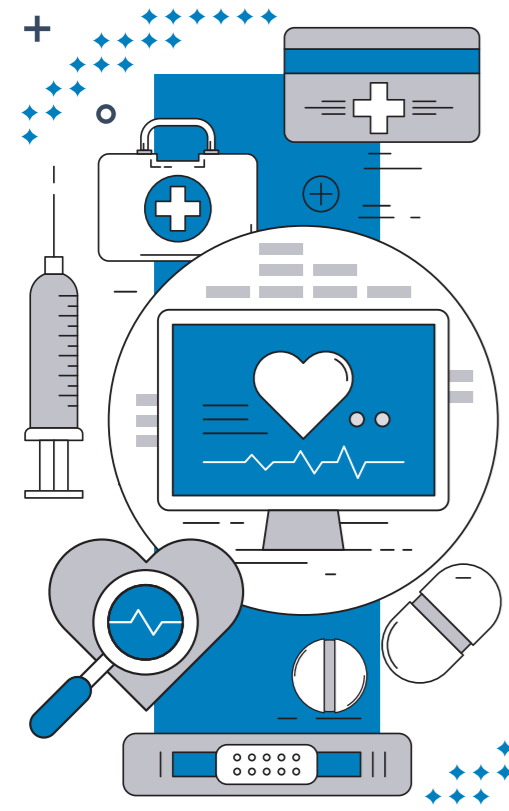
Through the Human Resources Strategy for the period 2019 - 2023, the HR activity internalized strategic initiatives and planned projects to increase the Group's capabilities, mainly through synergies in staff skills, augmented with the latest technological and management knowledge. The effort to update knowledge is considerable.

The planned programs confirm that human resources are the central resource of the Group.

Occupational Health and Safety

We undertake the health and safety at work of our employees and contractors as value, promoted during all decision making and business processes carried out within Electrica Group, which will not be compromised in front of other aspects of the business.

The strategic objective of the organization in the field of occupational health and safety remains **"ZERO Accidents"**. In this sense, the companies within the Electrica Group develop and apply internal norms and regulations that ensure compliance with the legal requirements and SR ISO 45001:2018 respectively SR OHSAS 18001:2007 provisions, reference documents for the Integrated Quality-Environment-Health and Occupational Safety Management certified at each company level by the certification body SRAC Cert affiliated to the international network IQNet.



The year 2019 was marked by the effort to align and standardize the approaches and the specific way of working of the distribution subsidiaries, both in the activity of ensuring the safety and health of the employees, as well as in the operational one. The procedural framework and work instructions were reviewed through a joint effort of the OSH specialists of these companies, coordinated at ELSA level; the purpose of this approach was the transition to the new standard SR ISO 45001:2018, the entire scope of activity of the Group companies and, implicitly, all the jobs being covered by the occupational health and safety management system.

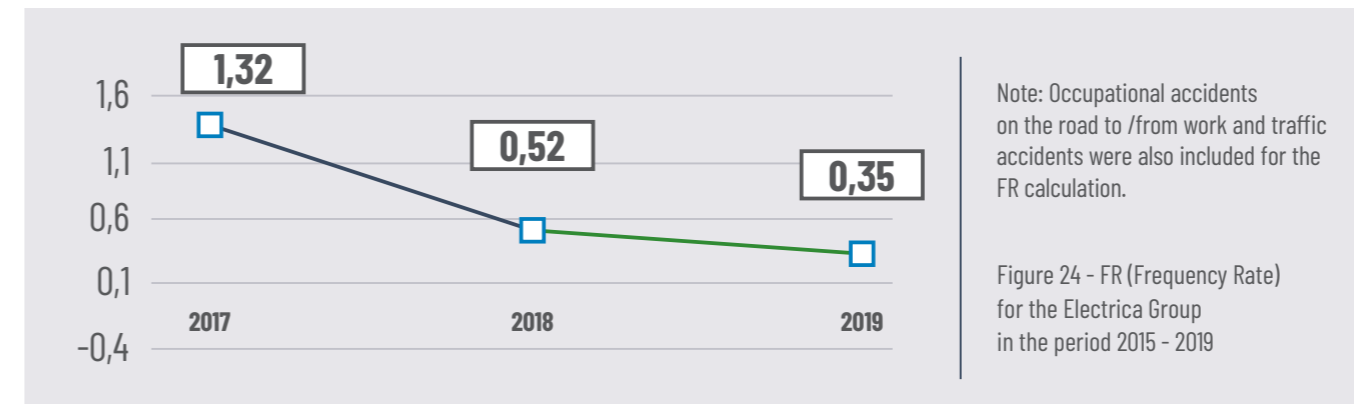
In 2019, the number of accidents at work decreased by over 30% compared to the previous year, with 4 such accidents, compared to 6 accidents at work in 2018. As a result, 2 employees of the Electrica Group companies died (one from SDEE TN and one from SDEE MN), 2 other employees (one from SDEE MN and one from Electrica Serv) suffered injuries.

The complex of complementary causes and favorable factors that determined the occurrence of each of these accidents was analyzed either at the level of the Territorial Labor Inspectorates, or at the level of the companies where the accidents took place, by the duly constituted commissions. Research files include measures to prevent similar situations, which need to be implemented by each company. In two of the four accidents at work reported at Group level, the electrical risk generated fatal consequences, the other accidents occurred as a result of the materialization of other risks, independent in one of the cases of the professional activities carried out by the employee.

Indicator	Company				SEO	SEM	ELSA	TOTAL GROUP
	SDEE MN	SDEE TN	SDEE TS	Electrica Serv				
2019 accidents at work (of which fatal)	2 (1)	1 (1)	0	1	0	0	0	4 (2)
2018 accidents at work (of which fatal)	0	2	3	0	1	0	0	6
2017 accidents at work (of which fatal)	2 (1)	2 (1)	1	8	1	1	1	16 (4)

Table 9 - Situation of occupational accidents

Total Recordable Injury Frequency Rate¹ is the number of fatalities and injuries in accidents at work within the companies of the Electrica Group as per 1 million hours actually worked and in **2019 was 0.35**. Its evolution in the period 2017 - 2019 is presented in the chart below.



¹According to the methodology recommended by ILO Resolution 1998, agreed by the GRI Sustainability Reporting Initiative.

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Frequency index of accidents at work (IF), expressed as the number of injured people per 1,000 employees is 0.5‰ in 2019 for Electrica Group, decreasing compared to 0.72‰ in 2018, and 2.31‰ in 2017. FI is a statistical indicator recommended by the International Labor Organization (ILO) through the Resolution concerning statistics of occupational accidents adopted in October 1998, which was 0.93 ‰ in 2017 and 0.98 ‰ in 2018 for Romania (2019 data for Romania are not available on the date of this report). Practically, in the context of organizational transformations, starting with 2018, Electrica Group was situated below the national average of this indicator, and the decreasing trend was maintained in 2019.

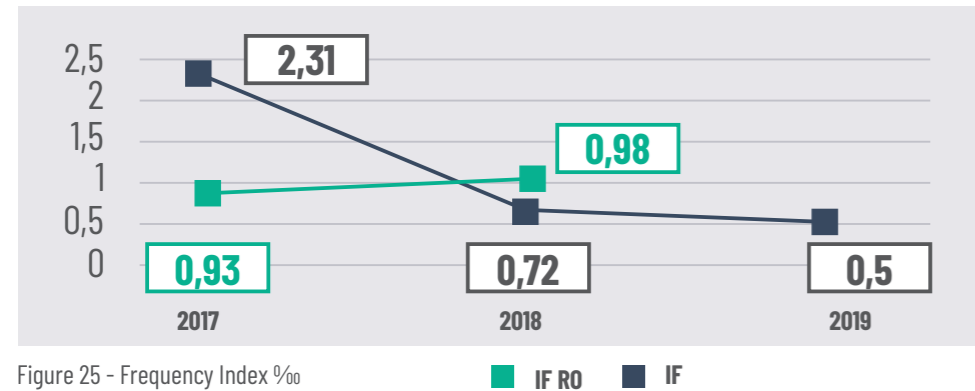


Figure 25 - Frequency Index ‰

In 2019 also the number of days of temporary incapacity for work generated by accidents at work decreased compared to 2018, from 480 days to 69 days.

The SI Severity Index, representing the total number of days of incapacity for work due to occupational accidents/the number of employees within the Electrica Group companies, as per 1,000 employees, was 8.7‰ in 2019 and is presented compared to the annual values of the national indicator for Romania in 2017 and 2018.

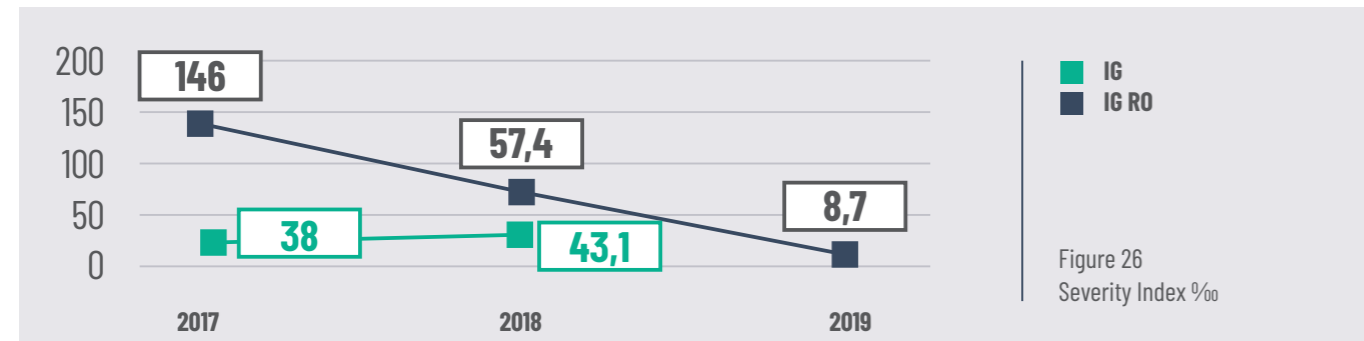


Figure 26
Severity Index ‰

Severity Rate / Lost Time Injury Frequency Rate as per 1 million hours worked (SR /LTRIFR)

This indicator is calculated only for accidents with temporary incapacity for work, where the time worked by employees represents hours actually worked. The SR /LTRIFR value of 44.9 for 2018 was recalculated further to referring to 2018, depending on the number of days of temporary incapacity for work (ITM) produced in 2018 and carried over to 2019. A significant improvement of the indicator can be observed in 2019, reaching the value of 6.1.

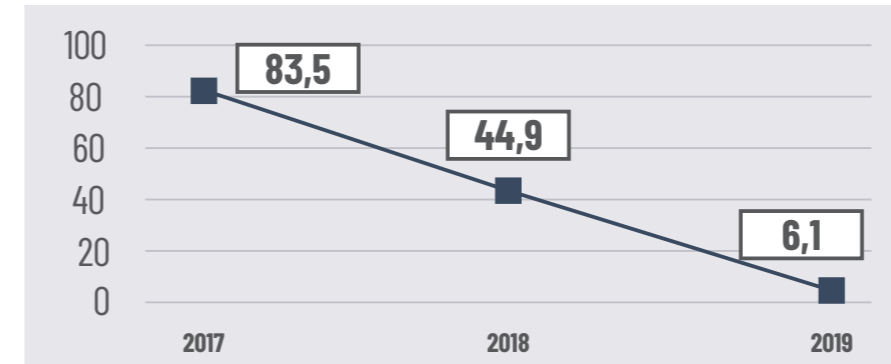


Figure 27 - SR /LTRIFR for Electrica Group calculated for the years 2017 - 2019

At the level of the contractors of the Electrica Group companies, in **2019 there were no accidents at work**, compared to 2018 and 2017, when there were 2 accidents at work /year resulting in temporary incapacity for work (ITM).

In order to align all contractors with the Electrica Group's objective of reducing the number of events in the field of OSH and of reducing the risks of injury, in the next period the controls for works carried out with contractors will be intensified and the implementation of a notification system will be considered in case of deviations from the OSH norms applicable in the Electrica Group.

In order to increase effectiveness of the OSH line control activity, but also to ensure a transfer of best practices in the field, in 2019 the concept of OSH cross control was introduced at the level of the three distribution companies. ELSA has developed a cross-control program, involving all staff with OSH responsibilities within companies. This program was implemented between June and September 2019, with clear benefits in terms of safety at work. 48 controls were performed within said program. The approach was doubled by the update of the procedure dedicated to OSH control, this being applied in a uniform manner within the three distribution companies of the Group.

Within Electrica Group, no occupational diseases were reported in 2019 or in the previous years. Prevention, monitoring and insuring occupational health at the Group level was carried out by doctors specializing in occupational medicine, through dedicated service agreements, and was monitored within ELSA through half-yearly reports and the OSH Committee with a coordinating role, established in 2018, which brings together members of the representative trade unions within the Group companies, the middle management with responsibilities in the field of OSH and the executive management of these companies.



In 2019, at the level of the Electrica Group, over **276,000 hours of training** in the field of occupational safety and health, fire protection and emergency situations were delivered, including mandatory training, additional training following accidents at work, but also professional development programs of OSH specialists, fire protection technical staff and representatives of employees in the OSH committee. The number of training hours decreased compared to the previous year due to the reduction of the number of employees at the end of 2018.

Employee training and development

Company	Average number of training hours per year per employee
ELSA	14
EFSA	12.5
SDEE MN	20.5
SDEE TN	24.7
SDEE TS	24.1
EL SERV	23.9
SEM	12.5

Electrica Group appreciates and supports the performance and wants the professional career of its employees to be marked by opportunities for permanent development.

The programs developed in order to improve the skills of the Group's employees **targeted both areas of non-technical skills (soft skills) and technical skills (hard skills), as well as wellbeing programs.**

Table 10 - Average number of training hours per year

Vocational training is organized separately, through the training plan, per training levels, taking into account the employee's needs, the basic skills, the requirements of the employee's position, the evolution possibilities, as well as the organization's requirements at that time. Thus, the technical specialization programs, focused on the specifics of the activity and on the development and continuous improvement needs of the employees, from technical certification programs, to IT courses, but also courses for the development of non-technical skills in the field of management (e.g.: Project Management, Business Case Guide, Project Management Office), are some of the development programs made available to employees.

It is worth mentioning the initiative started in 2018 and continued in 2019, regarding the pilot project, started at SDEE TS level, regarding the training of directly productive employees, in terms of the provision of first aid in case of injury, developed by ELSA, in collaboration with the Department for Emergency Situations.

Having the education and training as strategic objective to ensure the necessary quality human resources, in 2019 the Electrica Group decided to support dual education. Thus, the distribution operators, SDEE TS, SDEE MN and SDEE TN have already taken important steps in this direction. In partnership with local pre-university education institutions, they support 4 professional classes in dual system - electrical profile - in Cluj, Braşov, Alba-Iulia and Ploieşti.

The first generation started training in the 2019-2020 school year. The major benefit is that they will acquire theoretical knowledge at school - they will train according to a program adapted to the current market needs, and then they will carry out the internship in the Group companies. Thus, they will benefit from the teachers' know-how, but also from the recommendations of the Group's specialists. Students are motivated by monthly scholarships, and those who have very good results are stimulated with bonuses. Moreover, after graduation, they can be integrated into the Electrica team, so they will have a smooth transition from school to the labor market.

Employees' professional development is an ongoing process, which contributes to achieving strategic objectives, improving team performance, developing specific skills, and supporting innovation.

The level of skills acquired is reflected both in employee satisfaction and in the provision of services, both to external and internal customers.



08 Social Responsibility

103-1, 103-2, 413-1

Electrica Group undertakes responsibility for the communities in which it operates and wants to actively contribute, together with partners, to the sustainable development of Romania, in order to leave a solid legacy to future generations. During 2019, the Group was actively involved in the community, as in previous years, and financially supported social causes through prestigious non-governmental organizations in Romania.

EUR 540,000 through CSR programs,

almost twice than in 2018.

In 2019, Electrica Group carried out the fourth edition of the Grants Program “Electrica puts Romania in a different light”, which financed projects with a positive long-term social impact, throughout the country.

Under this program, Electrica invested EUR 50,000 in initiatives aimed at changes in areas such as: health and social services, education and culture. Over 80 projects entered the competition, initiated by teams from 27 counties, five of which were selected for funding. The winning projects will have an impact on more than 25,000 direct beneficiaries.



The projects that have received funding under this program are:

Aprinde Speranța [Light the Hope] - The project coordinated by the “Little People Association” aims to implement, directly in the hospital, a psychosocial support program to provide children with various cancers a daily plan therapy. This plan includes play therapy, community support organization, and interaction with Electrica employees. More than 900 patients will benefit from this project.



Lumina în terapie de recuperare [Light in recovery therapy] - The aim of the project implemented by the “KinetoBebe” Association is to provide children with intellectual disabilities, ADHD, cerebral palsy, emotional disorders, autism, school stress disorders or virtual autism, access to pediatric recovery Snoezelen therapy, based on light, sound, vibrations and touching certain objects, which contributes to the development of stimuli and facilitates the installation of a state of well-being and relaxation. Over 600 children will benefit from this type of therapy every month.

Rețeaua tactilă [Touch Network] - This project is run by the “Association for Urban Development” and aims to expand the online catalog of touch images with a section designed to help visually impaired people discover what electricity is, how it can be produced and what it is used for. The beneficiaries of the project will be hundreds of visually impaired people.



Călătoriile speranței [The Journeys of Hope]

The purpose of the “Hospice Casa Speranței” Foundation initiative is to diversify the portfolio of activities in which patients suffering from incurable diseases can participate. This will develop the virtual reality infrastructure with specific applications for children. At least 100 people will benefit from this form of therapy and at least 2,000 sessions of classical and virtual therapy will be performed.



Health and Social Inclusion Projects

01 Partnership of EFSA and the “Hospice Casa Speranței” Foundation to support the campaign consisting in the redirection of 3.5% of the income tax and the campaign to raise awareness and encourage donations for Hospice patients. To inform customers in the Southern Transylvania region, the Hospice Casa Speranței Foundation has inserted 500,000 flyers in the envelopes containing the monthly electricity bills.

02 EFSA’s partnership with the “Little People” Association to place donation boxes in the commercial offices in the Northern Transylvania region.

03 Unwritten partnership of SDEE MN with the National Red Cross Society for regular and emergency blood donation, in humanitarian cases. SDEE MN employees responded affirmatively to the request of the Ploiești Transfusion Center.

04 SDEE MN employees joined the “Rază de Soare” Placement Center of Băicoi, which houses 28 children, on the occasion of 1 June and Christmas. Through an internal fundraising campaign, SDEE MN employees were able to purchase sporting goods, personalized gifts and food.

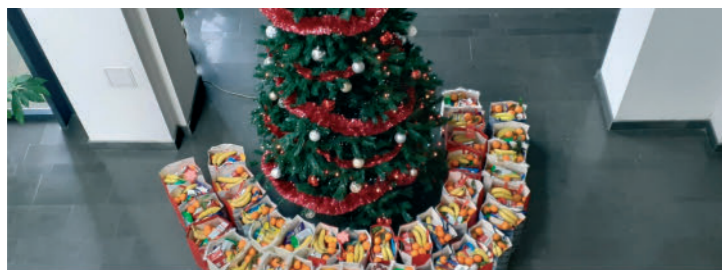
05 Charity for the “Familia Regăsită” Association SDEE TN employees donated fully equipped backpacks to 21 children from the “Familia Regăsită” Charity Association in Cluj-Napoca. The children come from disadvantaged backgrounds, from very low-income families, who could not have provided them with what they needed to start the school year.



Lumina și starea de bine [Light and wellbeing] “The Institute” Foundation’s project aims to draw attention to the benefits of light design, which can be used in both public and residential spaces and contributes to increasing the level of social optimism and individual wellbeing. Romanian Design Week 2020 will also include Light design as a discipline.



In addition to the direct investments made by the Electrica Group to support local communities (projects to support local suppliers, projects for employee development and training etc.), it redirects significant amounts every year to support projects developed by our partners in the areas presented below.



06 SDEE TS organized the “Do you want to be Santa’s elves?” campaign

for children undergoing treatment at the Oncopediatrics Department within the Mureş County Clinical Hospital.



07 SDEE TS was a partner of the sixth edition of the “Braşov Heroes”

fundraising event for various community causes proposed by local organizations or initiative groups. Participants support the chosen project through the participation fee. The event managed to collect over RON 222,000.



08 The “Donate and color lives” humanitarian campaign,

organized by the group of independent volunteers “We succeed together!” from Mureş, having as beneficiaries the 45 children in the “Mia’s Children Center” in Ilfov County. SDEE TS joined in order to collect non-perishable food.



09 SDEE TS joined the “Strong together, women for women” initiative,

organized by the JCI Organization of Târgu Mureş, whose purpose was to raise donations of bags and personal hygiene products for women from disadvantaged backgrounds in Mureş County.

Education Projects

01 In 2019, the three distribution companies started to create classes of students in dual education system,

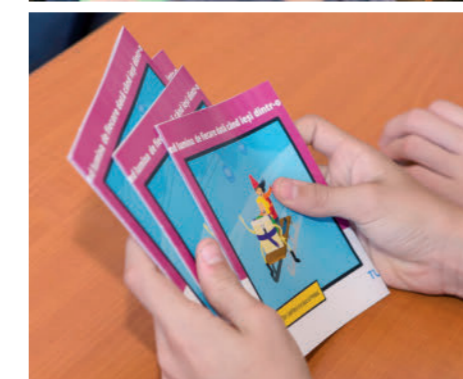
organized in high schools with energy profile, whose role is to form a solid base of young electricians who, in the future, can join distribution companies depending on the need for labor.

02 EFSA, SDEE MN and SDEE TS joined a campaign to promote energy efficiency

among students, proposed by ANRE, which was a continuation of the awareness campaign on efficient use of energy in homes - “Energy saving” - carried out in 2018 with the European Commission. The three companies supported this campaign by deploying presentations in schools on general concepts and ways to save energy in homes, as well as by disseminating information materials.

03 SDEE MN was a partner and sponsor of the “Elie Radu” Technology High School in Ploiesti,

which organized the National Olympic disciplines of the Technologies curricular area - electrical, electro-technical, electromechanical and electronic, automation and telecommunications fields. The event aimed to identify the best students in the country, stimulating interest in increasing competence and professional performance. SDEE MN is committed to getting involved both in the growth and training of future electricians, but also in recognizing the merits of students who are already the elite of high school education. Thus, 12 winners received laptops, tablets and professional tool kits for electricians.



04 SDEE TN sponsored the **International Conference “Condition Monitoring, Diagnosis and Maintenance” (2019 edition)**, organized by the Association of the Romanian National Committee CIGRE. The event is a benchmark in the energy field and brings together specialists from over 40 countries, who presented the latest technical and application advances in our field of activity.



Cultural Projects



01 EFSA and Electrica Serv were sponsors and partners of the **Visual Arts Forum**, in order to organize the Cinemascope Film Festival (2019 edition), the most ambitious project organized by the Czech Center. Cinemascope aims to promote culture in less accessible places, as well as to conduct an awareness campaign on the state of abandoned summer gardens and the need to put them back into operation.

02 EFSA sponsored the **George Enescu International Festival (2019 edition)**, the most powerful Romanian cultural brand and the best rated by international specialized publications dedicated to lovers of classical music (BBC Music, Gramophone, etc.).



03 EFSA supported organizers of the **Transilvania International Film Festival (TIFF)**, by placing a promotional mesh on the side facade of its building.



04 SDEE TN supported the **“Cluj Musical Autumn” International Festival**, a traditional cultural event organized since 1965, which concentrates national and world renowned artists, Romanian and foreign performers and conductors, and consists in promoting national and universal cult music.

Sports Projects

01 EFSA became a strategic partner of the **Romanian Olympic and Sports Committee** to support the Romanian Olympic Team during the preparation, qualification and participation in the Olympic Games in Tokyo. The partnership also included the “Together we can achieve excellence in supporting Olympic athletes” program, which aims to develop and protect Olympic values in Romania, support performance sports, support educational programs for the development of future generations of athletes and educate the public about Olympic sports.



02 SDEE TN and FC Cluj University partnership for the development of the “U for Cluj” campaign, which materialized in a series of sports events dedicated to children, during which they had the opportunity to understand the benefits of movement and the importance of an active life. The campaign targeted children and young people from placement centers in Cluj County, but also those in situations of social risk.



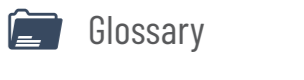
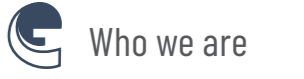
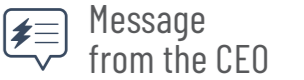
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GRI Standards	Specific Material Topics 200 Series (Economic Topics)	Pg.	300 Series (Environmental Topics)	Pg.
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GRI 203: Impact on the Romanian economy 2016	203-1 Infrastructure investments and services supported	66		304-2 Significant impacts of activities, products, and services on biodiversity 70
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	205-2 Communication and training about anti-corruption policies and procedures	12	GRI 307: Environmental Legislation Compliance 2016	307-1 Non-compliance with environmental laws and regulations 70
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	403-2 Hazard identification, risk assessment, and incident investigation	80	GRI 406: Non-Discrimination	406-1 Incidents of discrimination and corrective actions taken 80
	403-3 Occupational health services	80	GRI 413: Local Communities 2016	413-1 Operations with local community engagement, impact assessments, and development programs 92
	403-4 Worker participation, consultation, and communication on occupational health and safety	80	GRI 416: Consumer Safety and Health 2016	416-1 Assessing the impact of product and service categories on health and safety 12
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10 Glossary

ACUE	Federation of Energy Utility Companies Associations
GMS	General Meeting of Shareholders
EGMS	Extraordinary General Meeting of Shareholders
OGMS	Ordinary General Meeting of Shareholders
ANRE	National Energy Regulatory Authority
B2B	Business to Business
B2M	Business to Many
BAR	Regulated Assets Base
BET	Bucharest Exchange Trading
BSE	Bucharest Stock Exchange
BD	Board of Directors
CBA	Collective Bargaining Agreement
CEPC	Code of Ethics and Professional Conduct
CGS	Corporate Governance System
CSR	Corporate Social Responsibility
DC	Direct Current
DER	Distributed Energy Resources
DR	Demand Response
DSM	Demand Management System
DSO	Distribution System Operator
EBITDA	Result before deduction of interest expenses, income tax, depreciation and amortization
EFSA	Electrica Furnizare S.A.
EL SERV	Electrica Serv S.A.
ELSA	Electrica S.A.
SoLR	Supplier of Last Resort
GHG	Greenhouse Gases
GRI	Global Reporting Initiative
GD	Governmental Decision
ISO	International Organization for Standardization



HV	High Voltage
LV	Low Voltage
Km	Kilometer
kV	Kilovolt
kW	Kilowatt
OHL	Overhead Power Lines
UPL	Underground Power Lines
LSE	London Stock Exchange
RON mil.	RON million
MV	Medium Voltage
OHSAS	Occupational Health and Safety Assessment Series
OPCOM	Operator of the Romanian Electricity and Natural Gas Market
PCB	Polychlorinated biphenyls
NP	Net Profit
PR4	4 th Regulatory Period
TS	Transformer Station
RED	Electricity Distribution Grid
RES	Renewable Energy Sources
RON	Romania's national currency
RPA	Process Robotization by Automation
SAD	Electricity Distribution Automation System
SAIDI	System Average Interruption Duration Index
SAIFI	System Average Interruption Frequency Index
SCADA	Electricity Distribution Automation System
SDEE MN	Societatea de Distribuție a Energiei Electrice Muntenia Nord S.A.
SDEE TN	Societatea de Distribuție a Energiei Electrice Transilvania Nord S.A.
SDEE TS	Societatea de Distribuție a Energiei Electrice Transilvania Sud S.A.
SEM	Societatea Comercială Servicii Energetice Muntenia S.A.
SEN	National Energy System
RS	Reference Standard
TWh	Terawatt hour
EU	European Union

