

2018 Sustainability Report





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Message from the CEO

GRI: 102-14



Dear readers,

The Electrica Group, a key player on electricity distribution and supply market in Romania and also one of the most important players in energy services sector, publishes for the third consecutive year its sustainability report developed in accordance with the highest global standards. This year as well, the report continues to be an integral part of company's long-term development vision.

From one year to another, we pay attention to the development of every specific indicator and we are concerned about the positive impact we have in communities where we are acting and on the economy, in general.

2018 was a year full of challenges and together we succeeded again to meet the commitments made to all our stakeholders: shareholders, clients, partners or employees.

In 2018, our fundamental principles have remained unchanged. Operating in a safe environment, increasing network investments to improve service to our customers, adhering to the highest standards of corporate governance, supporting communities where we operate, and delivering sustainable results to the shareholders have continued to be our primary objectives.

The investments in Romania continue to be our priority. These represent, beyond numbers, an investment in a sustainable future. Therefore, Electrica allocated, in 2018 alone, approximately RON 900 million, a record amount for modernization and development of the distribution infrastructure. Since company's listing in 2014, we invested over RON 3 billion only in electricity distribution that has been reflected in a significant increase of services quality.

A part of the investments made was distributed for a better coverage of rural environment but also for meeting the digitalization needs, while for the distribution network modernization operations were used last generation, modern and non-polluting materials and equipments.

As in previous years, Electrica's employees have been involved in volunteering and charity activities, demonstrating an organizational culture proactive and responsive to community's needs. We continued the grant program "Electrica puts Romania in a different light", from which projects in the fields of education, health and environmental protection have benefited.

Electrica wants to respond the best possible to the needs and requests of customers and communities

whose integral part we consider to be, first and foremost, through the responsibility we have towards them.

In order for our activities and operations to be carried out in safe conditions for all our employees, we invested both in technology and in electricians training programs through our Collaboration Protocol with the Emergency Situations Department regarding first aid interventions in cases of injury, part of the Staff Awareness-raising Programme on risks and work safety and security aspects.

All company's Policies have been updated and the business optimization programs have continued their natural implementation stages. I assure you that the material indicators resulting from stakeholder consultation process will continue to be a concern for us and, at the same time, a commitment.

We want to continue to put Romania in a different light and to rewrite the story together, a more beautiful one year after year.

Georgeta Corina POPESCU

CEO, ELECTRICA



1 About us

GRI: 102-1, 102-4, 102-5, 102-6, 102-10, 102-45

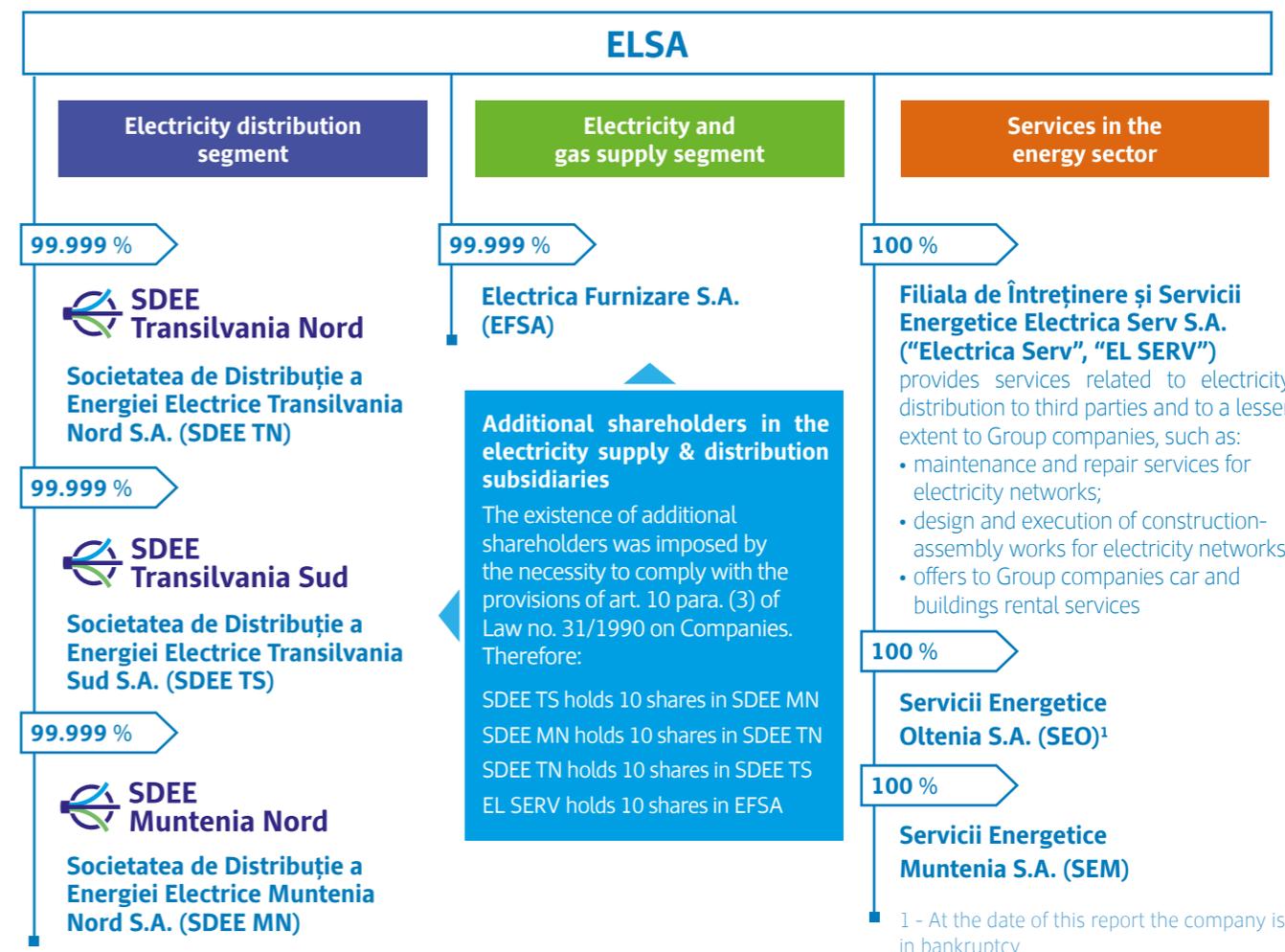
In this third consolidated sustainability report, the Electrica Group presents in a transparent manner the non-financial performance of all the companies in the organization's portfolio, achieved during the 2018 financial year.

Societatea Energetică Electrica S.A. ("Electrica", "ELSA" or "the Company") defines the strategic guidelines for all its companies, coordinates the Group's strategic operations and initiatives and defines the corporate governance, business ethics and anti-corruption policies.



Electrica Group – Structure and shareholding

Electrica S.A. is a majority privately-owned holding company that supervises as a shareholder, the activity of three subsidiaries in the electricity distribution segment, a subsidiary in the electricity and gas supply segment and three other subsidiaries offering services in the energy sector:

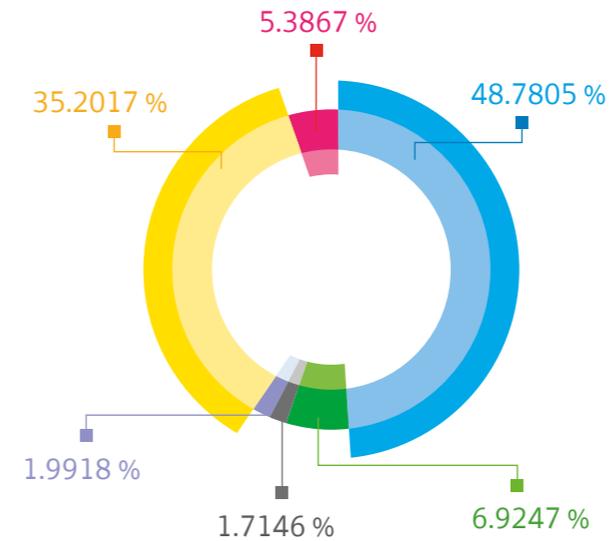


Together, these companies are named "the Group" or "Electrica Group".



Electrica's activities at national level:

- Electricity distribution
- Electricity and gas supply + services in the energy sector across the country



Ownership (% share capital)

On 31st of December 2018, EFSA's share capital increased by ELSA's contribution in kind, thus reaching a value of RON 62,873,860 representing 6,287,386 nominative shares of RON 10 each.

In 2014, the SEO and SEM Boards of Directors decided to initiate insolvency procedures in order to reorganize, so that in the same year the insolvency procedures were opened. On 31st of October 2018, the court ordered the bankruptcy of SEO, at the request of the judicial administrator and the lifting of its administration rights.

SEM implemented the reorganization plan by the court's deadline - November 2018, complied with its payment programme, paying claims in full, so that, in the coming period, the legal procedures for insolvency exit were fulfilled. Thus, on 3rd of April 2019, the Bucharest Court noted the closure of the insolvency procedures and ordered all measures to be taken to reinsert the company into the business activity.

Starting with 4th of July 2014, after the Initial Public Offer had been conducted, Electrica's shares are listed on the Bucharest Stock Exchange (BVB – EL symbol) and the global deposit certificates are listed on the London Stock Exchange (LSE – ELSA symbol).

On 31st of December 2018, Electrica's shareholding structure was the following:

Name of shareholder	Number of shares
The Romanian State through the Ministry of Energy, Bucharest, Romania	168,751,185
European Bank for Reconstruction and Development, London, UK	23,955,272
Electrica S.A.	6,890,593
BNY MELLON DRS, New York, USA	5,931,364
Other legal entities*	121,776,730
Natural persons	18,634,785
TOTAL	345,939,929

Source: Central Depository, Electrica

* Dedeman S.R.L. owns between 5 and 10% of total number of shares

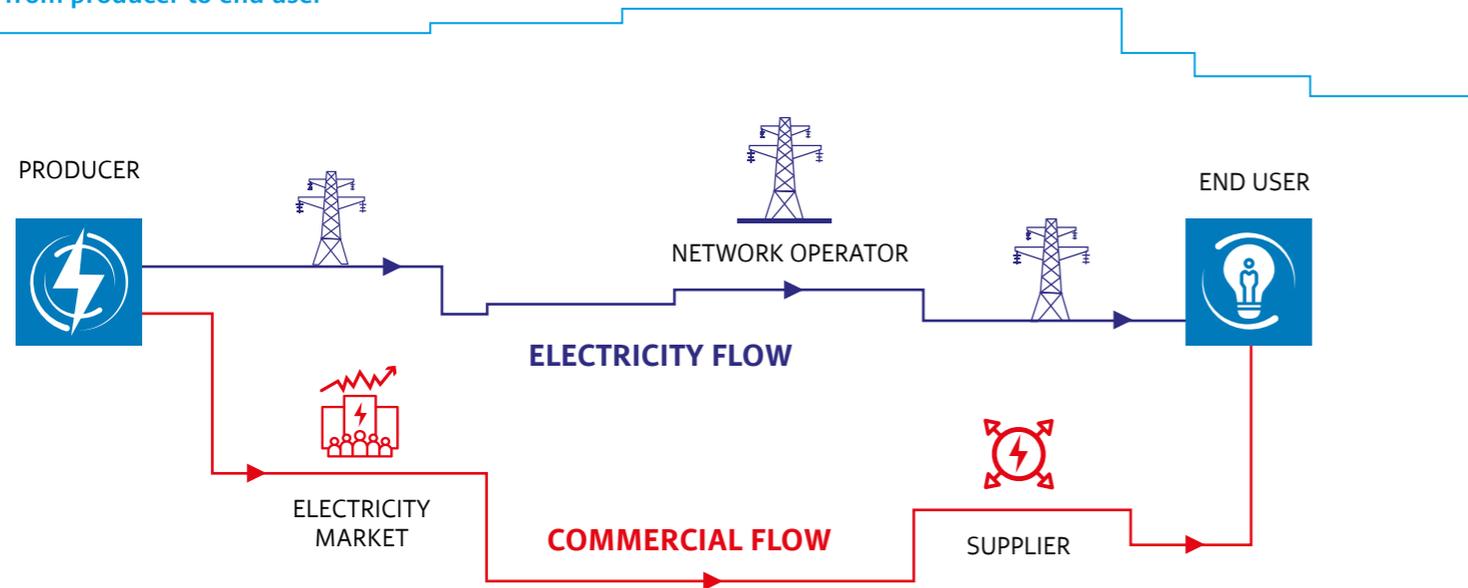
2 Our activities

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

Electrica Group's activities are developed on the basis and around electricity distribution and supply. Electricity produced from different conventional and renewable sources (hydro, wind, photo-voltaic) is distributed by the three distribution companies of the Electrica Group to final users, through the high (110kV), medium and low-voltage network managed.

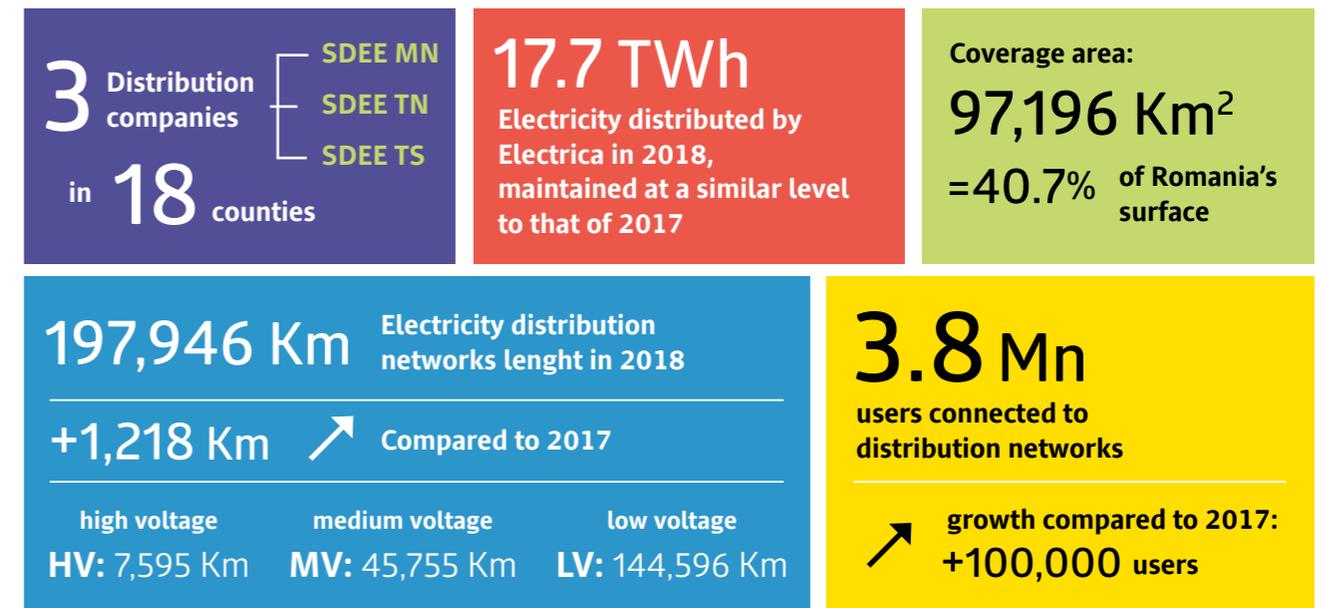
On the supply side, to ensure the needed energy to final consumers, EFSA acquires the energy estimated to be consumed by them from OPCOM centralized markets and through bilateral contracts signed directly with producers. Also, the Company has signed contracts with the transport and distribution network operators. The used electricity along with transport and distribution tariffs are invoiced to the final clients.

Electricity chain from producer to end user



Electricity distribution activity

DISTRIBUTION KEY FIGURES:



One of Electrica Group's main activities is electricity distribution. The Group operates and develops the electricity distribution networks, serving more than 40% of Romania, in the following regions:

- North Transilvania** (Cluj, Maramureş, Satu Mare, Sălaj, Bihor and Bistrita-Năsăud counties);
- South Transilvania** (Braşov, Alba, Sibiu, Mureş, Harghita and Covasna counties);
- North Muntenia** (Prahova, Buzău, Dâmboviţa, Brăila, Galaţi and Vrancea counties).





The Electrica Group owns exclusive licenses for electricity distribution in these areas, valid for the next nine years, having the opportunity to extend them for a period of 25 years. The Company's distribution branches (SDEE TN, SDEE TS and SDEE MN) provide services to electricity suppliers and also directly to a part of network users, developing commercial relations with them, based on distribution contracts.

In the electricity distribution sector, Electrica Group maintains its statute as an important player from both covered surface perspective and number of clients served, having 3.8 million users and a market share of 40.3%² from electricity distributed to the final users in 2017.

Investments

Electrica Group's constantly focuses on offering high quality energy services for its clients, continuing in 2018 to carry out important investments in order to increase energy and operational efficiency, with a high interest on operational safety. Thereby, for creating a performing distribution infrastructure and having permanent attention on sustainable business development, Electrica Group invested over RON 878 million, with 20% more than in 2017, the amount being distributed as follows:

Investments made by the distribution companies of Electrica Group

Distribution company	SDEE MN	SDEE TN	SDEE TS	TOTAL
Investment directions	Value RON Mn	Value RON Mn	Value RON Mn	Value RON Mn
Energy efficiency / NL reduction	99.52	71.43	68.16	239.11
Operational efficiency	37.32	22.42	11.36	71.10
Quality of service	155.57	176.37	167.67	499.61

2 - Based on distributed quantities, according to ANRE report for 2017

Important works for infrastructure modernization, to improve the voltage level at customers and to reduce the length of circuits, as well as works for switching to insulated conductors networks to reduce or eliminate the risk of injury, fire or impact on the biodiversity have been carried out.

Some of our investment projects achieved in 2018 are further presented.

Beclean power transformation station

In June 2018 SDEE TN completed a major importance investment project in Beclean, Bistrița-Năsăud County.

The increase of electricity consumption in the area has imposed performing the project **"Increased safety in electricity supply for users connected to 100/MT Beclean power transformation station"**. It was designed by SISE Transilvania Nord – Baia Mare Agency and carried out over a period of two years. The investment's value amounted to RON 5,893,400.

The modernization activities were complex and have been materialized through interventions on primary and secondary circuits and by new construction works. The station has been integrated in SCADA system for supervised control and data acquisition.

The upgrade of the station will bring benefits to consumers, by improving the electricity supply continuity and its quality, and also to the company through increased safety in operation and reduced maintenance costs.



Over **RON 878 Mn** were invested to achieve an efficient distribution network, with more than **20%** increase compared to 2017.





Breaza power transformation station

The need for modernization works appeared as a consequence of exceeding life span of the equipment from Breaza 110/20/10kV power transformation station.

The mounting of high performing primary and secondary equipment lead to improved reliability indicators, ensuring a high level of safety and the operation of an efficient command-control system that reduces the operating and maintenance costs.

In this investment project the following works have been carried out:

- 110 kV station: simplified bar type configuration connected to the National Energetic System (NES), in-out system;
- 20 kV station; modernizing of neutral treatment group;
- 10 kV station:
 - replacement of old cells with new ones with proper insulation;
 - replacement of the two treatment groups' equipment;
 - assemble of homo-polar stream transformers;
- Command room: installation of control cabinets and protections will improve the internal AC and DC services, all the equipment being integrated in SCADA.



Ghimnav power transformation station

In 2018 SDEE TN completed the investment work named "Increased safety in 20 kV electricity supply in 110/20/6 kV ICA Ghimnav station, Brasov County", whose value was RON 5,958,874.

110/6 kV ICA Ghimnav power station was put into operation in 1973 for electricity supply of an aeronautical company, which was the only consumer of electricity connected to the 6 kV bars of the electric station.

The continuous increase in electricity consumption, the future forecasted development in the area, the high risk of interruptions in electricity supply to consumers and the wearing degree of equipment led to the performing of modernizing works.

Through the investment project, major benefits have been achieved for consumers by increasing electricity supply safety and quality and also for SDEE TS by reducing the maintenance costs.

As the Group's priorities include improving the operational and energy efficiency and reducing technical losses, improving network flexibility, quality of distribution service and network security, we will continue to modernize and develop the smart distribution network by installing infrastructure systems such as SCADA, SAD and electricity measurement systems.



Our operational performance

"The energy efficiency represents a priority for Electrica Group. Maximizing the operational efficiency of the organization and the energy efficiency of the distribution infrastructure contributes to achieving the proposed strategic objectives and ensuring competitiveness, saving energy resources and reducing greenhouse gas emissions. The sustainable development of the Group is ensured by reducing technical and commercial losses in distribution networks, by maintaining and improving efficiency and competitiveness, but also by reducing the environmental impact of activities." - Livioara Şujdea - Chief Distribution Officer

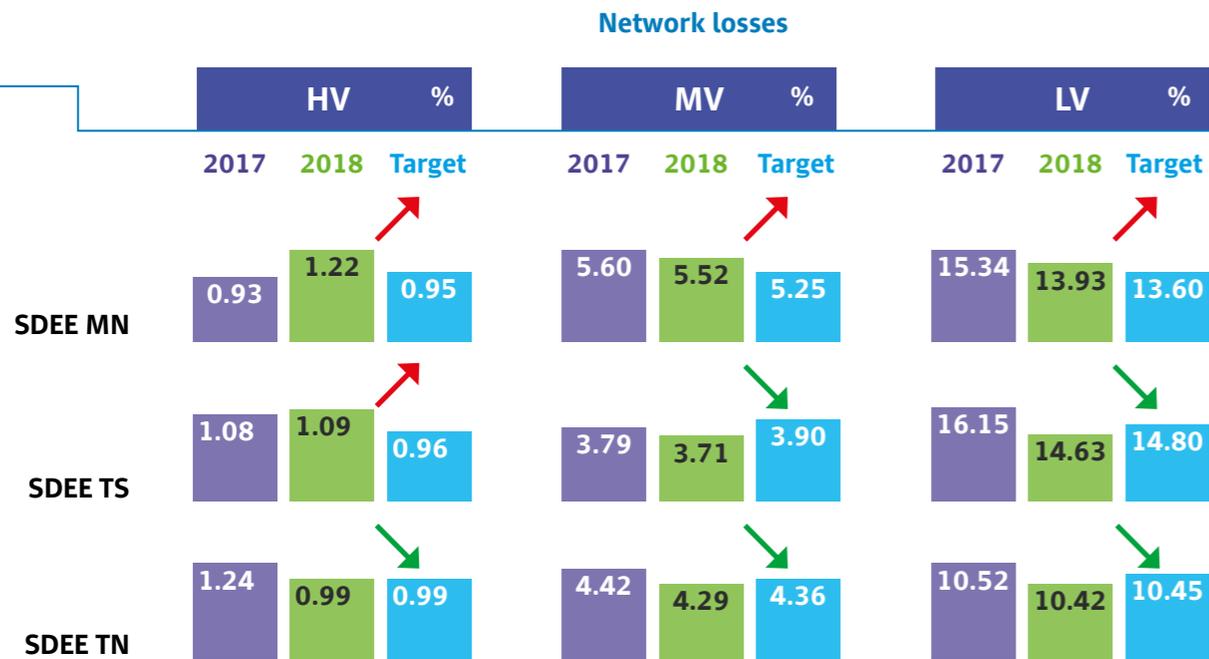


The most important performance indicators for Electrica Group activity through the three distribution companies are:

- Network losses – NL, representing electricity losses related to electrical networks;
- Average interruption time per customer in minutes per year – SAIDI;
- Average number of interruptions per customer during one year – SAIFI.

These parameters' development, compared to 2017, demonstrates our focus on the quality of the services we offer to our customers and, at the same time, on reducing the environmental impact.

The following table presents the objectives of NL and the degree of their achievement for HV, MV, LV electricity distribution in 2018, compared with 2017.



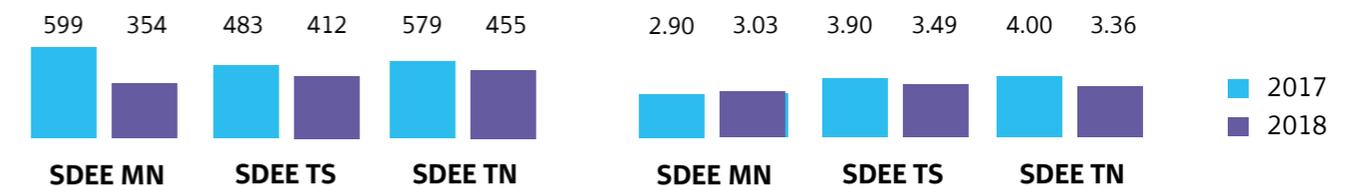
The important decrease of NL compared to the previous year is the result of our efforts to improve the quality of our networks. An improvement of the NL is highlighted in 2018 compared to 2017, with a cumulated reduction of 33 GWh (SDEE TN: -7 GWh; SDEE TS: -5 GWh; SDEE MN: -21 GWh).

The decrease of NL in low-voltage networks, compared to the reduction of distributed volumes by only 6 GWh, shows a significant effort to improve the natural reduction of the technical NL. SDEE TN achieved the best results, reaching the targets on all voltage levels.

“The SAIDI and SAIFI indicators reflect the quality and availability of the services offered to Electrica Group customers. The Group makes continuous efforts to ensure the long-term quality of service and to increase the level of satisfaction of our customers.” - Livioara Şujdea - Chief Distribution Officer

In order to improve the SAIFI and SAIDI parameters of electricity distribution, in safe and stable condition, Electrica Group analyzed the technical conditions for designing and sizing the installations, taking into account climate change and has started multiple projects for electric wires embedded in the ground, thus reducing the risks for networks' malfunctions.

The following tables present the results achieved for SAIDI and SAIFI indicators in 2018.



SAIDI - Average interruption duration per customer [minutes/year]

All the three electricity distribution companies achieved better performance in 2018, compared to 2017, obtaining a SAIDI reduction of 245 minutes for SDEE MN, 124 minutes for SDEE TN and 71 minutes for SDEE TS.

SAIFI - Average interruption frequency per customer [no. of interruptions/year]

Two electricity distribution companies obtained in 2018 the SAIFI value below 2017's, SDEE TS achieved a reduction of more than 10%, while SDEE TN reduced the SAIFI level by 16%. SDEE MN recorded a slight increase with around 4%.



APOLLO program

Started in 2017, in 2018 Apollo continued to optimize the processes of Electrica Group's distribution companies. This programme aims a lasting transformation with long-term results, so that internal processes are carried out efficiently and unitary, with a better control over the costs, reduced risks associated with employees' work and for their expertise to be better valued.

Apollo Programme's main changes and benefits

- Unitary working manner, with simplified activities;
- More efficient use of resources;
- Budgetary discipline and cost supervision;
- Flexible remuneration system, correlated with employee's performance (based on clear and measurable criteria);
- Supporting the performance and effective motivation of each employee.



An important organizational transformation vector is the implementation of the LEAN methodology.

The first tangible results have already been demonstrated following the selected pilot projects:

- Network access (Pilot Lean 1);
- Maintenance, Exploitation and Measurement (Pilot Lean 2).



Through LEAN, the efficiency and standardization of the working process in selected internal processes was achieved, followed by the implementation of solutions that target inefficiencies identified in the process, reinforcing an organizational culture based on performance, teamwork and multidisciplinary team projects.

Through LEAN implementation, but also through other internally initiated projects, we support the continuous improvement of employee's performance and productivity and the increase of customer's satisfaction level.

OUR ACTIVITIES



EFSA is leader on the regulated market with a **45.61%** market share (with almost **5%** increase compared to 2017).

Electricity supply activity

Electricity suppliers are part of the chain that ensures the course of electricity from producer to the final consumer, being responsible for electricity sale. The electricity supply market is composed of the competitive segment and the regulated one. The regulated segment includes 5 suppliers of last resort (SOLR) and the eligible segment is composed of 98 suppliers (including the suppliers of last resort, active on the competitive segment of retail market), out of which 92 are small, with a market share under 4%, according to ANRE Report from December 2018.

The liberalization process of electricity supply market in Romania has finished on the 31st of December 2017, leading to the creation of a framework for increased competition between traditional suppliers and the new ones who joined the electricity market and implicitly in increasing the offer for the household customers segment from the regulated market. The expected effects of complete liberalization are tempered by GEO 114/2018, for the period between 1st of March 2019 and 28th of February 2022, electricity supply to household clients being carried out under

3,540,681

CONSUMERS



8,706
CONSUMERS

Big non-household
≥100 kW



209,570
CONSUMERS

Small non-household
<100 kW



3,322,405
CONSUMERS

Household



regulated conditions.

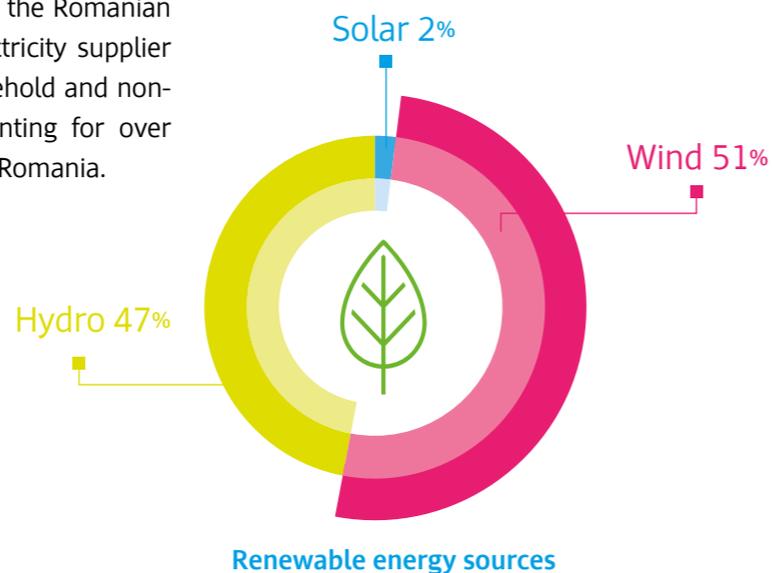
Electrica Furnizare (EFSA) has a 17.08% market share out of the total electricity supply market. EFSA is leading the regulated market with a 45.61% market share (with an approximately increase of 5% compared to 2017), being supplier of last resort in North Muntenia, North Transylvania and South Transylvania regions. On the competitive market, EFSA has a national presence and holds a 9.36% market share (decreasing by 2% when compared with the last year's results).³

By supplying electricity produced from renewable sources, Electrica Group contributes significantly to reducing environmental impacts. During 2018 EFSA purchased a quantity of 2.4 TWh from renewable sources directly from producers, representing 34.16% of the total electricity supplied. The 3,069,599 green certificates purchased in 2018 represent 6.74% of the Group's income and 18.5% of the total green certificates traded in Romania.

The Electrica Group demonstrates each year its important position on the Romanian energy market, being an electricity supplier for around 3.54 million household and non-household customers, accounting for over 45% of the total customers in Romania.



Electrica is an electricity supplier for around **3.54 Mn** household and non-household customers, which represent the over **45%** of total customers from Romania.



3 - ANRE Electric energy market monitoring report – December 2018

Energy services

Through Electrica Serv, SEO and SEM, the Group was also present in 2018 too on the energy services market, providing maintenance services for equipment and installations, repairs and auxiliary services predominantly for the distribution companies outside the group, but also to the subsidiaries of the Electrica Group.





3 Our performance in numbers

GRI: 102-7, 103-1, 103-2, 103-3, 201-1, 203-2

“Our activities have a significant impact on stakeholders: consumers, authorities, employees and suppliers. We want to continuously improve the quality of the services offered, and the economic performance of the Group is an important foundation for providing the necessary resources. Equally, it is important to ensure long-term value for shareholders, through predictable results, in line with their expectations, to ensure the needed support to implement the strategic objectives of the Group.” – Mihai Darie, Chief Financial Officer



In 2018 the result of Electrica Group increased with **34.3%** compared with previous year.

Consolidated income achieved in 2018 was **RON 5,613 Mn** with an increase of **RON 10 Mn** compared to 2017.

The Electrica Group believes in generating value in a sustainable manner, increasing financial and operational performance, providing quality services along with motivated and trained employees, remain year after year goals of the Group. By achieving these goals, the Group strengthens its important position in Romania’s economy, contributing significantly to the state budget and local budgets, maintaining and creating attractive jobs both within the Group and also in business partners, and continuously investing to improve its performance.

Financial indicators evolution

In 2018 the result of Electrica Group increased by 34.3% when compared to 2017, being especially influenced by the increase in

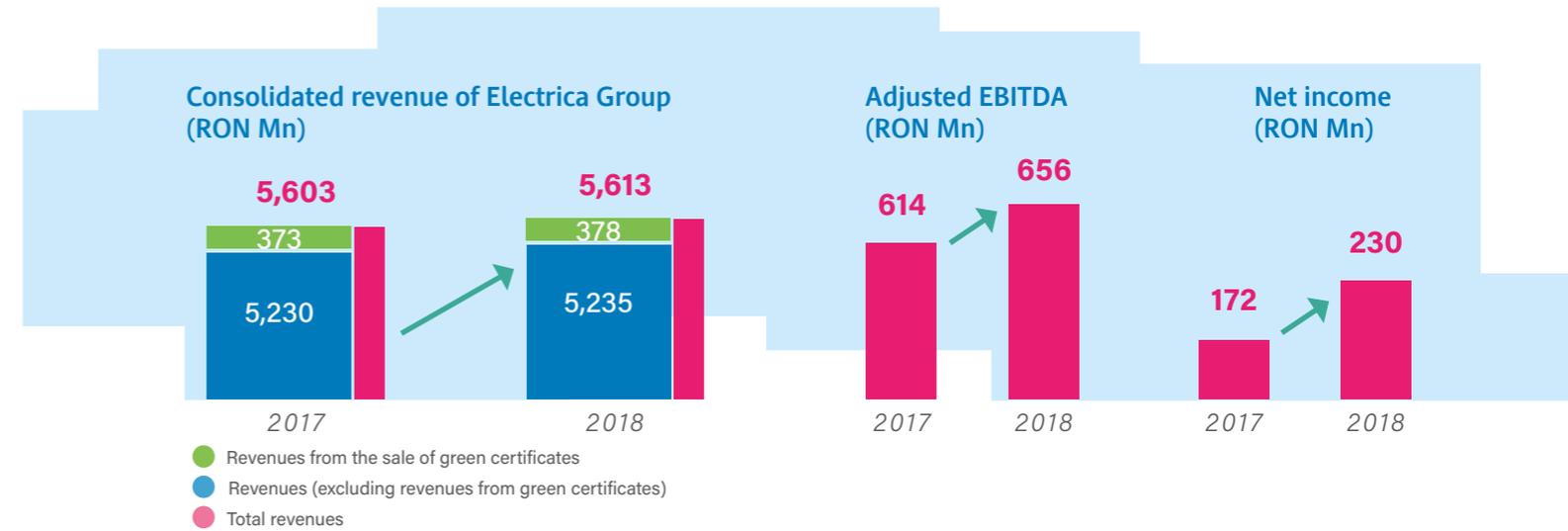
profitability of the supply segment. Further information is available in **2018 Annual Report**, which can be consulted on the company’s website.

INCOMES

According to the consolidated financial statements of Electrica Group, the consolidated revenues made in 2018 were RON 5,613 million, with RON 10 million more than in 2017. This 0.2% increase was mainly generated by the:

- increase of electricity sales to third parties by RON 185.1 million;
- increase of RON 62.8 million of the revenues related to distribution segment;
- decrease of RON 229.2 million of the revenues related to supply segment.

OUR PERFORMANCE IN NUMBERS



In 2018 the expenses with electricity acquired at Group level decreased by RON 255 million or 9%, at a value of RON 2,718 million. This decrease was due to the basic effect, respectively the comparison with a year affected by very high costs for electricity purchase, on the background of adverse events in the energy market in the first part of 2017.

Adjusted EBITDA increased by RON 42 million in 2018 compared with 2017.

The net profit recorded an increase of RON 58 million or 34%, to RON 230 million, in 2018, from RON 172 million in 2017.

The adjusted EBITDA margin increased by 73 ppm in 2018 compared with 2017, while the **net profit margin** increased by 34.1%.

RON 998 Mn

Contributions to the state budget and local budgets in 2018 represent the equivalent of:

267 extended programme kindergartens
40,050 children

242 parks with a surface of 114,825 m² each

4,202 fast charging stations for electrical vehicles



4



We grow sustainably

GRI: 102-16, 102-18, 103-1, 103-2, 103-3, 205-1, 205-2, 205-3, 418-1

As a company listed on the Bucharest and London stock exchanges, Electrica is continuously concerned about communicating in a correct and transparent manner with all stakeholders from the capital market and presenting the Company as a sustainable entity with a proactive approach in the application of the best practices of corporate governance and capital markets specific reporting. Electrica also applies since the listing on the stock

exchange, a governance code that complies with all the principles of the BVB Governance Code, and at the same time it treats all investors in a fair and non-discriminatory manner, clearly and transparently reporting the relevant information through all capital market channels.

A growing interest of investors, especially in the institutional ones, is observed recently for Environmental and Social Governance aspects. Electrica ensures that they receive all

relevant information from a sustainability point of view. In addition, we are trying to refine the stakeholders' feedback mechanisms, so that we can make all efforts to improve sustainability related aspects. Electrica reaffirms its commitment to generate value for shareholders and also for the society and other stakeholders as well. - Alexandra Borisilavschi, Chief Corporate Governance & M&A Officer

Corporate Governance

Electrica is a dual-listed company on stock exchange, both in Bucharest and in London, which pays particular attention to fundamental principles such as transparency, accountability, sustainable development and increasing the long-term value of the business.

These essential business conduct elements are embedded in the corporate governance model and are continuously developed and improved to ensure the interests of shareholders, employees and company's customers. The creation of a brand with

undeniable value to be recognized for quality services delivered at professional standards to customers has become a mission that Electrica Group wants to permanently update according to market requirements.

Promoting and supporting of key values and principles to enhance integrity, ethics and sustainability across all departments within the Company are shaping up in a context adopted at management level and supported by each employee, aware of the benefits they can generate on long term to all stakeholders.



The members of the Board of Directors are elected by the Ordinary General Assembly of Company's Shareholders for a 4 year mandate.

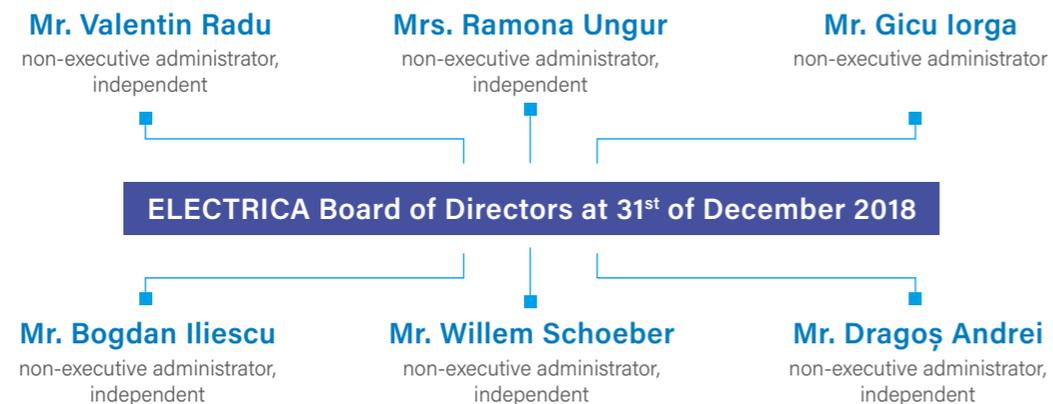
The Corporate Governance Code of ELSA ("CGC ELSA") comprises the Company's Constituent Act, the Code of Ethics and professional conduct, the organization and functioning regulations of the Board of Directors (BoD) and of the committees established within them, altogether these documents define the terms of reference and responsibilities of the administrative and executive management of the Company. In line with European and national market abuse regulations, a procedure was implemented at ELSA level to avoid the misuse of privileged information and market manipulation.

The fusion between these documents establishes an ethical and professional conduct framework applicable at Company level that is promoted in all the actions in

which the Company is involved, including important aspects of the principles of professional ethics.

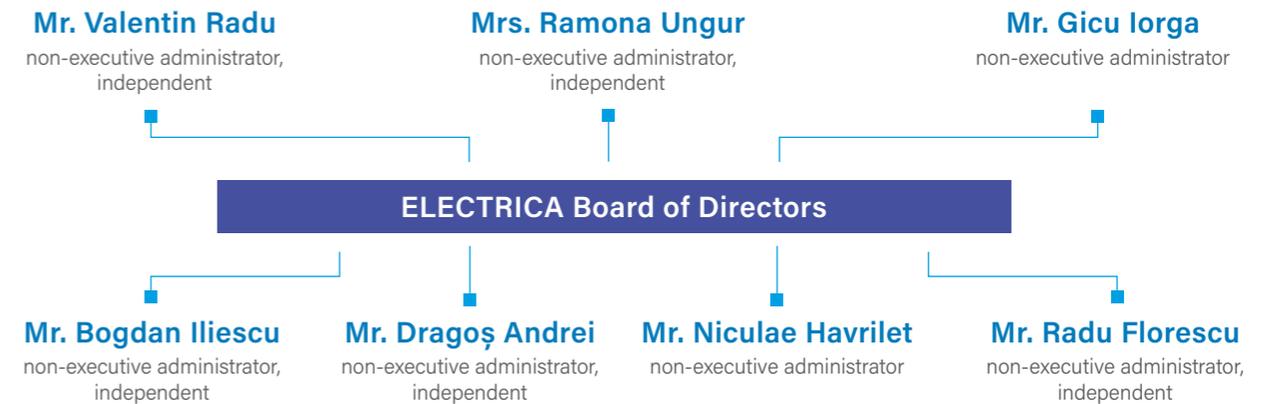
In the General Meeting of Shareholders ("AGA") – the constitutive leading organ of the Company, decisions on the elements listed in the Constitutive Act are taken. The Board of Directors ("BoD") is responsible for achieving all the necessary actions that need to be carried out for the Company's activities smooth running and also for the surveillance of its activity. The members of the BoD are elected by the Ordinary General Assembly of Company's Shareholders for a 4 year mandate. From the 7 non-executive members of the BoD, 4 of them must comply the independence criteria stipulated in the Constitutive Act.

During 2018 the componse of the BoD has suffered changes and at the end of the year the members of Board of Directors were:



The seventh position was free starting with the 15th of November as a result of Ms. Elena Doina Dascălu's resignation.

At the date of issuance of this report, BoD componse is:



The BoD activity is sustained by three advisory committees, respectively Nomination and Remuneration Committee, Audit and Risk Committee and Strategy and Corporate Governance Committee, the members of these advisory committees being elected for a period of one year.

According to the changes registered in the componse of the BoD, the committees' structure has changed during 2018, at the end of the year the members of those being the following:

Nomination and Remuneration Committee (NRC)	Audit and Risk Committee	Strategy and Corporate Governance Committee
Mr. Bogdan Iliescu President	Mr. Bogdan Iliescu President	Mr. Willem Schoeber President
Mr. Valentin Radu Member	Mr. Ramona Ungur Member	Mr. Dragoș Andrei Member
Mrs. Ramona Ungur Member	Mr. Gicu Iorga Member	Mr. Gicu Iorga Member



At the date of issuance of this report, the compenence of the advisory committees was the following:

Nomination and Remuneration Committee (NRC)	Audit and Risk Committee	Strategy and Corporate Governance Committee
Mr. Bogdan George Iliescu President	Mrs. Ramona Ungur President	Mr. Valentin Radu President
Mr. Gicu Iorga Member	Mr. Bogdan George Iliescu Member	Mr. Dragoş Andrei Member
Mr. Valentin Radu Member	Mr. Radu Florescu Member	Mr. Nicolae Havrilet Member

Management involvement in sustainability reporting

The Board of Directors remains involved in the non-financial reporting process, reviews economic, social and environmental aspects and semi-annually analyses the associated impact, risks and opportunities. The launching of the non-financial reporting process is approved by the Board of Directors and benefits from the involvement of Corporate Governance and M&A Director of the Company throughout report's development. At Electrica Group level it is created a relevant commission which is responsible for stakeholders' consultation, material subject identification, data collection and structuring of Group's sustainability report.

Delegation of Authority

Throughout 2018, Electrica has made strenuous efforts to implement the principles of a delegation of authority that will continue to simplify approval processes, streamline the workload of Electrica management, and create multiple levels of responsibility. Thus, the Delegation Policy in Electrica was elaborated, a document that includes the principles of delegation of authority, responsibility and accountability.

Based on this policy, the Delegation of Authority in Electrica was reviewed, document that presents the process of authority delegation for both economic topics and environmental and social matters. Further, the persons with duties and competencies regarding the environmental, social and economic aspects report to the General Manager.

The Delegation of Authority is in force at the level of distribution companies since September 2017 and has been implemented within EFSA starting with June 2018.

Remuneration Policy

Through the Remuneration for administrators and executive directors Policy, ELSA adopts the best practices used at international and national level to describe the main pillars of remuneration and also the terms, conditions and non-financial benefits approved by ELSA's corporative organs. The Remuneration policy for administrators and remuneration limits for executive directors are in the AGA's approval competencies and it is annually revised by the Nomination and Remuneration Committee (CNR). To better manage the fiscal impact of the Romanian legislation changes with references to personal taxation and social contributions, Remuneration policy for administrators and executive directors of ELSA was revised in 2018.

The ethical compliance framework, applicable at Electrica Group level, defines the principles, standards and rules of conduct. These include the Code of ethics and professional conduct and the subsequent policies on: zero tolerance against corruption, fraud and money laundering, avoidance and combating the conflicts of interest, ethical career management, managing

transactions with affiliates, gifts and protocol expenditures, but also transparency and stakeholder engagement.

At the level of the entire Electrica Group, corruption risks are evaluated and dealt in accordance with the stipulations of the Zero Tolerance against Corruption, Fraud and Money Laundering Policy. During the first semester of 2018, in the Enterprise Risk Management Project (ERM), all operational structures of Electrica Group have gone through a social and environmental risks assessment process, including corruption risks, with the involvement of top-management, middle-management, ethics and compliance staff, internal audit and risk management staff.

The organization identifies and manages conflicts of interest that employees may have through:

- Policy on avoiding and combating conflicts of interest,
- Policy on ethical career management,
- Policy on transactions with affiliated parties,

implemented in the entire Electrica Group.



Corruption risks are evaluated and treated in accordance with the stipulations of the Zero Tolerance against Corruption, Fraud and Money Laundering Policy.



Information and awareness about the Electrica Group policies on ethics and anti-corruption

In order to ensure that donations and sponsorships (financial or in-kind) made to other organizations are not used as a form of undeserved goods, the organizations has defined dedicated policies, that delimit the categories of eligible recipients of donations and sponsorships from Electrica and the companies in its portfolio.

Corruption prevention

Electrica Group carries out an information and awareness program on the Code of ethics and professional conduct provisions and follow-up policies, including specific actions for each newly adopted policy and also for each review/update of existing policies. All staff benefits from anti-corruption training at employment and annual communications on the provisions of the compliance framework. For individuals identified as having a high risk of corruption incidents are organized, in principle, individual counseling sessions with the Ethics and Compliance Officer/ Department of each Group company. During 2018, all new employees within the

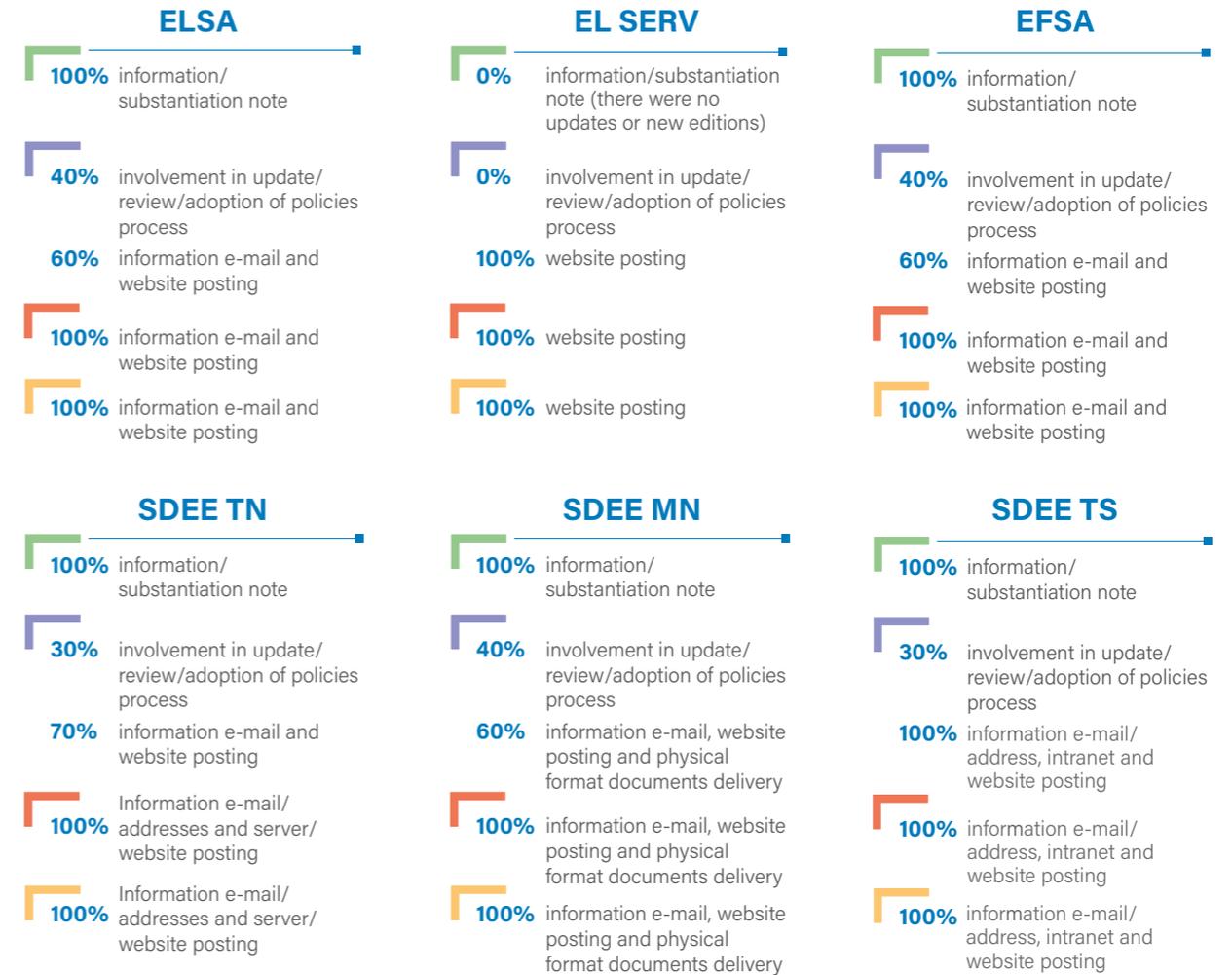
Group were informed on the principles and provisions of the Code and policies relating to professional ethics and anti-corruption, not later than 30 days after the date of employment.

Information and awareness about the Electrica Group policies on ethics and anti-corruption has been achieved for all hierarchical levels, alternatively by engaging them in the review/updating process, presentation sessions, individual trainings, information e-mails, handing out the information and documentation, posting on the website and display.

Regarding the business partners, when initiating commercial relations, they are informed about the principles and provisions of the Code of ethics and professional conduct and the standards of Electrica Group, the contracting parties assuming their rights and responsibilities through a dedicated contractual clause. At the end of 2018 this contractual clause was introduced in more than 80% of the contracts signed by the Group's solvent companies.



All staff benefits from anti-corruption training at employment and annual communications on the provisions of the compliance framework.



■ BoD members ■ Top management ■ Middle management ■ Staff



We have implemented the risk management system and the internal/managerial control system across all controlled companies of Electrica Group.

We are committed to transparency in the procurement process, thus the majority of Electrica Group suppliers were selected during the reporting period following the implementation of the sectoral procurement procedures managed through SEAP/SICAP platform, in accordance with the legislation in force.

For the services companies of the Electrica Group, the contracts with business partners (the majority being beneficiaries, not providers) are concluded predominantly following public procurement procedures carried out through the www.e-licitatie.ro platform, being accepted at the time of the tender's submission and thus not having the possibility of negotiating contractual clauses.

The measures implemented by Electrica Group demonstrate their effectiveness by the **absence of confirmed corruption incidents**, both at the level of its own employees and in relation to business partners.

Risk Management

The main objective of the Electrica Group top management is to generate value to all stakeholders, objective which can be affected by different risks. For their good management

and in order to adapt to the new market conditions, ELSA has begun since 2017 the process of redesigning and improving the risk management system in accordance with the international available standard, SR ISO 31000:2010. The process continued during 2018 and the operational model framework for risk management was designed at the level of Electrica Group, the process was redefined and the risk management policy and procedure were re-established, following their integration across the whole Group.

Electrica Group has implemented the risk management system and the internal/managerial control system across all controlled companies, based on international standards on risk management systems, best practices and methodologies applied by listed and unlisted companies, as well as the internally adopted procedures.

We are continuously concerned about the relations with the environment, the communities in which we operate, our own staff and business ethics, and this is why in the first semester of 2018, a methodology for identifying, analyzing and assessing of the social, environmental, health and safety risks was completed and applied.

The ELSA Board of Directors established in September 2018 the General Appetite for Risk at the level of Electrica Group, and the Risk Management Policy was approved in December 2018. Subsequently, the executive management adopted the Risk Management Procedure which will be implemented during 2019 across all companies within the Group, in line with the development strategy of Electrica Group.

There were organized workshops in each Electrica Group company to identify, analyze and assess the main risks associated with their specific operational areas, and control measures were established, in order to avoid and mitigate or manage the identified risks. The endeavor is resumed half-yearly, along with the implementation of the risk management system.

Clients confidentiality

Compliance with the laws and regulations in force regarding personal data protection is particularly important for Electrica Group. Risks related to customer confidentiality, including loss of customer data and privacy violations of our customers are managed efficiently and transparently, the Group having elaborated the personal data processing Policy. Moreover, the company has designated a person responsible for data protection (DPO). In

addition, there are internal policies and procedures on informing the data subject, the data protection, the accuracy of data collection, the guidelines on personal data storage, the procedure applicable in case of security breach, guidelines on the consent of the data subject.

- The series of efforts made at the Electrica Group level resulted in no complaints or referrals regarding violation of customer confidentiality during 2018.





5 We care

GRI: 102-11, 103-1, 103-2, 103-3, 306-2, 306-4, 307-1

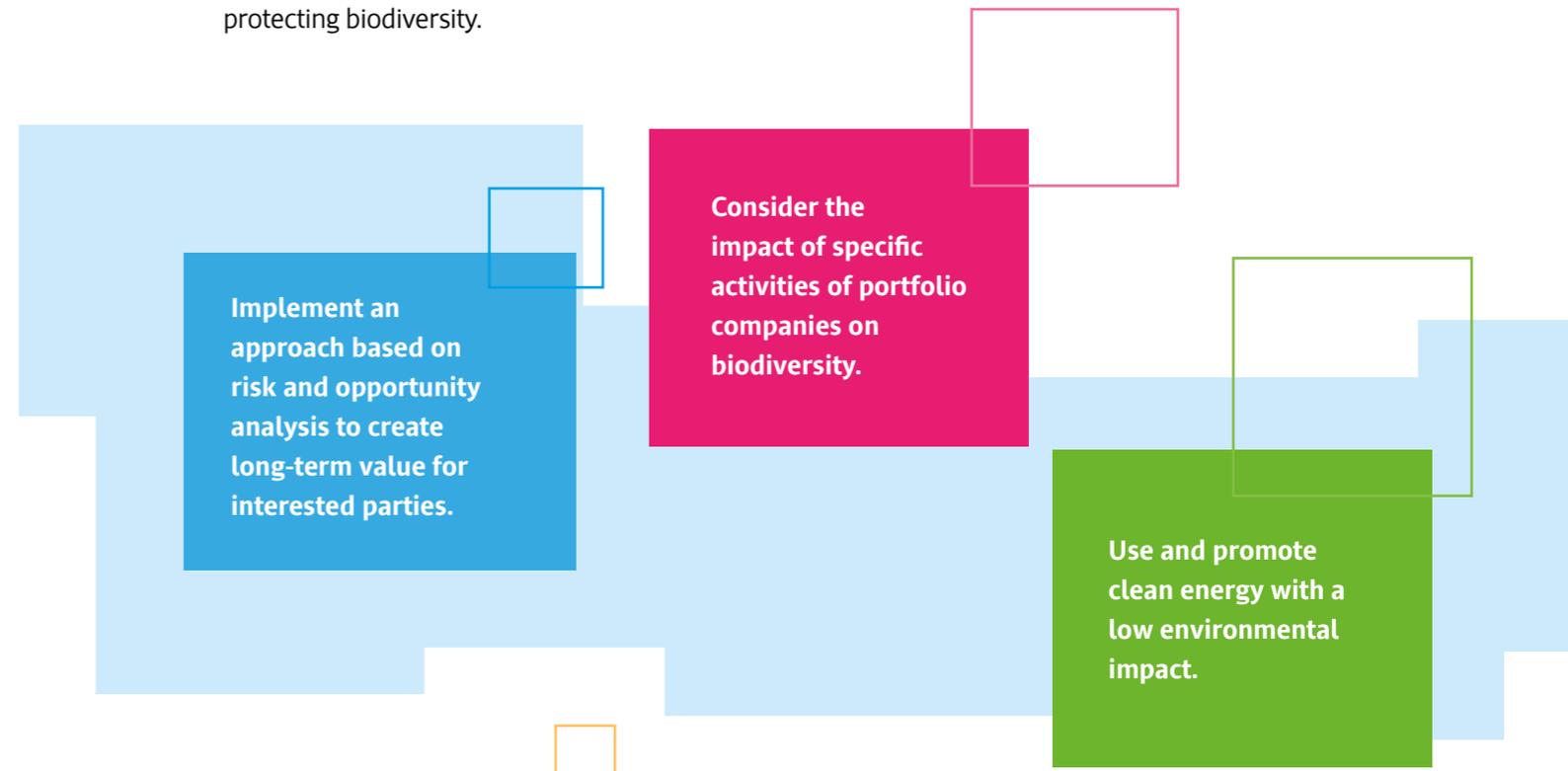
“The foundation of Electrica’s identity is based on respect for humans and environment. We are constantly concerned about the sustainable development of the organization, and through our objectives and actions, supported by our employees and partners, we will continue to produce beneficial changes for both the sector in which we operate and for the communities where we activate.” - Oana Lupan, Head of IMS and HSW

Through the Code of ethics and professional conduct, Electrica Group assumed that the environment, its protection, responsibility towards the community and sustainable development are particularly important for all companies subsumed to the Electrica brand. The Group encourages research and innovation to develop competences in the field of quality assurance and security, recovery and recycling of the materials, saving the natural resources, reduction of the harmful environmental effects of certain

activities. The general objectives of environmental protection defined at Electrica Group level are:

- Implementing an integrated contractor management system with a focus on environmental and compliance standards;
- Increase employees’ awareness on compliance issues, environmental protection and stakeholder involvement;
- Reduce the impact of portfolio companies’ activities on the environment, paying particular attention to increasing energy efficiency and protecting biodiversity.

Respecting the principles of sustainable development, national legislation in force and diminishing environmental impacts is a priority of Electrica Group. For a responsible and efficient management manner of the environmental aspects specific to the activities rendered, all companies have implemented policies, operational procedures and instructions dedicated to the treatment of environmental issues, drawn up on the basis of the following guidelines:





Electrica supports the production of electricity from renewable sources, encouraging consumers who install their own energy production systems in households - prosumers.

Electrica contributes to reducing energy waste

Energy efficiency is a priority for the European Commission, for Romania and for Electrica Group, which has joined the EC initiative to promote ways to save energy in housing and reduce invoices through changes in behavior or minor investments in housing arrangement. On 30th of October 2018, Electrica became an official partner of the campaign "Spend less on maintenance... and make yourself a pleasure ", started by the European Commission in 4 Member States (Romania, Czech Republic, Portugal and Greece) that aimed at informing consumers about how to save on energy bills, benefiting from quality services with as low as possible costs. In order to achieve this objective, the Group cooperates with stakeholders at national level, distribution and supply companies and the general public.

Starting with October 2018 all the Electrica Group's clients have the opportunity to „save money with Electrica" because on the bills are found references about the campaign and the website economielenaenergie.eu, where they can consult saving tips from specialists. Electrica transmits the messages to customers by customer relations centers too.

The campaign promotes energy saving with a beneficial role not only for the family budget but also for the long term environment protection. The advices are addressed to domestic consumers, who can find out from the website quick and simple solutions to drop invoices value. At the same time, it also has a strong educational component, aiming at training children and young people about the right ways to consume energy, water and other resources.

Electrica encourages the electricity production from renewable sources

Electrica Group, in line with the legislation in force, supports the production of electricity from renewable sources, encouraging consumers who install their own electricity production systems in households - prosumers. The green energy of the **prosumers** shall be distributed in the distribution companies' own network, based on a connection contract. Electrica, through the distribution companies' website, makes available to customers who want to become prosumers the steps to be followed in order to obtain the connection certificate.

We are reducing the environmental impact. We are responsibly managing waste.

Each company of Electrica Group identifies and assesses every real and potential environment aspects, positive and negative, both for normal and abnormal operating conditions and for reasonably foreseeable emergency situations. The process of determining the significant environmental aspects and the associated impacts is a continuous one, and the organization updates this data annually, as well as at every change in the activities and services offered to its customers. Thus, at the level of all its companies, Electrica aligns with the legal requirements and environmental standards to which it has acceded and assumes its responsibility for complying with them for the effects of its activities and services. Moreover, the previewing and the diminishing of harmful effects is another aspect which Electrica has in mind and is constantly trying to improve.

During 2018, Electrica Group made investments in environmental protection area of RON 11.91 million, more than double than in the previous year.

Electrica Group, for the controlled companies, has implemented and certified integrated management systems for Quality - Environment - Health and Occupational Safety, in accordance with the requirements of the standards SR EN ISO 9001:2015, SR EN ISO 14001:2015 and SR OHSAS 18001:2008. Annual compliance analyses are carried out in relation to legal and/or regulatory requirements in the field of environmental protection. In 2018 no violations were identified and no penalties or sanctions were imposed in relation to the environmental protection at Group level, and in this context the companies maintained the certifications of environmental management systems following external supervisory audits carried out by reputable certification bodies, SRAC and DEKRA Certification.



During 2018 Electrica Group has made investments in environment protection of **RON 11.91 Mn**, more than double than previous year.





During 2018 the concerns for sustainable development continued, taking into account both the impact of specific activities on biodiversity and the proper waste management. In order to mitigate the environmental impact, waste management and compliance with existing national legislation, the waste is collected separately in the whole organization. These are taken over, on the basis of commercial contracts, by contractors authorized for collection, transport and processing of waste, and to

the extent possible, are recycled. Waste management did not only generate costs for Group's companies in year 2018, the treatment of unchlorinated mineral oil waste and heat transmission generating to the companies the amount of RON 188,221.

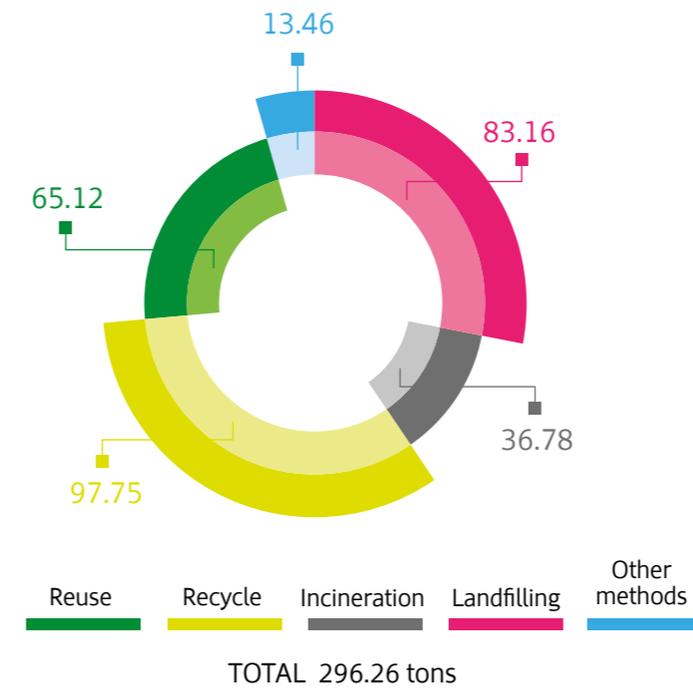
Disposal methods for all waste categories generated by the activity of Electrica companies are proposed and implemented by authorized contractors.

In 2018, Electrica Group continued the process of removing PCBs – polychlorinated biphenyls – used to lubricate and cool electrical equipment in operation, in close collaboration with companies authorized in this regard. PCB capacitors disposed of are eliminated in accordance with “Plans for the disposal of equipment or materials containing higher quantities of designated compounds than minimum quantities”, in accordance with the legislation in force. The treatment method used is chemical dechlorination, based on the action of a specific reactant on polychlorodiphenols.

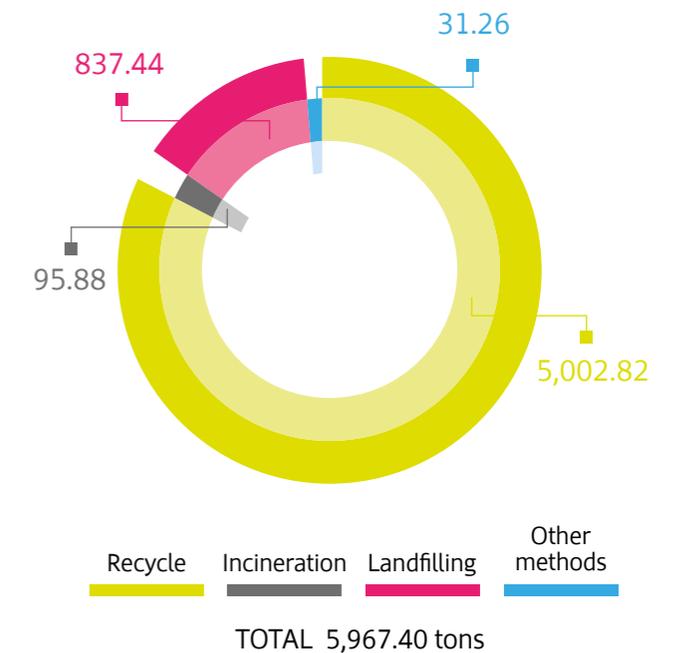
During the reporting period, Electrica Group maintained its attention to protecting the environment and respecting the principles of sustainable development assumed by the Code of ethics and professional conduct, both on strategic and operational levels.



Hazardous waste management (tons)



Non-hazardous waste management (tons)





6 Our responsibility

GRI: 102-7, 102-8, 102-41, 103-1, 103-2, 103-3, 401-1, 402-1, 403-1, 403-2, 403-3, 403-4, 404-1, 405-1, 406-1

“Electrica employees are our most valuable resource and are part of the defining elements of the organization’s DNA, being essential for the success and performance of Electrica Group. In the attention of the management team, important issues are maintained, such as providing safe, well-paid jobs that provide our employees a motivating framework for personal and professional development. All employee-related topics are addressed with responsibility and openness. We want them to feel that they are part of the company’s mission and are essential in achieving the strategic objectives of the organization.” - Anamaria Acristini, Chief Strategy & Performance Management Officer & Interim Chief Human Resources Officer (2018)



Over **250** WOMEN are employed in management structures, representing **30 %** the total number.

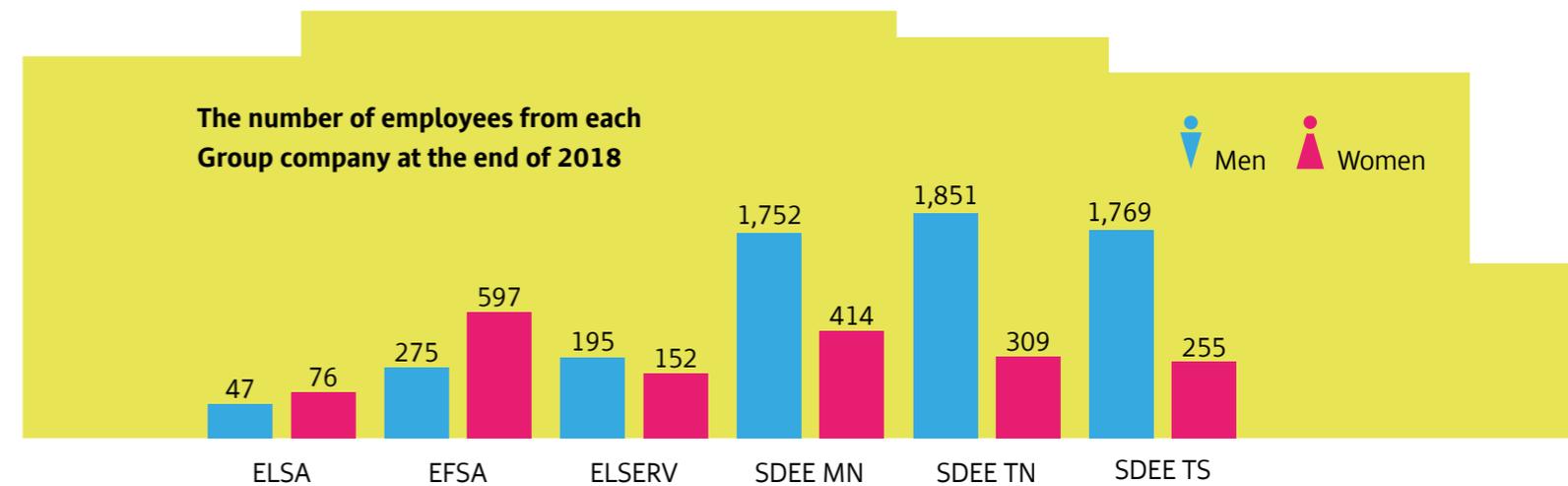
34 % of the leading positions are occupied by people over **50** years old

The employees’ stimulation based on performance criteria is confirmed by the increase, in 2018, of the value of benefits awarded to them by RON 29 million, namely 4.5%, reaching the value of RON 672 million from RON 642 million in 2017. Electrica S.A. expressed interest in the welfare and health of its employees also by contracting medical services to them, provided by one of the largest private medical networks in Romania, as well as through physical healthcare programmes. This makes its employees motivated and have a safe and healthy lifestyle.

As a responsible organization, Electrica Group, in agreement with the provisions of the collective labor contract, negotiated between

the administration and Union, protects the employees in the situation of collective layoffs, as a result of restructuring processes, reorganization, partial or total operational closure, or liquidation. In this respect, each company in the Group informs the unions about the number and structure of the jobs it intends to reduce, on the grounds for reducing the number of employees, as well as possible redistribution ways. The announcement shall be made between 60 and 120 calendar days, depending on the cause of staff reduction, thus providing sufficient time for resettlement of the employees or for seeking another job.

With almost 8,000 employees, Electrica Group represents a significant employer in Romania. The Group finished the year 2018 with 552 employees less than at the end of 2017, resulting an employee turnover rate of 11.23%.



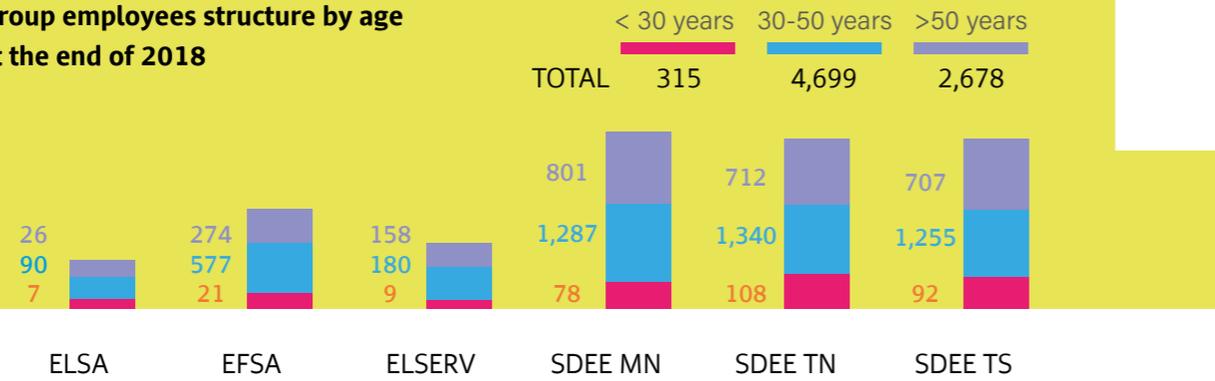
Electrica Group respects and guarantees equal and non-discriminatory treatment in relation to its employees, partners, collaborators and customers. Electrica staff has professional behavior, ensures transparently and impartially the diversity and equal opportunities in relation to all stakeholders, avoiding any action that could be interpreted as an act of discrimination. The Group is committed to continue the efforts for the complete elimination of

discrimination at the workplace, regardless of its form. Moreover, it has been made available to employees, partners and any other interested parties that might be affected, an integrity warning system by which including discriminatory behaviors can be reported.

In 2018, Electrica Group had zero discrimination incidents reported, investigated and confirmed.



Group employees structure by age at the end of 2018



5,185 training hours were delivered in an equally manner to women and men.

The Group supports diversity in all its companies, so that in management structures are employed over 250 women, representing more than a third from the total of management employees; over 60% of them are aged between 30 and 50 years old and over 36% have over 50 years old, showing an increase of 2% when compared to previous reporting period. Regarding the structure of all employees, it did not change during 2018, from the total number of employees 23% being women and 76% being men. At the same time, 61% of them are aged between 30 and 50 years, 4% are under 30 years of age and almost 35% are over 50 years old.

All the Group companies contribute to creating a professional environment in which each employee learns, develops, collaborates and also has a healthy and safe lifestyle. In addition, the Group companies implement every year various training programmes to improve the employees skills according to their needs identified in the evaluation process. Electrica ensures the participation of its employees in training programmes and conferences which contribute at their development. In order to increase the professional skills of employees, the Group makes continuous investments, offering training courses in 2018, totaling a number of 5,185 hours of training delivered in a quasi-equal way to women and men.

Health and safety of employees at work

The strategic goal of the organization in the field of occupational health and safety remains “ZERO accidents”. In this respect, Electrica Group companies apply in their activities internal rules and regulations that ensure compliance with the legal requirements and those of the BS OHSAS 18001:2007 standard. The integrated management system for Quality – Environment – Occupational Health and Safety implemented and certified and supervised by external audits at the level of each company, provides safe and secure services for both customers and users and also for the organization’s own staff. During 2018 the integrated management systems of all Group companies were externally audited by the certification bodies, maintaining their certifications.

Being concerned about the safety and security of each workplace, company representatives and employee representatives (CEO, head of OHS service and union leaders) collaborate in the OHS committees, which act at the

level of all the companies of Electrica Group. In addition, in 2018 a joint body – The Coordinating Committee for Work-Safety and Health” was established at Group level – aimed at ensuring the governance of occupational health and safety through transfer of best practices and alignment of procedures at the level of Group companies. By streamlining communication with employees and their representatives, the body creates the framework for their involvement in making strategic decisions in the field of occupational safety and health.

All employees of Electrica Group are covered by collective agreements, and their negotiation also includes health and work-safety aspects. Employees are represented in the existing OHS Committees at both company and Electrica Group level, thus maintaining a permanent dialogue with management at all levels, necessary to develop a climate of security and health at work.



Electrica Group employees are involved in decision-making process on security and health at the workplace.



During 2018 at Electrica Group's level was no deadly accident recorded and the number of work related accidents reduced by **60%** compared with previous year.

Aiming to identify the noncompliance and risk generating deficiencies for work security and health of employees, in 2018 were conducted 3,167 OHS inspections with the own staff having OHS right to control. During the same period, there were 12 inspections from the Territorial Labor Inspectorates/External Auditors and Emergency Inspectorates. Electrica Group has implemented within the deadlines established the preventive and corrective action plans resulting from all these controls.

Employee safety also depends on their level of knowledge of workplace risks and prevention and protection measures.

In 2018, 8,356 employees benefited from training on health and safety at work and defense against fire, with a total length of 360,354 hours.

The efforts made at the level of Electrica Group by the executive management to develop a safety culture, under the motto **"zero accidents"**, carefully supervised by the BoD, led to positive results, presented in the below table:

Work accidents in 2018

Indicators	SDEE MN	SDEE TN	SDEE TS	EFSA	ELSA	Energy Services	2018	2017
Total number of work accidents (of which fatalities)	0	2	3	0	0	1	6(0)	16(4)
Total number of calendar days representing TIW ⁴	0	49	260	0	0	13	322	1,245
Total number of work accidents of contractors (by which deaths)	1	0	1	0	0	0	2(0)	4(0)

4 - TIW - Temporar incapacity to work

OHS indicators for 2018 compared to 2017

Indicators	2018	2017
RF ⁵ –Rate of accidents at work frequency	0.52	1.32
IF ⁶ – Frequency of accidents at work index	0.72	2.31
SR ⁷ – The seriousness of accidents at work index	42	84
IFbp/blp ⁸ –Frequency of disease related to the profession index	0	0
Number of lost days with medical leave / employee	5.22	6.51

The number of dangerous incidents without impairment of employees decreased significantly in 2018, at the level of Electrica Group being registered a single dangerous incident, compared with 3 such incidents recorded in 2017, which means a decrease by 67%.

Health prevention in the work-field has been achieved by doctors specialized in labor medicine, the health status of employees being monitorized in local OHSC and OHS coordinating Committee at Electrica Group level. 2018 marked for Electrica the beginning of the OHS control activity digitization by launching a pilot project within SDEE MN.

In this project, there has been developed and implemented an IT application that facilitates monitoring of inspections across all distribution companies and their subunits, as well as the results and measures applied. The project's success demonstrated the opportunity of extension in implementation of the application OHS Control at the level of all distribution companies of the Group that had been achieved at the end of February 2019 with the support and involvement of top management.



During 2018 there has been only one dangerous accident recorded compared to 3 such incidents recorded in 2017

5 - RF – total number of injured employees/ total number of worked hours x 1mn
 6 - IF – total number of injured employees/ medium number of employees x 1,000
 7 - SR – total number of ITM days/ total number of worked hours x 1mn
 8 - IFbp/blp – total number of leave days initiated by professional illness/ medium number of employees x 100



Training with SMURD for electricians

A special initiative for 2018 was introducing the training module for directly productive employees on first aid in case of accidents, developed by Electrica in collaboration with Emergency Situations Department, as part of the Programme for Group staff awareness on OHS risks and aspects, within SDEE TS.

The pilot project carried out in November 2018 included training sessions of 8 hours length, structured in practically and theoretically sections, in which each participant has practiced the first aid necessary maneuvers depending on the nature of the incident and the victim status, based on a scenario proposed by the first aid trainer from SMURD.

“The theme covered a number of risks specific to the current activity of our colleagues in the field, from the electricity distribution companies, contributing to bringing into participants attention of the dangers and implicitly the protection measures that each person has to take for himself and for the team. Such a course strengthens the conviction of our electricians that, every day, each team member’s life depends on the actions of everyone in the team, making them more attentive, more accountable. By associating learning and practicing the first aid maneuvers with risk situations generating sources, participants became more concerned about protecting the health and safety of each member of the team.” - Oana Lupan, Head of IMS & HSW



Together for better or worse

In 2018, Electrica Group provided financial support amounting EUR 15,000 to employees in difficult situations. The first of the donations was to an employee of SDEE TS, in order to partially support a complex treatment of stem cells transfusions and intensive kinetotherapy sessions for his daughter, treatment performed in a clinic abroad, thus helping to increase the chances of the child’s recovery. Another donation was directed to carry out a series of surgical procedures and thereafter the recovery treatment following the accident suffered by another SDEE TS employee.





7 Research and development

GRI: 103-1, 103-2, 103-3, EU8

“Involvement in Research & Development projects is important for the sustainable development of Electrica Group by favoring access to top technologies, taking over the best practices resulting from the implementation of the projects in which Electrica is involved and implementation of initiatives included in the future plans of the Group’s organizational entities.

The impact is positive and direct, reflecting, on short term, over Group’s reputation by asserting the competences of the specialists involved at international level and, on long term, by using the results achieved in defining the strategic guidance on orientation towards smart grids.

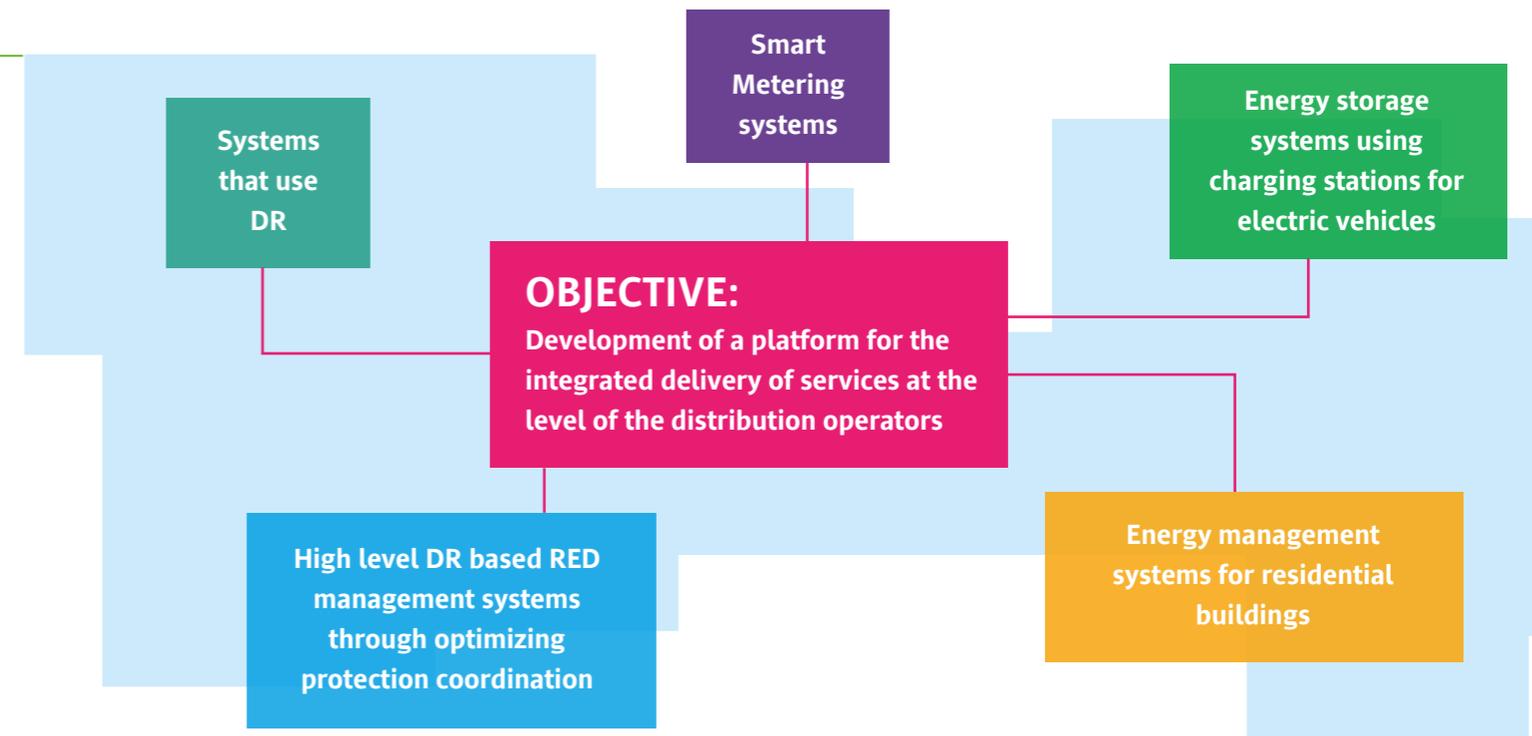
Participation in Research & Development projects in international consortiums has a positive impact on the sustainable development of the Group by ensuring access to top information in the field of use of electricity distribution networks (RED), under the conditions of different types of renewable sources for electricity generation connected to the network and the use of this information with the purpose of safe development and operating of networks and ensuring the means through which the judicious use of resources can be carried out, applying concepts as “demand side response” or “demand side flexibility” - Livioara Şujdea - Chief Distribution Officer

„inteGRIDy” Project

Programme period: 01.01.2017 - 31.12.2020

ELECTRICA participates with partners from 8 European countries, in the implementation and operation of an on demand-response (DR) pilot project in a three block housing site located in Ploieşti Municipality, which will be used for monitoring and demonstrations regarding energy demand management issues (DSM) and of DR of the electricity distribution network users, as well as the achievement, together with another partner, of an ECCDIS command and control platform integrated with smart grid existing components.

ELECTRICA will participate in the integration of smart meters with DR and data concentrators of Ploieşti site in the innovative platform for simulation and command control of the consumption nodes. Development, testing and validation of the pilot project of smart metering with DR functionalities, associated with the analysis of tariffs variations that stimulate DR, as well as its integration into a platform with softwares associated ECCDIS that will ensure interoperability with the inteGRIDy platform, will be subject of the Ploieşti pilot project.





“SUCCESS - Securing Critical Energy Infrastructures” project

Programme period: 01.05.2016 – 31.10.2018

SUCCESS Project has developed a global approach over the threat analysis and counteraction measures, with particular emphasis on vulnerabilities introduced by smart meters

In this context, the project developed a new generation counter concept called NORM (New-generation Open Real-time smart Meter) that integrates smart metering, phasor measurement (PMU) and information security functionalities to the highest level, based on the Physical Unclonable Function (PUF) technology. Implemented with other functionalities in the equipment integration and communication area called Smart Meter Gateway (SMG), the solution proposed by the SUCCESS Project consortium is an extension of the SFC (Separate Function Counter) concept.

In this project, carried out over a period of 30 months, together with companies from 9 European countries, Electrica has made one of the 3 pilot projects developed in the field of smart grids, aiming at the following objectives:

- Defining the aspects of securing and monitoring the critical infrastructures of smart networks;
- Evaluation of data protection smart metering solutions;
- Use of NORM real-time remote meter reading technology;
- Identifying of cyber threats and risks;
- Use of data protection technology at remote meter reading and remote management;
- Ensuring the resilience of smart systems by eliminating the possibilities of data manipulation.



Electrica’s research team has collaborated in defining solutions to secure the monitoring systems for a large distributed energy production area to ensure the optimized operation of a network operating activity distribution by eliminating the possibilities for manipulation of measurement data.

At the same time, among the objectives achieved by participating in SUCCESS project, the following can also be listed:

- Taking over and developing good practices from lessons learnt by conducting the three pilot projects as a whole (ESB Ireland, ASM Terni Italy, and Electrica);

- Taking over and developing advanced RED monitoring models to improve the real-time estimation of energy discharged by green energy producers;
- Use of smart metering infrastructure to assess the data security and protection degree and identify cyber risk management solutions;
- Experimentation of insularized network behavior.





OUR INVOLVEMENT IN LOCAL COMMUNITIES

8 Our involvement in local communities

GRI: 102-12, 103-1, 103-2, 103-3, 413-1

Electrica Group continues to be a reliable partner of the local communities in which it carries out its activities, contributing transparently to solving the identified social problems. In 2018, they were updated and approved at the level of each Group company policies on how to manage donations and sponsorships and grant awards.

The Electrica Group is interested in maintaining a permanent open dialogue

with local authorities in the areas in which it operates. Through the **“We invest in the Community”** Program, we want to make a series of 18 meetings in each electricity distribution company to communicate to authorities our investment programs and to find together solutions for the safety and comfort of residents in the target communities. We believe that good cooperation with the authorities is primarily for the benefit of the citizens.

In 2018 the grant programme “Electrica puts Romania in a different light” has reached its third edition, with hundreds of thousands of direct or indirect beneficiaries.

The programme, held in the form of a national project competition, attracted 60 projects in 2018 out of which, 4 of them were selected to receive funding. Winning projects target initiatives in the field of education, health and culture, and have impact in the communities

in Sibiu, Cluj, Buzău, Arad, Bucharest areas and at national level.

The Company continued to carry out corporate social responsibility (CSR) programmes materialized through the financial support of projects in several areas of interest, while supporting the perception change about the Electrica Group. By these, Electrica invested a total of over RON 1.7 million, which means 2.5 times more than in 2017.

KEY ACTIVITIES



Health projects

Initiative: Special Olympics in Romania Foundation – Unified Sports Day (Eunice Kennedy Shriver Day) November 2018, Cluj-Napoca

In November in all 170 states where the Special Olympics organization is present, it is celebrated the Unified Sports Day or Eunice Kennedy Shriver Day. Every year, about 120 children and young people with and without intellectual disabilities play sports (basketball, archery, Zumba, badminton, etc.) and entertainment activities alongside parents and volunteers (50 in total), all in order to promote integration into community

of children and young people with special needs. For the second consecutive year, Electrica was partner of this event, in this action being involved as volunteers the Group’s employees.

Initiative: Special Olympics in Romania Foundation – International Bucharest Marathon 14-15 of October 2018, Bucharest

Special Olympics in Romania Foundation participated at the marathon with a team of 35 children and young people with intellectual disabilities who ran to the popular race, as well as volunteers who raised funds for the Special Olympics activities. Electrica employees voluntarily participated in this event for the second consecutive year.



The Electrica Group supports the acceptance and promotes the integration of persons with disabilities.



Electrica invested a total amount of **RON 1.7 Mn** in CSR programmes, **2.5** times more than in 2017.



OUR INVOLVEMENT IN LOCAL COMMUNITIES

OUR INVOLVEMENT IN LOCAL COMMUNITIES



Electrica Group promotes the unlimited potential of Special Olympics athletes and the transformative power of sport.

Initiative: Special Olympics in Romania Foundation – Special Olympics National Games (JNSO) Romania

At the largest national competition for persons with disabilities, for three days, delegations of athletes from all counties of the country and Bucharest together with coaches, volunteers and physicians gathered in Târgoviște, where they competed in four sports disciplines: swimming, athletics, basketball and bocce. At the event participated: 300 athletes with intellectual disabilities from all over the country, 160 coaches and family members, 100 volunteers from high schools and sports faculties from Târgoviște and Bucharest, 120 volunteers and doctors from UMF Carol Davila and from the Nursing Schools from Târgoviște, alongside Electrica volunteers.

Initiative: Hospice Casa Speranței Foundation – Social responsibility Programme

Following the partnership agreement between EFSA and Hospice Casa Speranței Foundation, the customers from South Transylvania region received in the envelopes containing monthly electricity invoices 500,000 flyers containing information about granting aid to persons with serious illnesses, in advanced stages.



Electrica Group supports afforestation initiatives based on volunteering, which address constructively the issue of forest conservation and sustainable exploitation of the strategic resources of wood.



Environment projects

Initiative: ECOASSIST Association – “Planting Good Deeds in Romania”

Over 100 Electrica volunteers planted about 4,000 trees in the communities where the company operates. The area covered by this planting was comprised, depending on the afforestation scheme, between 1.5ha and 3ha of forest. Volunteers were awarded for their contribution and participation through the Green Endorsement electronic certificate.



The modern solutions adopted by Electrica Group on newly developed networks using twisted cables do not endanger biodiversity.

Initiative: ROMSILVA – Electric forest

The initiative took roots in Moreni, Dâmbovița County, where our colleagues from SDEE MN-Ploiești planted over 500 ash trees in an un-forested area in the community.

Initiative: “Storks friends” Association Sibiu

To reduce the impact on biodiversity, generated by the exploitation of old electricity distribution networks, SDEE TS mounted on the support poles of the air power lines (LEA) 35 special holder for stork nests. These holders help the storks build their nests at an appropriate distance from the power lines, thus avoiding the risk of electric arc producing and the electric shock of the bird.



OUR INVOLVEMENT IN LOCAL COMMUNITIES



Electrica Group supports every initiative of raising awareness, protection and support of the environment through recycling, participating in internal actions for clothing collecting and creative re-use workshops of out of use items.

Education/environment projects

Initiative: ROMANIAN RED CROSS – Sector 6 subsidiary – Solferino – Creative Recycling Workshops

The initiative consists in organizing a series of 11 textiles creative recycling workshops in Bucharest and humanitarian actions of donating garments/textile objects reconditioned/recycled during the workshops, for the benefit of social cases registered at Red Cross (homeless people, institutionalized children, elderly people homes from Bucharest or other cities in the country). The project was carried out over a period of 12 months, contributing to the empowerment of community members, including Electrica S.A. employees and customers, on the resources used in textile production and the life of clothes.



Initiative: International Mathematics Olympiad 2018

SDEE TN, part of Electrica Group supported the International Mathematics Olympiad, held in the period 3-14 July 2018, in Cluj-Napoca. The event was organized by the Romanian Government, the Romanian Society of Mathematical Sciences, Cluj County Inspectorate, Ministry of National Education, Cluj County Council, Cluj-Napoca City Hall, Babeş-Bolyai University and Technical University of Cluj-Napoca.

700 young mathematicians from 120 countries disputed the competition prizes, which became one of the most prestigious in sciences domain.

Initiative: Partnership with the “Petru Maior” University of Tg. Mureş

SDEE TS, part of Electrica Group participated in “Face-to-face with employers” Event in May 2018, the largest local event dedicated to future engineers, where the company presented to students employment opportunities, internship stages and internship possibilities available in the region in which it operates.

Cultural projects

Initiative: “TRANSILVANIA” State Philharmonic – “Cluj Musical Autumn” Festival

On its 51st edition, “Cluj Musical Autumn” Festival brought together, in a defined temporal range, national and world renowned artists, both Romanian performers and conductors, as well as foreigners. Organized at Cluj for more than half a century, the festival is the longest-running manifestation of this kind in Romania, continuously increasing on the international scale. Electrica supported this event – one of the most important festivals of cult music in Transylvania, and at the same time the oldest kind of manifestation in Romania – continuing to promote young artists with well-contoured reputation on the international scenes.

Total number of beneficiaries: 7.000

Initiative: Partnership with “Art Factory Transilvania” Association

Electrica participated as partner at the International Street ART Festival, Sibiu, with the wall art arrangement of 3 power transformation stations facade in very circulated areas of Sibiu municipality.



Sports Projects

Initiative: Partnership EFSA with the Romanian Olympic and Sports Committee

Electrica Furnizare became strategic partner of the Romanian Olympic and Sports Committee to support the Olympic Team of Romania during the preparation, qualification and participation in the Tokyo Olympic Games in 2020. Completed in 2018, this partnership helps develop the top Romanian athletes, supports sports performance, informs and educates the public about Olympic sports, and also supports educational programs for the development of future sports generations.



9 Affiliations

GRI: 102-13



We are an important company in Romania, significantly contributing at creation of a sustainable business environment, alongside our partners with whom we share similar values. Through affiliation of Electrica to different organizations and associations, the company enjoys easy access to international best practices as well as participants' expertise to approach the potential challenges in our domain. The robust profile of Electrica Group facilitates involvement in new international research projects and supports Electrica's development plans by identifying new opportunities.

The associations and organizations of which Electrica S.A. is a member are the following:

CIRED (Congrès International des Réseaux Electriques de Distribution) <http://www.cired.net>
 - The main forum that brings together, every two years, the international community of electricity distribution. The activity of the Romanian Affiliate Committee CIRED is coordinated and conducted within Electrica, the CEO of Electrica fulfilling the position of President of the Romanian affiliate Committee CIRED. - details: <http://www.electrica.ro/grupul/afilier/comitetul-roman-afiliat-cired/>

EURELECTRIC - (Electricity Industry Union) - Eurelectric aims to develop strategic cooperation with electricity companies around the world, while also having a global advisory and decision-making role. Electrica is a member of Eurelectric via IRE, the representative of Romania at Eurelectric. details: <http://www.eurelectric.org/>

CRE - The Romanian Energy Center - established in 2011 with the aim of representing the interests of the Romanian energy sector institutions in relation to the European institutions and organizations in Brussels. Electrica is a founding member of the CRE. - details: www.crenerg.org

CNR-CME: Association of the Romanian National Committee of the World Energy Council - Professional organization aimed at actively integrating the energy policies in Romania in compliance with the objectives of the World Energy Council (WEC) - details: <http://www.cnr-cme.ro/>

ACUE - Federation of Energy Utility Companies Associations - details: <http://www.acue.ro/>

AFEER - Romanian Power Suppliers Association - details: <http://www.afeer.ro/>

IRE - Romanian National Institute for the Study of the Development and Use of Energy Sources - details: <http://www.ire.ro/>

SIER - Society of Power Engineers in Romania - details: <http://www.sier.ro/>

CIGRE - International Council of Large High Voltage Electric Networks - details: <http://www.cigre.org/>

CNR CIGRE - Association of Romanian National Committee CIGRE - details: <http://www.cigre.org.ro/>

ASRO - Romanian Standardization Association - details: <http://www.asro.ro/>

ALSTRO - Romanian Association for Working Under Voltage - details: <http://www.smartsb.ro/alstr/>



10 About our report

GRI:102-40, 102-42, 102-43, 102-44, 102-46, 102-47, 102-49, 102-50, 102-53, 102-54, 102-56

This third Electrica Group Sustainability Report, developed in accordance with the Global Reporting Initiative (GRI) Standards, Core option and the Energy Sector supplement, presents our non-financial activities, concerns and performance during 1st of January 2018 to 31st of December 2018.

In 2018 our sustainability report was evaluated by Romania's CSR Index based on transparency and performance criteria in the field of CSR/corporate sustainability and was appreciated with Bronze level Recognition.

Because we are transparent and we want to respond to the increasingly demanding needs of stakeholders, they have been actively involved in the process of determining the most important sustainability topics. A number of 16 material themes were determined following stakeholders consultation. The reported data was taken from internal assessments for sustainability performance monitoring at Group level and subject to internal control, and the financial data was verified by an independent auditor.

Each opinion matters and can help us become better, so please contact us via the Communication, PR & CSR Department of Electrica at the phone number: 021 208 5999 or at the e-mail address: csr@electrica.ro.



Stakeholders' involvement

Electrica Group values the opinion of all stakeholders and uses their opinions to identify the most important sustainability themes for both the company and the public.

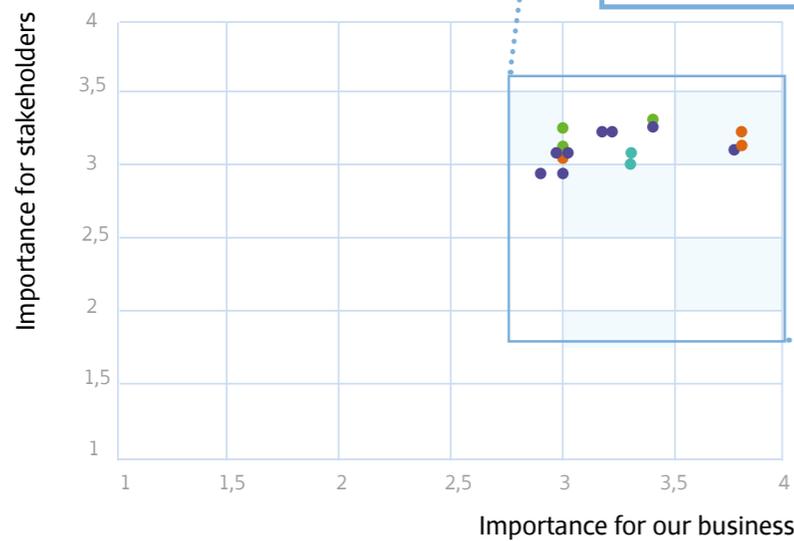
A multitude of sustainability issues, drawn up on the basis of those identified in previous reporting cycles, as well as trends in our sector of activity, have been prioritized by both internal and external stakeholders, through an on-line questionnaire. It was communicated to a representative number of interested parties, 79 of which were outside the Group, and included shareholders, employees, trade unions, regulators, suppliers, contractors, consultants, peer companies, clients, NGOs and associations, financial analysts, educational establishments, local authorities, mass media. We appreciate the involvement of our employees, who have shown a special interest in the sustainability report

of Electrica Group, 375 of them responding to the questionnaire transmitted. Each proposed theme was evaluated on the basis of a proposed scale with values ranging from 1 (irrelevant) and 4 (very relevant). Following the weighting of answers received from the outside and inside of the Group, correlated with the answers received from the top management, the importance of each of the sustainability topics analyzed was determined. Of these, were considered relevant to be included in our sustainability report themes that scored more than 3. Thus, a number of 16 material themes were identified and included in Electrica Group Sustainability Report for the reporting period covering 1st of January to 31st of December 2018, which is presented both in the adjacent materiality matrix and in the List of material topics.





Materiality matrix



LEGENDA

- 4 Very important, I expect more information;
- 3 Important, I will read the information if it is available in the report;
- 2 Less important, I find it as additional information;
- 1 Unimportant, uninteresting.

List of material topics

Domain	Material theme	Sustainability standard
1 Economic/Strategy	Economic performance	GRI 201
2 Economic/Strategy	Electrica's impact in economy	GRI 203
3 Employees/Society	Anti-corruption	GRI 205
4 Environment	Waste Management	GRI 306
5 Environment	Laws and regulations compliance	GRI 307
6 Employees/Society	Electrica employees	GRI 401
7 Employees/Society	Employee-management relationship	GRI 402
8 Employees/Society	Employees' health and safety	GRI 403
9 Employees/Society	Employees' training	GRI 404
10 Employees/Society	Diversity in Electrica	GRI 405
11 Employees/Society	Non-discrimination	GRI 406
12 Employees/Society	Local communities involvement	GRI 413
13 Market/Services	Clients confidentiality	GRI 418
14 Market/Services	Services quality and availability	EU 6
15 Market/Services	Research and Development	EU 8
16 Environment	Network efficiency	EU 12



11

GRI content table

GRI: 102-55

Indicator	Indicator description	Page / Comment
GRI 102-1	Name of the organization	6, 7
GRI 102-2	Activities, brands, products, and services	10, 11, 12, 19, 20, 21
GRI 102-3	Location of headquarters	68
GRI 102-4	Location of operations	8
GRI 102-5	Ownership and legal form	6, 7, 8, 9
GRI 102-6	Markets served	8
GRI 102-7	Scale of the organization	41, 22-23, 11, 19, 20-21
GRI 102-8	Information on employees and other workers	41
GRI 102-9	Supply chain	10
GRI 102-10	Significant changes to the organization and its supply chain	7, 8, 9
GRI 102-11	Precautionary Principle or approach	34, 35
GRI 102-12	External initiatives	52-57
GRI 102-13	Membership of associations	58-59
GRI 102-14	Statement from senior decision-maker	4, 5
GRI 102-16	Values, principles, standards, and norms of behavior	24-33
GRI 102-18	Governance structure	25-28
GRI 102-40	List of stakeholder groups	61
GRI 102-41	Collective bargaining agreements	40
GRI 102-42	Identifying and selecting stakeholders	61
GRI 102-43	Approach to stakeholder engagement	61
GRI 102-44	Key topics and concerns raised	62, 63
GRI 102-45	Entities included in the consolidated financial statements	7
GRI 102-46	Defining report content and topic Boundaries	62, 63
GRI 102-47	List of material topics	63
GRI 102-48	Restatements of information	N/A

Indicator	Indicator description	Page / Comment
GRI 102-49	Changes in reporting	61
GRI 102-50	Reporting period	60
GRI 102-51	Date of most recent report	30.06.2018
GRI 102-52	Reporting cycle	Electrica Group aims to report its sustainability performance annually.
GRI 102-53	Contact point for questions regarding the report	60
GRI 102-54	Claims of reporting in accordance with the GRI Standards	60
GRI 102-55	GRI content index	64-66
GRI 102-56	External assurance	60
GRI 103-1,-2,-3	Management approach	10, 12, 15, 17, 19, 22, 24, 34, 40, 48, 49, 52, 58
GRI 201-1	Direct economic value generated and distributed	22
GRI 203-1	Infrastructure investments and services supported	12
GRI 203-2	Economic impact of Electrica	23
GRI 205-1	Operations assessed for risks related to corruption	30-32
GRI 205-2	Communication and training about anti-corruption policies and procedures	30-32
GRI 205-3	Confirmed incidents of corruption and actions taken	30-32
GRI 306-2	Waste by type and disposal method	37-38
GRI 306-4	Transport of hazardous waste	37-39
GRI 307-1	Non-compliance with environmental laws and regulations	37
GRI 401-1	New employee hires and employee turnover	41
GRI 402-1	Minimum notice periods regarding operational changes	40
GRI 403-1	Workers representation in formal joint management-worker health and safety committees	43-45
GRI 403-2	Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities	The presented data also includes information on SEO and SEM.





GRI CONTENT TABLE



Indicator	Indicator description	Page / Comment
GRI 403-3	Workers with high incidence or high risk of diseases related to their occupation	43-45
GRI 403-4	Health and safety topics covered in formal agreements with trade unions	43-45
GRI 404-1	Average hours of training per year per employee	42
GRI 405-1	Diversity of governance bodies and employees	40
GRI 406-1	Incidents of discrimination and corrective actions taken	41
GRI 413-1	Operations with local community engagement, impact assessments, and development programs	52-57
GRI 413-2	Operations with significant actual and potential negative impacts on local communities	Operations with negative impact on local communities have not been identified during the reporting period.
GRI 418-1	Substantiated complaints concerning breaches of customer privacy and losses of customer data	33
EU 6	Services quality and availability	15-17
EU 8	Research and development	48-51
EU 12	Network efficiency	16



GRI:102-3

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