

June 6, 2024

Hydroelectrică

Declining electricity prices coupled with scaled-back CAPEX estimates and a decrease in the cost of capital

* We initiate the coverage of Hidroelectrică for the second time, this time with financial support from the BSE.

* Our DCF valuation reveals a cum-dividend target price of RON 120.9 per share implying a downside potential of 12% against last close. Ex-dividend, our target price stands at RON 106.9 per share. Our NEUTRAL recommendation stems from declining electricity prices, with German forward curve currently pointing to EUR 64/MWh by the decade's end. This is coupled with scaled-back expansion CAPEX estimates and a decrease in the cost of capital following the easing of last year's high rates.

* **10.2% DIVY.** On the 29th of April, Hidroelectrică's shareholders approved a DPS of RON 13.99 (Ex-date: June 7), implying a DIVY of 10.9%, based on the opening price at the date of the announcement, or 10.2% if last close considered.

* **FY 2024, at the IFRS consolidated level, we estimate a net of RON 4,222m (-34% Y/Y)** on reduced sale volumes and prices. Assuming a flat year-on-year payout ratio, our estimate indicates a FY 2024E DPS of RON 9.3 (-34% Y/Y).

* **Expect extreme electricity prices to occur more frequently and become a normal part of the market structure.** The current forward electricity prices mark a significant shift from the long-term level suggested by the European curves around the time of Hidroelectrică's IPO last year, which indicated prices in the range of EUR 90-100/MWh. Apparently, the current "central" scenario assumes no further market disruptions, alongside an accelerated expansion of RES in order to reduce the general dependency on fossil fuels. Nonetheless, in this scenario, many factors may lead to significant price volatility. Due to the phase-out of coal-fired power and the expansion of renewables, pricing setting in the merit order will become increasingly binary – either the dispatchable sources will determine prices in times of high electricity demand or the variable renewable power plants in times of low electricity demand.

* **Although our estimates for domestic electricity prices align with European benchmarks, we acknowledge the potential for significant deviations driven by country-specific conditions.** The scheduled refurbishment of a nuclear unit may exert upward pressure on domestic electricity prices starting in 2026. Over the 2027-2029 period, Nuclearelectrică plans to refurbish a nuclear unit with an installed capacity of 0.7 GW, which typically produces 5 TWh annually. The necessary preparations for this overhaul will begin in 2026, rendering approximately 2 TWh of production capacity temporarily unavailable.

* **Expect 2024 to shape up as an atypical year for the domestic electricity market.** The introduction of MACEE's optionality starting April the 1st, compels producers to depend on the spot market for volumes that remain uncontracted - As a result, spot prices are likely to settle at levels below those typical of normal market conditions.

* **Partnership for proposed cumulative investments in 2,000 MW.** In April 2024, Hidroelectrică and Abu Dhabi Future Energy Company PJSC - Masdar agreed to broaden the scope of their JV to include onshore and floating solar projects and battery storage systems, with the partnership potentially extending if they achieve the proposed cumulative investments in 2,000 MW. While we acknowledge the potential strategic importance of this collaboration, at this juncture, we prefer not to incorporate these projects into our estimates due to the early stage nature of the agreement and our need for detailed information before we can evaluate the potential projects' impact.

Romania, Renewable Energy

NEUTRAL

BQ: H2O RO

Last close	RON 137.0	
Target price o/w	RON 120.9	
DPS	RON 13.99	
Upside/downside	-11.8%	
52 - Week range	RON 107.0	RON 137.3
Market cap (m)	RON 61,623	€ 12,385

	2023A	2024E	2025E	2026E
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Trading multiples

EV/EBITDA	7.0	9.6	10.6	11.6
P/E	9.7	14.6	16.3	18.2
DIVY	10.2%	6.8%	6.1%	5.4%
DPS (RON)	14.0	9.3	8.3	7.4

P&L summary (RONm)*

Revenues	12,160	9,480	9,161	8,863
Wholesale of electricity	6,890	5,197	4,865	4,525
Supply sales	4,936	3,933	3,932	3,962
System services	334	350	364	376
OPEX	(4,995)	(4,627)	(4,836)	(4,995)
Turbined water	(639)	(605)	(618)	(639)
Employee benefits	(717)	(826)	(864)	(892)
Electricity purchased	(456)	(218)	(252)	(247)
Supply pass-through	(1,504)	(1,722)	(1,837)	(1,946)
D&A	(799)	(892)	(903)	(913)
PP&E impairment	(237)	0	0	0
Windfall tax	(225)	0	0	0
Receivables impairment	(80)	(62)	(62)	(60)
Repair and maintenance	(85)	(60)	(62)	(64)
Other	(251)	(242)	(238)	(234)
Adjusted EBITDA	8,237	5,779	5,262	4,814
EBIT	7,200	4,887	4,359	3,901
Net financial result	259	186	151	125
EBT	7,459	5,073	4,510	4,026
Net profit	6,365	4,222	3,788	3,382

Balance Sheet summary (RONm)*

Total assets	29,109	26,862	26,431	25,958
Net debt (cash)	(4,297)	(3,410)	(3,793)	(4,548)
Total liabilities	4,088	3,911	3,859	3,737
Shareholders' equity	25,021	22,951	22,572	22,221

Source: Hidroelectrică; Swiss Capital estimates; *IFRS consolidated



Price performance	1m	3m	12m	YTD
	2%	6%	N/A	7%

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For analysts certification and other disclosures refer to the Disclosure Section at the end of this report.

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Investment case

On the 29th of April GSM, Hidroelectrica' shareholders approved a DPS of RON 13.99 (Ex-date: June 7; Payment date: June 28), representing a payout from the FY 2023 distributable profit of 99% and a DIVY of 10.9%, based on the opening price at the date of the announcement, or 10.2% if last close considered

We initiate the coverage of Hidroelectrica for the second time, this time with financial support from the Bucharest Stock Exchange through the Equity Research Programme.

Our DCF valuation reveals a cum-dividend target price of RON 120.9 per share implying a downside potential of 12% against last close and a NEUTRAL recommendation. On the 29th of April OGSM, Hidroelectrica' shareholders approved a DPS of RON 13.99 (Ex-date: June 7; Payment date: June 28), representing a payout from the FY 2023 distributable profit of 99% and a DIVY of 10.9%, based on the opening price at the date of the announcement, or 10.2% if last close considered. Ex-dividend, our target price stands at RON 106.9 per share.

At our target price, Hidroelectrica would change hands at 8.4x FY 2024E EBITDA, 10% below Verbund which is currently traded at 9.5x FY 2024E EBITDA. Despite Hidroelectrica's notably higher EBITDA margins relative to Verbund, this discount is warranted due to the limited visibility of Hidroelectrica's renewable capacity development plans, which remain in their nascent stages. For instance, to accelerate the energy transition, Verbund budgeted to invest EUR 5.5b over the 2024-2026 period and in February 2024, the company announced the plan to install 2,500 MWh of battery storage capacities by the end of 2030. By contrast, in 2023, Hidroelectrica's CAPEX stood at RON 206m (EUR 42m), relatively flat year-on-year and 55% below the budget. Looking ahead, the company's clearly stated investment plan focuses on refurbishments with RON 2.9b (EUR 0.6b) allocated for major projects by 2034.

Our NEUTRAL recommendation and TP reduction from RON 138.6 per share previously stem from declining electricity prices following the peaks reached in 2023, with German forward curve currently pointing to EUR 64/MWh by the decade's end. This is coupled with scaled-back expansion CAPEX estimates and a decrease in the cost of capital following the easing of last year's high rates.

The German forward electricity prices, currently pointing to EUR 64/MWh by the decade's end, mark a significant shift from the level suggested by the European curves around the time of Hidroelectrica's IPO last year, which indicated prices in the range of EUR 90-100/MWh

The current forward electricity prices mark a significant shift from the long-term level suggested by the European curves around the time of Hidroelectrica's IPO last year, which indicated prices in the range of EUR 90-100/MWh. Apparently, the current "central" scenario assumes no further market disruptions, alongside an accelerate expansion of renewables in order to reduce the general dependency on fossil fuels.

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Nonetheless, in this scenario, many factors may lead to significant prices volatility. Due to the phase-out of coal-fired power and the expansion of renewables, pricing setting in the merit order will become increasingly binary – either the dispatchable sources will determine prices in times of high electricity demand or the variable renewable power plants in times of low electricity demand. As a result, extreme prices are expected to occur more frequently and become a normal part of the price structure of the spot market.

Expect extreme electricity prices to occur more frequently and become a normal part of the market structure

Although our estimates for domestic electricity prices align with European benchmarks, we acknowledge the potential for significant deviations driven by country-specific conditions.

The scheduled refurbishment of a nuclear unit may exert upward pressure on domestic electricity prices starting in 2026. Over the 2027-2029 period, Nuclearelectrica plans to refurbish a nuclear unit with an installed capacity of 0.7 GW, which typically produces 5 TWh annually. The necessary preparations for this overhaul will begin in 2026, rendering approximately 2 TWh of production capacity temporarily unavailable.

Expect 2024 to shape up as an atypical year for the domestic electricity market

- The introduction of MACEE's optionality starting April the 1st, compels producers to depend on the spot market for volumes that remain uncontracted - As a result, spot prices are likely to settle at levels below those typical of normal market conditions

The introduction of Centralised Electricity Procurement Mechanism (MACEE)'s optionality starting the 1st of April, may lead to potential market disruptions in 2024. Through MACEE, producers were mandated to sell around 80% of their output. Now, with its optionality, they are left with uncontracted volumes, forcing them to rely on the spot market. This shift may cause a significant influx of volumes into the spot market, where prices averaged RON 329/MWh in April, down from RON 436/MWh in January, influenced further by the oversupply and compounded by low end-consumer demand on mild winter conditions. Nevertheless, Hidroelectrica reported that during the annual MACEE auction held in December 2023, a contract at RON 450/MWh was secured for the delivery of 2,599 GWh of electricity in 2024, valued at RON 1,170m.

Increased risk of imbalances - On the 31st of March 2024, the price on the balancing market escalated to RON 10,000/MWh

It is also important to note that during periods marked by relatively low electricity prices, the accuracy of electricity balance forecasts often deteriorates - suppliers, less worried about potential power shortages, may grow complacent about energy availability. This can significantly heighten the risk of imbalances, which, as observed on the 31st of March 2024, may lead to considerable price spikes on the balancing market.

In April 2024, Hidroelectrica and Abu Dhabi Future Energy Company PJSC - Masdar agreed to broaden the scope of their joint venture to include onshore and floating solar projects and battery storage systems, with the partnership potentially extending if they achieve the proposed cumulative investments in 2,000 MW - While we acknowledge the potential strategic importance of this collaboration, at this juncture, we prefer not to incorporate these projects into our estimates due to the early-stage nature of the agreement and our need for detailed information regarding the planning, and development of the proposed ventures before we can evaluate their potential impact

In April 2024, Hidroelectrica, along with key Romanian government officials and business leaders, participated in a strategic visit to the United Arab Emirates. During the visit, a significant development was the agreement between Hidroelectrica and Abu Dhabi Future Energy Company PJSC - Masdar to enhance the scope of their planned Joint Venture Company (JVC). This expansion includes the implementation of onshore and floating photovoltaic solar projects and energy storage systems in batteries, with an exclusive technology agreement spanning an initial three years.

This partnership may extend for another three years contingent on the JVC's proposal and approval of cumulative investments in 2,000 MW. The agreement also opens potential for future collaboration in other technologies and geographical areas, pending further approvals and the finalisation of the shareholders agreement.

While we acknowledge the potential strategic importance of the early-stage collaboration between Hidroelectrica and Masdar, we prefer not to incorporate these projects into our financial estimates at this juncture.

This cautious approach is due to the preliminary nature of the agreement and our need for detailed information regarding the selection, planning, and development of the proposed ventures before we can evaluate their potential impact accurately.

Nonetheless, our estimates show net cash accumulating throughout the explicitly forecasted period as we have eschewed special dividends, opting instead to reserve funds for potential investments in RES projects.

For 2024, at the IFRS consolidated level, we estimate a net of RON 4,222m (-34%

For 2024, at the IFRS individual level, Hidroelectrica budgeted a net profit of RON 4,150m, which represents a 35% decrease compared to the level achieved in 2023

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Y/Y) - Assuming a flat year-on-year payout ratio, our estimate indicates a FY 2024E DPS of RON 9.3 (-34% Y/Y), which implies a DIVY of 6.8% if last close considered

primarily attributed to reduced production volumes, from the 6Y record level reached last year, and diminishing electricity prices.

For Q1 2024, Hidroelectrica posted a net of RON 1,326m (-23% Y/Y).

For 2024, at the IFRS consolidated level, we estimate a net of RON 4,222m (-34% Y/Y). Assuming a flat year-on-year payout ratio, our estimate indicates a FY 2024E DPS of RON 9.3 (-34% Y/Y), which implies a DIVY of 6.8% if last close considered. Our total sales and production volumes are in line with the company's guidance. We estimate revenues of RON 9,480m (-22% Y/Y), with wholesale (balancing market revenues included) down by 23% Y/Y to RON 5,197m on reduced volumes to 10.8 TWh (-17% Y/Y) and an expected average realised price of RON 479/MWh (-7% Y/Y). We see the supply sales down by 20% Y/Y to RON 3,933m, driven by 9% Y/Y lower volume sales to 5.7 TWh and an average realised price (pass-through costs excluded) of RON 388/MWh, 30% below last year's level impacted by regulatory changes, diving forward and spot prices, and by an increased weight of HH supplied volumes from 25% last year to 39%, in line with Q1 2024 achieved level.

For 2024, we expect Hidroelectrica to realise an average wholesale price (balancing market included) of RON 479/MWh (-7% Y/Y), coming in higher than some might expect. This forecast is mainly driven by several factors: (1) an expected realised price on the balancing market of RON 1,500/MWh for 0.5 TWh, on heightened risk of imbalances; (2) a price of RON 450/MWh for 2.6 TWh contracted during annual MACEE auction held in December 2023; and (3) a price of RON 644/MWh for 0.35 TWh from older forward contracts secured for delivery in 2024.

In the supply segment, the regulatory changes are expected to put significant pressure on the company's end-consumers invoiced prices. On 7 July 2023, Law 206 approving GEO 153/2022 was published and brought a series of changes with potential impact on the revenues obtained from the supply activity, respectively on the method of computing the invoiced price for the end-consumers for which the electricity consumed is purchased. For this category, the active energy price was set as the minimum between (1) the caps imposed by GEO 119 and Law 357 that amended Law 27; (2) contract prices; and (3) the acquisition price plus a supply margin of RON 73/MWh, a margin which will be removed starting the 1st of April 2025.

For 2024, according to the initial budget, Hidroelectrica planned to purchase nearly 1.1 TWh of electricity at an average price of RON 103/MWh. In the revised budget, the company increased the planned quantities to be acquired to 1.24 TWh and the respective expenses by RON 129.6m, implying an average realised price of RON 194.8/MWh. However, in Q1 2024, the realised average price of the purchased electricity stood at RON 60/MWh. The weighted average price, combining the realised price for Q1 2024 and the budgeted price, reveals an average of RON 175/ MWh for FY 2024 purchased electricity.

Consequently, for 2024, we expect Hidroelectrica to charge 1.24 TWh supplied to the end-consumers at RON 248/MWh, which includes the expected acquisition price plus an allowed supply margin of RON 73/MWh. For the remaining volumes expected to be supplied in 2024, which total 4.5 TWh, Hidroelectrica needs to establish a competitive

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price. Notably, while the beginning of year's offer price of RON 280/MWh for HH consumers may be considered relatively competitive, that for the non-HH consumers of over RON 580/MWh, is relatively high when compared to the current market levels. We believe that the newly amended electricity market regulations, particularly those effective from April 1, 2025, to April 1, 2026, may be indicative for implying competitive prices. These amendments set that the acquisition price charged to end consumers be calculated by adding a 10% markup over the weighted of the BCM and DAM prices, with a 60% weighting for BCM volumes and 40% for DAM volumes. Based on our average price expectations for the two markets in 2024, of RON 447/MWh (-50% Y/Y) and RON 346/MWh (-35% Y/Y), respectively, these amendments would indicate a competitive offer price for Hidroelectrica's non-HH end-consumers of RON 520.6/MWh (supply margin included).

All in all, for 2024, we expect Hidroelectrica to achieve a weighted average price for the active energy supplied (pass-through costs excluded) to HH (39%) and non-HH (61%) of RON 388/MWh, which is 30% lower compared to last year's achieved level of RON 551/MWh (+33% Y/Y). Please note that last year, the weight of non-HH supplied volumes in total was higher as it stood at 75%.

A pure-play renewable power running hydro and wind capacities of 6.4 GW

Hidroelectrica is the leading electricity producer in Romania, the most dynamic player on the electricity supply market, and the main provider of ancillary services.

Romania's leading electricity producer, commanding 35% of the country's installed capacity and delivering nearly 30% of the total electricity to the domestic grid over the last five years up to 2023

Following the listing of the company on the 12th of June 2023, Hidroelectrica's free float stands at 19.9% (of which 16.8% legal persons and 3.2% individual investors), with the rest of 80.1% being held by the Ministry of Energy.

The third and most dynamic player in the supply market, with a footprint of 13% as of 2023, up from 8% in 2022 and from 0.8% in 2018

Hidroelectrica is a pure-play renewable power, running hydroelectric and onshore wind capacities of 6.4 GW. With a gross output in an average hydrological year of 15.9 TWh, the company provided nearly 30% of the total electricity delivered to the domestic grid in the last 5Y to 2023.

With 6.2 TWh supplied in 2023, Hidroelectrica is the third and most dynamic player on the electricity supply market with a footprint of 13% as of 2023, up from 8% in 2022 and from 0.8% in 2018.

Backbone of renewable power and key asset to a sustainable energy future - The main provider of ancillary services necessary to maintain the operational safety of the national electricity system

Hidroelectrica is the leading source of domestic renewable energy generation, accounting for 57% of the country's RES installed capacity. Benefiting from a relatively high degree of flexibility which enables quick adjustments to compensate for electricity fluctuations from wind and solar sources, Hidroelectrica is a key asset for building a clean grid and secure integration into electricity system of RES capacities.

On the ancillary services market, in 2022, Hidroelectrica provided 67% of secondary adjustment reserve, 66% of Up fast tertiary reserve and 100% of the reactive energy debited or absorbed from the network in the secondary voltage adjustment band.

Business overview

The leading electricity producer in Romania with a market footprint in total electricity delivered to the grid of nearly 30% in the last 5Y to 2023

A pure-play renewable power running hydroelectric and wind capacities of 6.3 GW and 108 MW, respectively.

The fourth and most dynamic player on the electricity supply market, with a footprint of 13% in 2022, up from 0.8% in 2018

The main provider of ancillary services necessary to maintain the operational safety of the national electricity system

Set up in 2000, Hidroelectrica is the leading electricity producer in Romania, the most dynamic player on the electricity supply market, and the main provider of ancillary services necessary to maintain the operational safety of the national electricity system.

Following the listing of the company on the 12th of June 2023, Hidroelectrica's free float stands at 19.9% (of which 16.8% legal persons and 3.2% individual investors), with the rest of 80.1% being held by the Ministry of Energy.

Hidroelectrica is a pure-play renewable power, which runs hydroelectric and onshore wind capacities of 6.3 GW and 108 MW, respectively. With a gross output in an average hydrological year of around 15.9 TWh, the company provided nearly 30% of the total electricity delivered to the grid in the last 5Y to 2023.

With 6.2 TWh supplied in 2023, Hidroelectrica is the third and most dynamic player on the electricity supply market with a footprint of 13% in 2023, up from 8% in 2022 and from 0.8% in 2018.

On the ancillary services market, in the last five years up to 2022, the company provided about 65% of the secondary adjustment reserve, 71% of the fast tertiary reserve, and 100% of the reactive energy debited or absorbed from the network in the secondary voltage adjustment band.

Hidroelectrica operates based on the licences granted by the Romanian Energy Regulatory Authority (ANRE), which are regularly updated. These are: (1) electricity production license no. 332/24.07.2001, including the provision of ancillary services, updated by the ANRE decision no. 1321/29.07.2020, valid until 24.07.2026 and (2) electricity supply license no. 932/27.05.2010, updated by the ANRE decision no. 718/06.05.2020, valid for 10 years.

In December 2020, Hidroelectrica concluded a purchase agreement with STEAG GmbH for the acquisition of 100% of Crucea Wind Farm and Hidroelectrica Wind Services. (formerly STEAG Energie Romania). The company obtained the control of these entities in March 2021.

The main activity of Crucea Wind Farm is the production of electricity from wind farms. Developed by STEAG GmbH and put into commercial operation on October 1, 2014, the Crucea wind farm, located in Constanta county, has an installed capacity of 108 MW, consisting of 36 Vestas turbines of 3 MW each. Hidroelectrica Wind Services is a provider of technical services exclusively for the Crucea Wind Farm. In August 2022, the shareholders approved the merger through the absorption of Crucea Wind Farm and Hidroelectrica Wind Services by SPEEH Hidroelectrica.

Set-up in 2013, Hidroserv provides maintenance services for Hidroelectrica. The company entered the insolvency procedure in October 2016. In 2020, the reorganisation plan of the subsidiary has been approved, subsequently extended until the middle of 2024. In October 2023, Hidroserv managed to fully settle the claims of the company's creditors.

On December 8, 2023, Hidroelectrica announced the signing of the framework

Hidroelectrica Reinitiation of coverage

SWISS CAPITAL

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contract regarding the business transfer from U.C.M. Resita ("UCMR"), specialised in the manufacturing of hydro units and auxiliary equipment, as well as in providing maintenance and specialised technical support services in the energy sector. The transaction aims to secure the asset base of UCMR, unique in the Southeast Europe, playing an essential role in optimising maintenance activities and refurbishment efforts, thus consolidating the maintenance function at the group level. On January 22, 2024, shareholders approved the business takeover, as well as the establishment of a limited liability company, to which the business transfer from UCMR will be made, which will be named Uzina de Constructii Maşini Hidroenergetice (Hydroenergetic Machine Construction Plant). On March 11, 2024, the transaction was finalised at a total price for the transfer of ownership rights of RON 67,879,000.

Hidroelectrica produces electricity by operating a total of 187 hydropower plants and micro-hydropower plants (the main production capacity being Portile de Fier I) and through the operation of the Crucea wind farm.

The hydropower power plants are operated by Hidroelectrica through seven branches without legal identity, as follows: SH Bistrita, SH Curtea de Arges, SH Cluj, SH Hateg, SH Portile de Fier (PDF), SH Ramnicu Valcea, and SH Sebes.

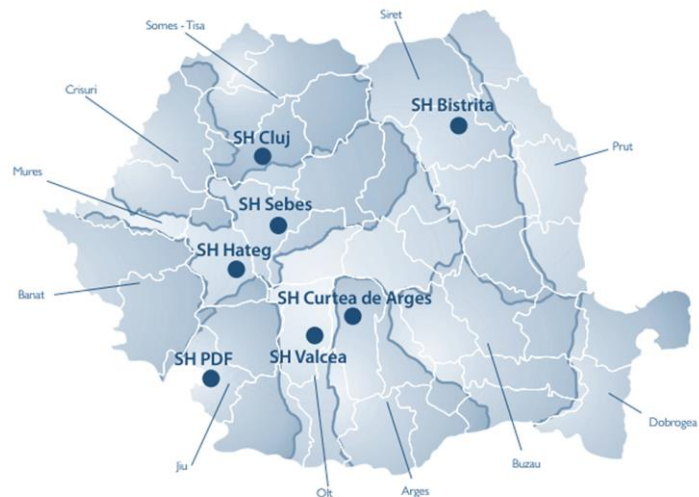
Electricity generation

Hydropower capacity by branch¹

1	SH Portile de Fier (PDF)	1.5 GW	27%
2	SH Valcea	1.5 GW	25%
3	SH Hateg	0.7 GW	11%
4	SH Curtea de Arges	0.6 GW	10%
5	SH Bistrita	0.6 GW	10%
6	SH Cluj	0.5 GW	8%
7	SH Sebes	0.5 GW	8%
Total Hydro - Plants >= 10 MW		~ 6.1 GW	100%
Plants > 4MW and < 10 MW		103 MW	
Plants <= 4 MW		52 MW	
Total Hydro - All plants*		~ 6.2 GW	

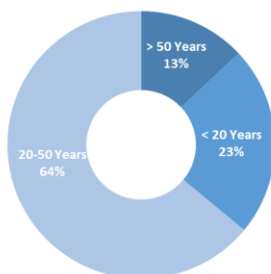
Source: Hidroelectrica;¹ Installed capacity as of December 2023²
* Excludes 92 MW of electrical pump stations

Hidroelectrica: Hydropower generation capacities by branch location



Source: Hidroelectrica

Hydropower capacity by age



Source: Hidroelectrica

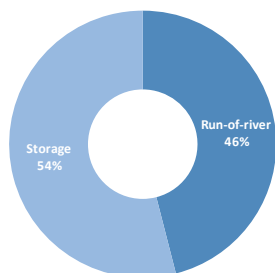
All the large hydropower plants currently operated by Hidroelectrica were built starting in 1960, but several of them were later modernised and, in most cases, the production capacity was also increased.

64% of Hidroelectrica's installed hydropower capacity is 20–50 years old; 13% is older than 50 years, and 23% is younger than 20 years. The concession contract with the Romanian State for the hydropower plants ends in 2053, with a bilateral option to extend it for 24.5 additional years.

By asset type, 46% of Hidroelectrica's hydropower plants with an installed capacity

June 6, 2024

Hydropower capacity by asset type¹



Source: Hidroelectrica; ¹ Hydropower plants with an installed capacity >= 10MW as of March 2023

greater than or equal to 10 MW are run-of-river plants, and 54% are storage plants.

Built during the 1964–1972 period, Portile de Fier I is the largest production facility of Hidroelectrica by output, with an installed capacity of 1.2 GW through six hydropower units with high-capacity Kaplan turbines (6 x 194.4 MW). The refurbishment programmes of Portile de Fier 1 have led to an increase in the installed capacity from 175 to 194.4 MW for each power unit in the plant, an increase in the technical performance of equipment and installations, and an increase in operational safety. After the refurbishment, the hydropower plant from Portile de Fier I had an annual project electricity production of 5.241 TWh in an average hydrological year, which is about 10% of the total production at the national level. In addition, the plant provides almost half of the technological system services in Romania.

Portile de Fier II was built during the 1977-1994 period and has an installed capacity of 0.305 GW, estimated to reach 0.368 GW following the refurbishment of Gogosu unit. Portile de Fier II (the main unit) has an annual project electricity production of 1.24 TWh in an average hydrological year. Additionally, the auxiliary unit located in Gogosu is designed to produce an annual electricity output of 0.084 TWh under similar hydrological conditions.

By installed capacity, Portile de Fier (I & II) is followed by Lotru-Ciunget (SH Valcea), with 1.5 GW; Retezat (SH Hateg), with 0.7 GW; and Vidraru (SH Curtea de Arges), with 0.6 GW.

Hidroelectrica: Summary of hydropower generation capacities

Branch	Installed capacity (GW) ¹	Capacity mix (MW) ²		Avg. availability ^{2,3}	Avg. gross output (GWh) ³	Avg. utilisation rate ³
		Storage	Run-of-river			
SH Portile de Fier (I & II)	1.6	11%	89%	84.8%	6,766	48%
SH Valcea	1.5	42%	58%	94.0%	3,436	26%
SH Hateg	0.7	100%	0%	91.6%	749	12%
SH Curtea de Arges	0.6	87%	13%	90.9%	1,025	20%
SH Bistrita	0.6	69%	31%	90.5%	1,679	32%
SH Cluj	0.5	85%	15%	90.2%	859	20%
SH Sebes	0.5	70%	30%	92.4%	785	18%

Source: Hidroelectrica; Swiss Capital estimates; ¹ Excludes 92 MW of electrical pump stations; ² Excludes power plants with an installed capacity < 10 MW and electrical pump stations; ³ 2018-2022 period

Hidroelectrica: Summary of wind generation capacity

Installed capacity	108 MW
Production units	36 Vesta V112 turbines of 3 MW each
Avg. availability ¹	98.6%
Avg. net output ¹	291.6 GWh
Avg. planned outage ¹	~ 35 hours/year
Avg. utilisation rate ¹	30.8%
Green certificates ²	0.75 green certificates awarded per MWh

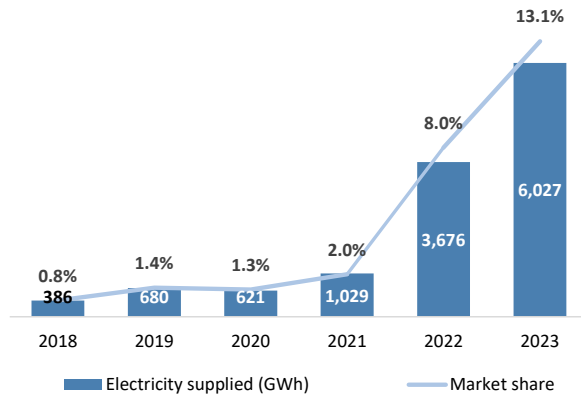
Source: Hidroelectrica; ¹ Over 2018-2022 period; ² The wind farms qualifies for the green certificates State support scheme until 2029. Following 2029, the green certificates may be sold until 2032

Hidroelectrica is the third and most dynamic player on the electricity supply market, with a footprint of 13% as of 2023, up from 8% in 2022 and from 0.8% in 2018

Please note that the quantities supplied in 2023 do not include the volumes for covering imbalances

Electricity supply

Hidroelectrica: Market share evolution

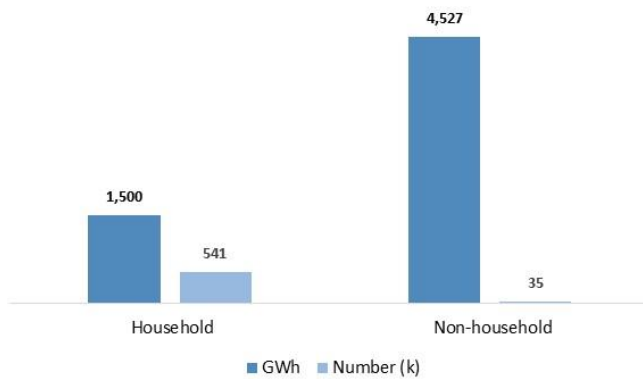


Source: Hidroelectrica; ANRE

Last year, Hidroelectrica covered 576k consumption places, of which 541k household clients (1,500 GWh) and 35k non-household clients (4,527 GWh)

Please note that the quantities shown do not include the supplied volumes for covering imbalances

Hidroelectrica: Electricity supply market coverage (2023)



Source: Hidroelectrica

In 2022, Hidroelectrica provided 67% of secondary adjustment reserve, 66% of Up fast tertiary reserve, 11% of Down fast tertiary reserve and 100% of the reactive energy debited or absorbed from the network in the secondary voltage adjustment band

Please note that the reference to data from 2022 is due to the unavailability of the 2023 figures

Ancillary services

The technological system services (ancillary services) are purchased by the national power grid operator (Transelectrica) from producers under contract upon Transelectrica's request with a view to maintaining the operational safety of the system and the quality of transmitted electricity within certain parameters. Transelectrica acquires the technological system services from the electricity producers under a procedure regulated by ANRE and re-invoices the entire amount of system services purchased from producers (except for the active energy component covering the grid losses) to the ANRE-licensed electricity suppliers that benefit from the services.

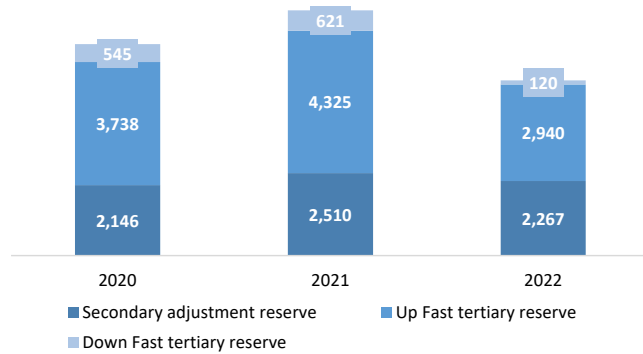
The qualification of domestic producers as ancillary service providers is made under Transelectrica's procedure PO TEL-07 V OS-DN/154/2001. In 2021, Hidroelectrica was qualified for the following ancillary services: secondary frequency - power control (28 hydro-aggregates); fast tertiary reserve (95 hydro-aggregates); reactive power regulation in the secondary voltage adjustment band (28 hydro – aggregates); restoration of NES (5 hydro-aggregates). The qualification process has a permanent character, but each qualified unit as a provider of ancillary services must periodically

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reconfirm, through tests, its ability to perform the respective services for which it was initially qualified.

Hidroelectrica: Ancillary services volume (hGW¹)



Source: Hidroelectrica; ¹ hGW defined as measurement unit of ancillary services

Electricity market

Generation

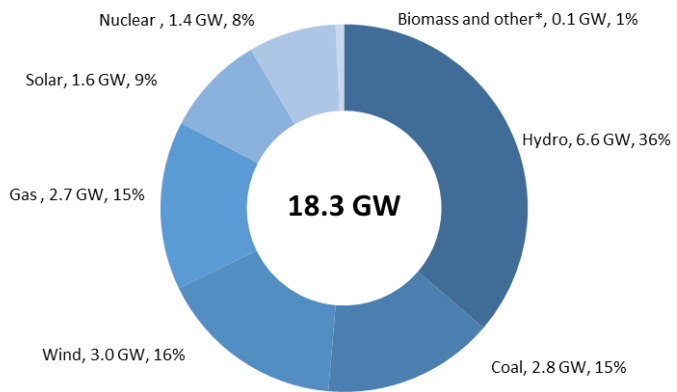
Romania has a gross installed capacity of 18.3 GW, of which 62% renewables

In 2015, wind capacity increased to 3 GW and has remained largely stable since then

Solar capacity grew in 2013 (+1.1 GW) but the pace slowed down subsequently, with only 0.5 GW being added since then

Since 2010, coal's share in total installed capacity has decreased by more than half, from 34% to 15% in April 2024

Romania: Electricity generation mix (April 2024)



Source: Romanian Energy Regulatory Authority (ANRE); * Other sources include biogas and geothermal

Demand and supply

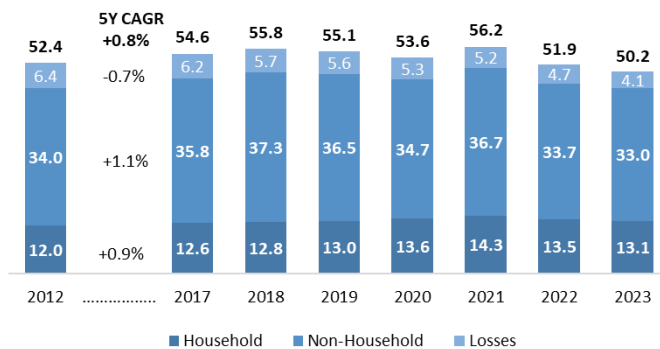
Last year, domestic power consumption declined to 50.2 TWh (-3% Y/Y)

Household consumption decreased by 3% Y/Y to 13.1 TWh (26% of total electricity consumption)

Non-household consumption declined by 2% Y/Y to 33.0 TWh (66% of total electricity consumption)

Transmission and distribution grid losses declined by 13% Y/Y to 4.1 TWh, and

Romania: Electricity consumption (TWh)



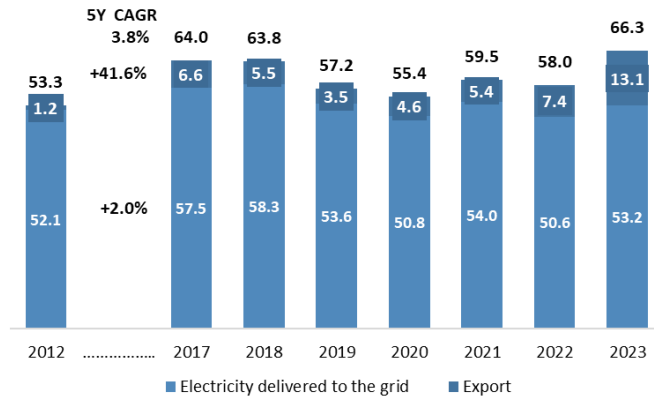
Source: Romanian Energy Regulatory Authority (ANRE)

their weight in total consumption reduced to 8% from 9% in 2022

In 2023, 53.2 TWh (+5% Y/Y) have been delivered to the grid from domestic electricity generation

During 2019-2022, Romania has been a net importer of electricity, but last year the country shifted its status to become a net exporter, importing 10.1 TWh and exporting 13.1 TWh

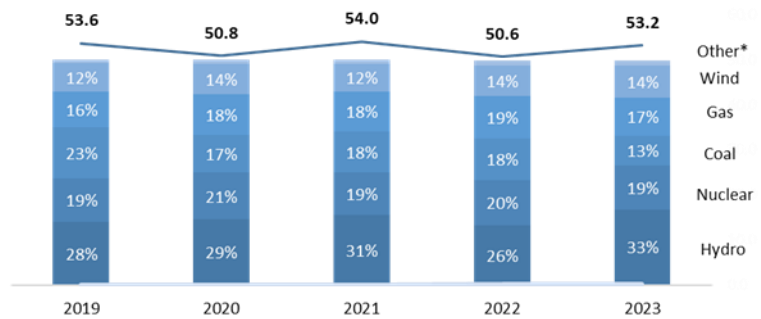
Romania: Electricity delivered to the domestic grid and exports (TWh)



Source: Romanian Energy Regulatory Authority (ANRE)

RES and CO₂ free generation accounted for 50% and 69%, respectively of total electricity delivered to the grid in 2023

Romania: Electricity delivered to the grid by sources (TWh)



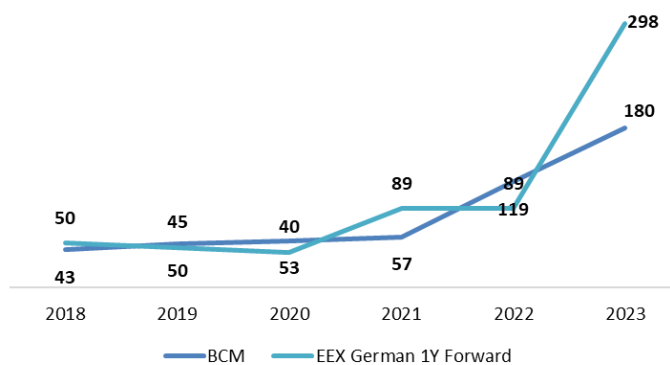
Source: Romanian Energy Regulatory Authority (ANRE);* Biomass and heating oil

Prices

Bilateral Contract Market (BCM)

According to the market operator, last year, the average domestic electricity forward price increased 1.5x Y/Y to EUR 180/MWh and stood EUR 118/MWh below German average forward price

Electricity forward prices (EUR/MWh)



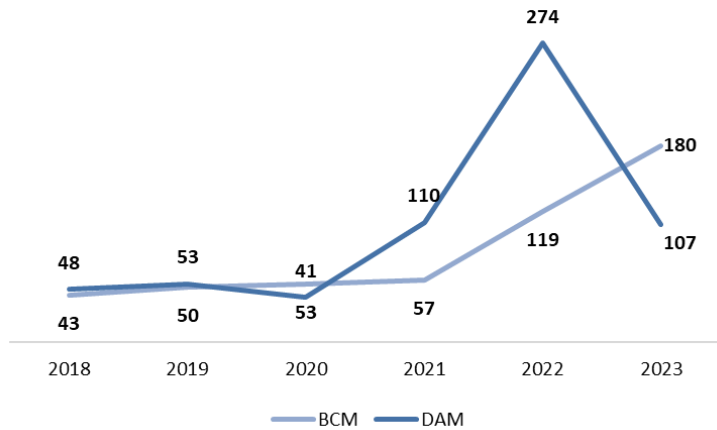
Source: OPCOM; EEX

Day Ahead Market (DAM)

Over 2018-2020 period, the electricity traded on DAM about in line with the prices recorded on the BCM

Starting in 2021, the spreads between the two markets widened, reflecting the market volatility and highlighting the significant impact of trading strategies

Romania: Electricity spot prices (EUR/MWh)



Source: OPCOM

In 2021, the spread between the DAM and BCM prices surged to EU 53/MWh climbing further to EUR 154/MWh in 2022 amid skyrocketing electricity prices. The spike was due to the traders that secured substantial volumes, pushing less savvy buyers to an increasingly congested DAM.

In 2023, the dynamic reversed, with the DAM - BCM spread turning negative to EUR 73/MWh as part of the BCM buyers were locked into previous years's higher prices.

Recent amendments to electricity market regulation

The Emergency Ordinance No. 32/2024 for the amendment and supplementation of the Government Emergency Ordinance No. 27/2022 regarding the measures applicable to end customers in the electricity and natural gas market for the period April 1, 2022 - March 31, 2023, as well as for the amendment and supplementation of some normative acts in the energy field and the adoption of some measures in the energy domain, was published in the Official Gazette on March 29, 2024.

The proposed revisions to electricity market regulation are indicative of the decreasing power prices observed across both forward and spot markets

These proposed initiatives aim to strike an equitable approach by ensuring affordability while addressing fiscal considerations. The impact on power producers and suppliers is positive as evidenced by the lowered threshold for calculating windfall taxes and by the relatively generous caps established for the sums to be reimbursed from the state budget to electricity suppliers and for end-consumers prices

* The maximum value of the weighted average electricity price at which the Regulatory Authority for Energy (ANRE) calculates the amounts to be settled from the state budget for electricity suppliers was reduced to RON 700 /MWh from RON 900/MWh, previously.

* Starting April 1, 2024, electricity producers will pay a windfall tax starting from a price threshold of RON 400/MWh, reduced from RON 450/MWh previously, on all market sales. The tax will be 100% of the difference between the sale price and the reference price of RON 400/MWh. Costs associated with imbalances (up to 5%), hedging, and CO2 certificates, where applicable, will be excluded from the tax base.

* Starting April 1, 2024, the mechanism for the centralised purchase of electricity (MACEE), which mandates electricity producers to sell to suppliers serving end customers at RON 450/MWh, will become optional. Consequently, all electricity producers will have the option to participate voluntarily. Additionally, the sale price through MACEE was reduced from RON 450/MWh to RON 400/MWh.

* Until March 31, 2025, the current electricity price caps for final consumers would remain unchanged. Thus, the price invoiced by electricity suppliers to end-consumers

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Regarding the transition period to a free market, specifically between April 1, 2025, and April 1, 2026, the formula for setting the acquisition component of the price billed to end-consumers appears to be reasonable as it underscores an approach that mirrors market price formation to a significant extent.

would be capped at: (i) RON 0.68 /kWh (VAT incl.) for households whose average monthly consumption is less than or equal to 100 kWh, RON 0.8 /kWh (VAT incl.) for households whose average monthly consumption is between 100 kWh and 300 kWh; (ii) RON 1/kWh (VAT incl.), for the total consumption of both public and private hospitals, public and private educational institutions, nurseries, and both public and private providers of social services; (iii) RON 1/kWh (VAT incl.) for 85% of the monthly consumption at the consumption sites of public institutions, other than those mentioned in point (ii) above, as well as for consumption sites belonging to officially recognized religious organizations in Romania. The remaining monthly electricity consumption will be billed at a maximum price of RON 1.3 /kWh (VAT incl.); (iv) RON 1.3 /kWh (VAT incl.) for non-household consumers who do not fall into one of the above categories.

* Starting April 1, 2024, the electricity supply margins are maintained at RON 73/MWh for end-consumers and RON 80/MWh for consumers of last resort.

* Between April 1, 2025, and April 1, 2026, the electricity pricing for end-consumers would be derived from the aggregate of purchased and supply components. Accordingly, the electricity purchase component for the end-customer's invoice in month i will reflect a 10% markup over the combined weighted averages of the following: the average price of electricity secured by the supplier through forward contracts with delivery in month i (accounting for 40% of the volume), the average price from all transactions involving standardized medium and long-term products executed on forward markets for delivery in month i, irrespective of the transaction date (constituting 20% of the volume), and the day-ahead price for month i (comprising 40% of the volume). The supply margin would be set at RON 73/MWh for end-consumers and RON 80/MWh for consumers of last resort.

Decision regarding the approval of the general framework for the implementation of the support mechanism through CfD for low carbon emission technologies

The term of the CfD is stipulated to extend up to a maximum duration of 15 years

Access to the CfD scheme shall be facilitated through a procedure that is both competitive and transparent - This process shall commence at the most competitive price point, continuing until the total capacity earmarked for auction has been fully allocated

The upper limit for strike prices has been established to EUR 91/MWh for photovoltaic technologies and EUR 93/MWh for wind energy technologies

The Romanian Ministry of Energy has issued a decision regarding the introduction of a support mechanism through Contracts for Difference (CfD), aimed at facilitating the production of electricity using low-carbon technologies. This initiative is part of the broader legal framework intended to foster the transition towards more sustainable energy sources within the country. The CfD mechanism is designed to encourage investments in various renewable energy technologies, including onshore and offshore wind, solar photovoltaics, hydro, nuclear, hydrogen, and energy storage solutions.

The document specifies that eligibility criteria will be detailed in future ministerial and auction initiation orders, hinting at a preference for projects utilising a single technology. This could potentially exclude hybrid projects that combine multiple renewable sources for improved efficiency and market adaptability, despite their potential for higher economic returns and contribution to a more stable energy supply.

A significant aspect of the framework is the provision for "ad-hoc CfD" state aid, which allows for direct negotiation and approval of projects that might not fit into a competitive selection process, pending authorisation from the European Commission.

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The strike price shall undergo an annual adjustment, aligned with the inflation rate as measured by the Consumer Price Index of the Eurozone, ensuring its consistency with prevailing economic conditions

Reference prices shall be determined based on the monthly weighted average price of the Day Ahead Market

- This pricing shall be specifically weighted according to the generation technology that is being supported under the CfD

Beneficiaries will not receive CfD payments for energy supplied during periods of negative market prices

However, the framework also introduces a limitation that beneficiaries will not receive CfD payments for energy supplied during periods of negative market prices, aiming to discourage non-commercial production and mitigate financial risks to authorities.

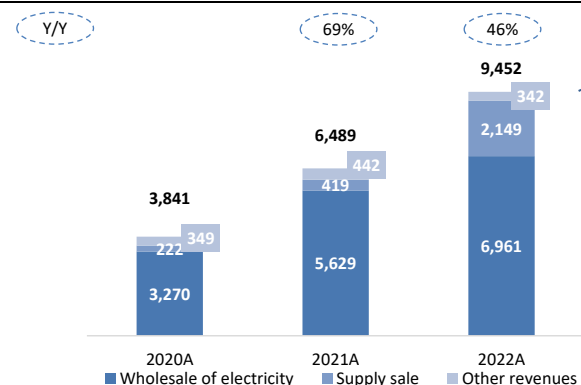
The European Commission has approved a financing scheme for Romania's CfD contracts, allocating an initial fund of EUR 3b to support 5,000 MW of solar and wind energy projects. The scheme includes a performance guarantee requirement for developers, ensuring commitment to project completion and operationalisation. The guarantee must be paid shortly after contract signing and is aimed at securing the fulfillment of key project milestones.

Furthermore, the draft decision outlines the operational reporting requirements for project developers, emphasizing transparency and accountability throughout the project lifecycle. It also announces two rounds of CfD auctions scheduled for 2024 and 2025, targeting a total of 5 GW of renewable energy capacity, with funding from the Modernization Fund to alleviate the financial impact on consumers. Lastly, the document mentions a "CfD contribution" to be paid by final consumers, collected by electricity suppliers, and used to support the CfD fund.

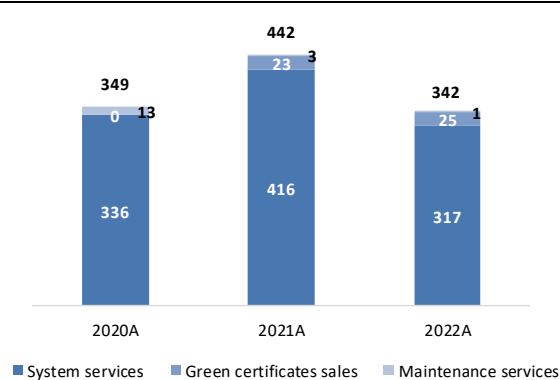
Financial highlights (FY 2020 - FY 2022)

- * Strong revenues growth driven by power prices, supply segment development and wind diversification starting in March 2021
- * Hydropower generation negatively impacted by drought in 2022
- * EBITDA margin negatively impacted by windfall tax and purchased electricity increased costs in 2022

Hidroelectrica: Revenues (RONm)



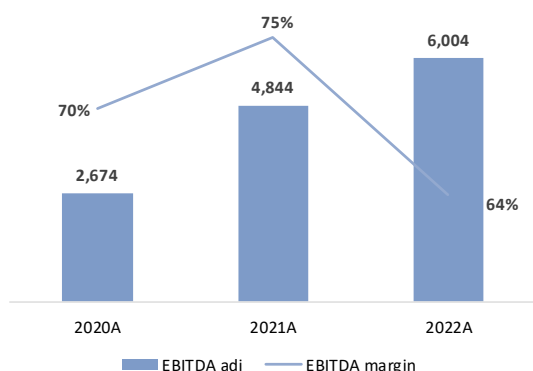
Hidroelectrica: Other revenues (RONm)



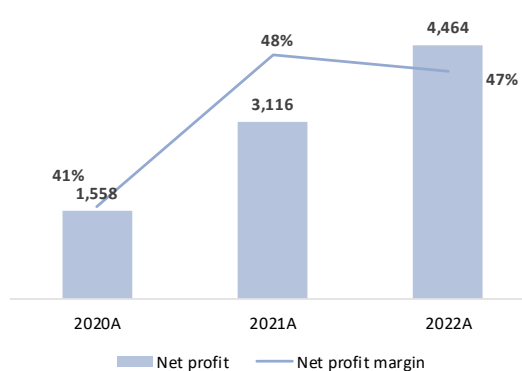
Source: Hidroelectrica

Source: Hidroelectrica

Hidroelectrica: Adjusted EBITDA* (RONm)



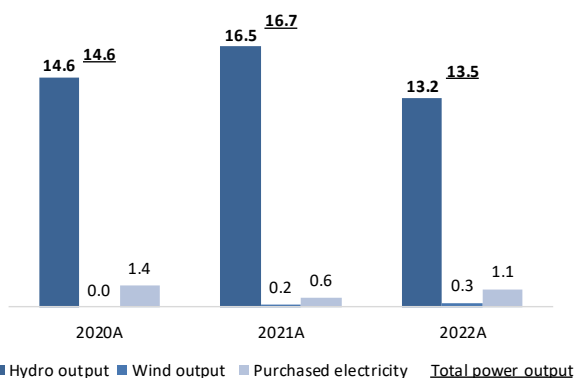
Hidroelectrica: Net profit (RONm)



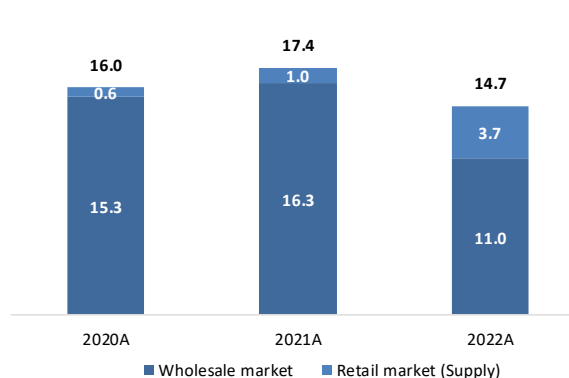
Source: Hidroelectrica; * Adjustments incl PP&E impairments and gains from bargain purchase of subsidiaries

Source: Hidroelectrica

Hidroelectrica: Electricity generation & acquisitions (TWh)



Hidroelectrica: Electricity sales breakdown (TWh)



Source: Hidroelectrica

Source: Hidroelectrica

* In 2022, wholesale grew to RON 6,961m (+24% Y/Y) as the average realised price added 83% Y/Y to RON 632/MWh more than offsetting the volumes decrease to 11.02 TWh (-33% Y/Y). Last year, Hidroelectrica's sales on the BCM (Bilateral Contracts Market) stood at RON 4,031m and represented 77% of total company's OPCOM sales (73% in 2021 and 86% in 2020)

* Last year, supply sales (retail sales) increased 5.1x Y/Y to RON 2,149m as volumes grew 3.6x Y/Y to 3.68 TWh and the average realised price rose by 44% Y/Y to RON 585/MWh

Hidroelectrica wholesale: Revenues (RONm), Volumes (TWh) and Prices (RON/MWh)

	2020A	2021A	2022A
OPCOM market (RONm)	3,064	4,610	5,265
Y/Y		50%	14%
Volume (TWh)	14.84	15.39	10.15
Y/Y		4%	-34%
Price ¹ (RON/MWh)	206	300	519
Y/Y		45%	73%
Balancing market (RONm)	206	1,019	1,696
Y/Y		394%	67%
Volume (TWh)	0.50	0.94	0.86
Y/Y		88%	-8%
Price ¹ (RON/MWh)	414	1,087	1,966
Y/Y		163%	81%
TOTAL WHOLESALERS (RONm)	3,270	5,629	6,961
Y/Y		72%	24%
Volume (TWh)	15.34	16.32	11.02
Y/Y		6%	-33%
Price¹ (RON/MWh)	213	345	632
Y/Y		62%	83%

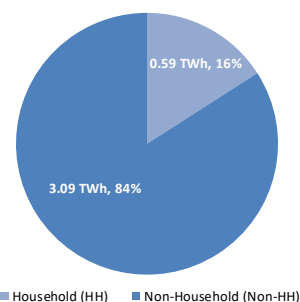
Source: Hidroelectrica; ¹ Average realised price

Hidroelectrica supply sales: Revenues (RONm), Volumes (TWh) and Prices (RON/MWh)

	2020A	2021A	2022A
Supply sales (RONm)	222	419	2,149
Y/Y		88%	413%
Volume (TWh)	0.63	1.03	3.68
Y/Y		64%	257%
Price¹ (RON/MWh)	355	407	585
Y/Y		15%	44%

Source: Hidroelectrica; ¹ Average realised price

Hidroelectrica: Supply sales volume breakdown (2022)



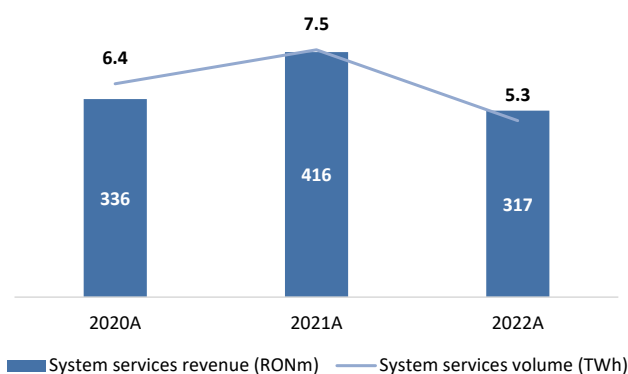
Source: Hidroelectrica

System services revenue

System services are purchased by Tranelectrica with a view to maintain the operational safety of the system and the quality of transmitted electricity to certain parameters

Tranelectrica re-invoices the amount of system services purchased (except for the active energy component covering the grid losses) to the ANRE-licensed electricity suppliers that benefit the services

Hidroelectrica: System services revenue (RONm) and volume (TWh)



Source: Hidroelectrica

Fixed, Variable and Pass-through OPEX

Fixed costs include expenses related to employees, D&A, PP&E impairment trade receivables impairment, repairs, maintenance, consumables and other operating expenses

Variable costs include turbinated water, electricity purchased and windfall tax expenses

Pass-through costs include expenses related to transport and distribution (T&D) of electricity and green certificates

Fixed OPEX

D&A expense represents the largest fixed OPEX category (RON 772m in 2022), followed by employee benefit expense (RON 631m in 2022) - As of 2022-end, the company reported 4,621 employees (+2% Y/Y) and an average cost per employee of RON 140,348 (+5% Y/Y)

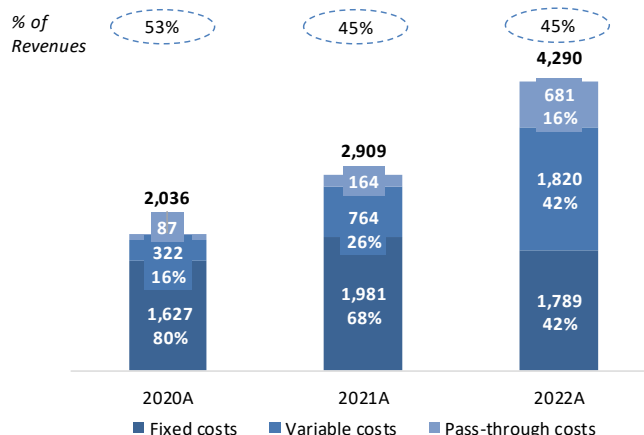
The largest other fixed costs include net movement in provisions (RON 74m in 2022), local taxes (RON 61m in 2022) and other expenses (RON 52m in 2022)

Variable OPEX

Variable OPEX increased by 2.4x Y/Y in 2022 as electricity purchased expenses grew by 7.7x Y/Y due to both electricity volumes and prices, and the windfall tax rose 5.0x Y/Y, due to realised electricity prices, longer applicability period and tax rate increase from 80% to 100% starting September 2022

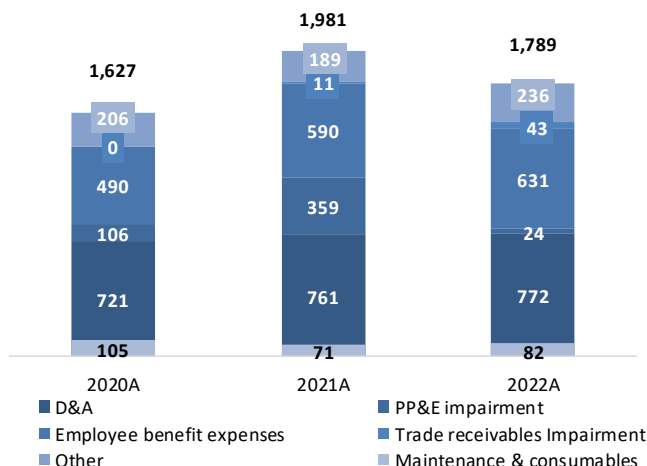
Turbinated water expenses declined by 17% Y/Y in 2022 as the hydropower output decreased by 20% Y/Y negatively impacted by drought

Hidroelectrica: OPEX (RONm) breakdown



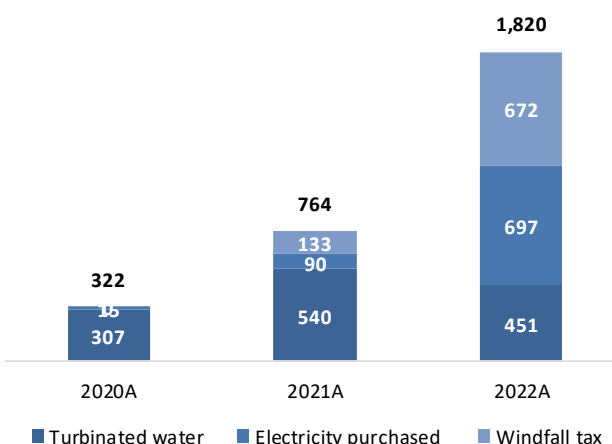
Source: Hidroelectrica

Hidroelectrica: Fixed OPEX (RONm) breakdown



Source: Hidroelectrica

Hidroelectrica: Variable OPEX (RONm) breakdown



Source: Hidroelectrica

Variable OPEX - Windfall tax

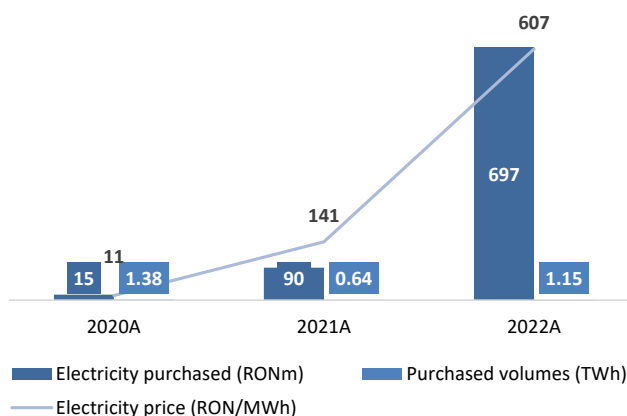
The windfall tax is computed as 80% (1 November 2021 - 31 August 2022) and 100% (1 September 2022 - 31 March 2025) of the net monthly average selling price in excess of RON 450/MWh - The net monthly average selling price is computed based on the monthly revenue of the generation segment less the monthly cost of electricity purchased, market administration, and trading fees - Electricity production costs are not included in the monthly expenses

Windfall tax methodology. The monthly revenue of the generation segment includes, according to the legislation, the wholesale of electricity produced and the value of electricity transferred within the same entity from producer portfolio (generation segment) to supplier portfolio (supplier segment). As the legislation does not define and does not include provisions on how the transfer value from producer portfolio to supplier portfolio should be computed, Hidroelectrica has used its internal methodology for calculation of the transfer price between its licenced activities (generation and supply), which was approved by the Board of Directors on 8 June 2021, before the issuance of the legislation regarding the tax for electricity producers. This methodology is based on the average electricity production cost in the last 12 months ending 2 months prior the calculation month, plus an internal margin. This methodology may differ from the methodologies used by other companies taking into consideration that there is no regulation that stipulates a certain definition or method of calculation.

Variable OPEX – Electricity purchased

Electricity purchased expense reached RON 697m in 2022 (+7.7x Y/Y) as the realised electricity price grew to RON 607/MWh (+4.3x Y/Y) and the purchased volumes increased to 1.15 TWh (+80 Y/Y) to cover wholesale and supply needs, while hydropower generation declined 20% Y/Y impacted by drought

Hidroelectrica: Electricity purchased



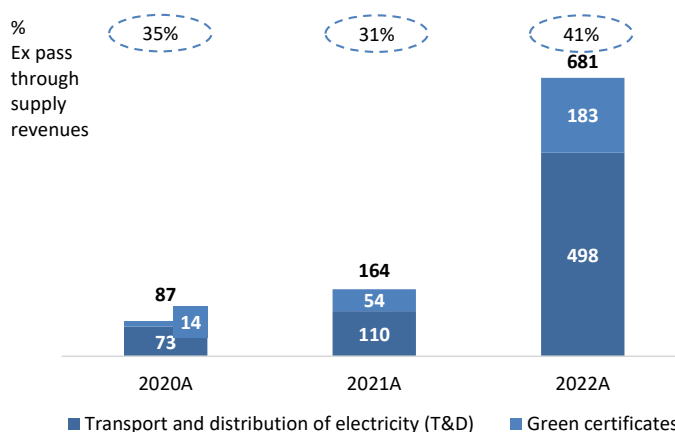
Source: Hidroelectrica

Pass-through OPEX

Pass-through OPEX grew to RON 681m in 2022 (+4.2x Y/Y), mainly reflecting the increase in supply volumes (+3.6x Y/Y)

Note that the pass-through OPEX, recharged to end-users, is recognised in the P&L as part of supply revenues as well

Hidroelectrica: Pass-through OPEX (RONm)



Source: Hidroelectrica

Pass-through OPEX - Green certificates

As an electricity supplier, the company is required by law to purchase a number of

As an electricity supplier, Hidroelectrica is required to purchase a number of green certificates computed by multiplying the annual mandatory purchase quota of green certificates by the quantity (in MWh) of electricity supplied to end users. ANRE

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green certificates, whose cost is subsequently charged to the end users based on the quantities of electricity consumed - To meet the purchase obligation (annual target or quota), the company uses both green certificates granted under the support scheme for renewable energy units and green certificates purchased

establishes the annual mandatory level of purchase obligations (quotas) for green certificates. The applicable annual quota for 2022 is 0.5014313 green certificates per MWh (2021: 0.4505 green certificates per MWh, and 2020: 0.45074 green certificates per MWh).

As a producer of electricity from renewable sources (hydroelectric power in refurbished micro-hydropower plants with an installed capacity of no more than 10 MW and with a service life of at least 15 years from the date of commissioning, and wind power), Hidroelectrica receives green certificates through the green certificates support scheme. The company receives 0.34 green certificates for each MWh generated by the eligible micro-hydropower plants (8 in 2022; 14 in 2021; 17 in 2020) and 0.75 green certificates for each MWh generated by the wind farm. At the end of 2022, 7 micro-hydropower plants and the wind farm remained in the support scheme. After the removal of support scheme in 2029, the green certificates may be sold until 2032.

The green certificates may be sold on the spot and forward market. The selling price must fall between the minimum and maximum values set by law (a) a minimum trading value of EUR 29.4/GC and (b) a maximum trading value of EUR 35/GC. Crucea wind farm sold green certificates in 2022, 2021 and 2020 at the minimum price on both markets, as a result of the excess GC offered for sale compared to the suppliers' purchasing obligations.

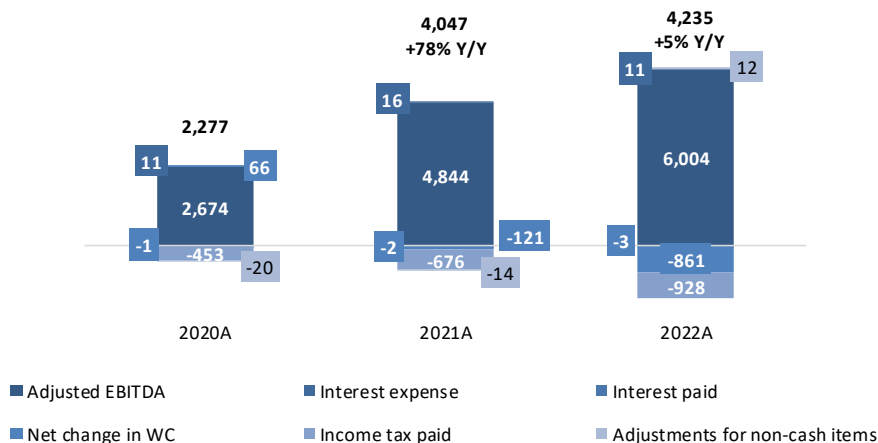
Attractive cash flow generation helped by favourable electricity prices and low production costs

Since 2020, the CFO grew 1.9x to RON 4,235m in 2022

Over 2020–2022, Hidroelectrica ran at an average production cost of EUR 29/MWh, while the realised electricity price (pass-through costs excl) increased from EUR 44/MWh in 2020 to EUR 117/MWh in 2022

In 2022, the operation cash flow was negatively impacted by changes in working capital (WC) of RON 861m as trade receivables increased 2.0x Y/Y to RON 1,351m mainly due to delays in the billing process for supply business customers

Hidroelectrica: Cash Flow from Operations (RONm)

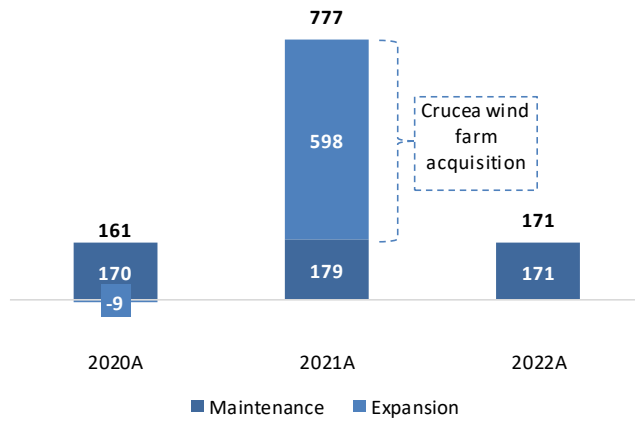


Source: Hidroelectrica

In 2022, Hidroelectrica started the implementation of a new billing system, which together with the frequent regulatory changes with respect of supply prices to end-users and the significant increase in the number of retail clients of the company, conducted to a significant delay in the billing process.

Low maintenance CAPEX requirements given the intrinsic nature of hydropower generation assets

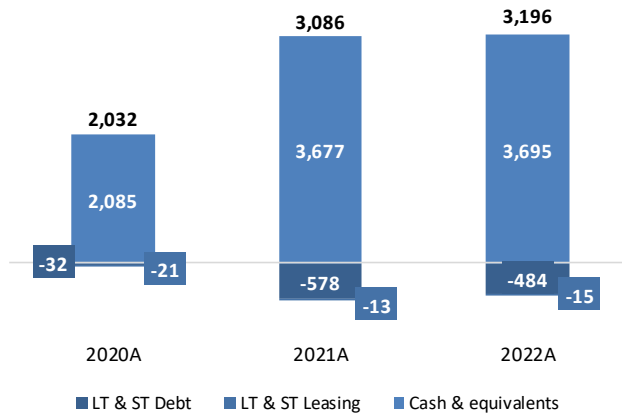
Hidroelectrica: CAPEX (RONm)



Source: Hidroelectrica

Strong net cash position owing to low production costs, in a pricey power environment, and maintenance CAPEX requirements

Hidroelectrica: Net cash (RONm)

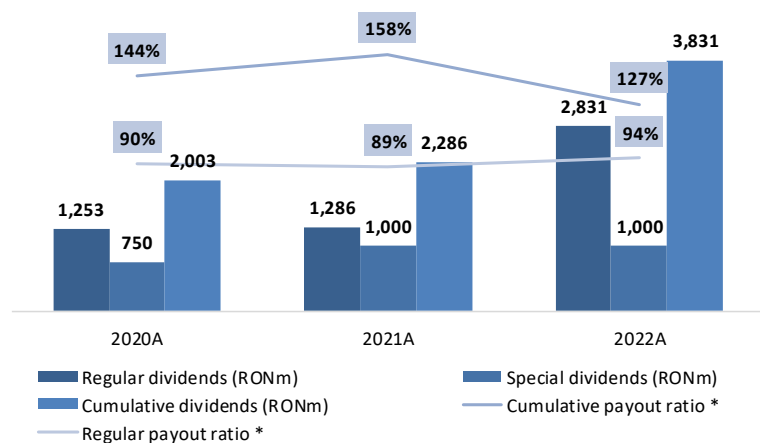


Source: Hidroelectrica

Compelling shareholders remuneration with an average regular dividend payout ratio of 91% and cumulative payout (special dividends included) of 143% since 2020

Cumulative dividends paid in the last 3Y amounted to RON 8,121m, of which RON 2,750m special dividends

Hidroelectrica: Paid dividends



Source: Hidroelectrica; * Romanian companies distribute dividends from statutory earnings only, as per individual financial statements prepared in accordance with Romanian accounting regulations

FY 2023 Results

Hidroelectrica: P&L summary

(RONm)	FY 2022	FY 2023	Y/Y
Net electricity production (TWh)	13.5	17.6	30%
Revenues	9,452	12,160	29%
Wholesale and electricity supply	9,110	11,825	30%
Sale volumes (TWh)	14.5	19.3	33%
Average price (excl pass - through costs) - RON/MWh	581	526	-9%
Wholesale	6,921	6,739	-3%
Sale volumes (TWh)	10.9	13.1	21%
Realised price (RON/MWh)	637	514	-19%
OPCOM	5,474	6,172	13%
Sale volume (TWh)	10.3	12.7	23%
Realised price (RON/MWh)	532	487	-8%
Balancing market	1,447	567	-61%
Sale volume (TWh)	0.57	0.43	-25%
Realised price (RON/MWh)	2,521	1,310	-48%
Electricity supplied to final consumers	2,149	4,936	130%
Sale volumes (TWh)	3.7	6.2	70%
Average price (excl pass - through costs) - RON/MWh	414	551	33%
System services	317	334	5%
Other	26	1	-96%
Other operating income	46	35	-25%
Total operating revenues	9,498	12,195	28%
Turbined water	451	639	42%
Turbined water tariff (RON/MWh)	32.6	37.1	14%
Employee benefit expenses	631	717	14%
No. of employees (avg)	4,491	4,564	2%
Gross monthly benefit expense per employee (RONk)	11.7	13.1	12%
Supply pass-through costs	681	1,504	121%
Electricity purchased	697	456	-35%
Volumes (TWh)	1.0	1.7	70%
Average price (RON/MWh)	697	268	-61%
Depreciation & Amortisation	772	799	4%
PP&E impairment loss (gain)	24	237	N/M
Impairment loss on trade receivables	43	80	N/M
<i>Wholesale and electricity supply revenues %</i>	<i>0.5%</i>	<i>0.7%</i>	
Repairs, maintenance, materials and consumables	82	85	4%
Windfall tax	672	225	-66%
Other operating expenses	236	251	6%
Total operating expenses	4,290	4,995	16%
Production costs (RON/MWh)	144	155	8%
Production costs (EUR/MWh)	29	31	7%
Adjusted EBITDA	6,004	8,237	37%
<i>Adjusted EBITDA margin</i>	<i>64%</i>	<i>68%</i>	
EBIT	5,208	7,200	38%
<i>EBIT margin</i>	<i>55%</i>	<i>59%</i>	<i>7%</i>
Net financial result	209	259	24%
EBT	5,417	7,459	38%
<i>Effective Income tax rate</i>	<i>17.6%</i>	<i>14.7%</i>	
Net profit	4,464	6,365	43%
<i>Net profit margin</i>	<i>47%</i>	<i>52%</i>	

Source: Hidroelectrica; Swiss Capital estimates

Hidroelectrica: Balance sheet summary

(RONm)	FY 2022	FY 2023	% Δ
Non-current assets			
Property, plant and equipment	19,521	20,427	5%
Intangible assets	6	6	-11%
Restricted cash	101	0	-100%
Investments in corporate bonds	351	353	1%
Other non-current assets	218	284	30%
Total non-current assets	20,198	21,069	4%
Current assets			
Inventories	72	71	-2%
Trade receivables	1,351	3,048	126%
Investments in deposits	3,035	4,349	43%
Cash and equivalents	661	408	-38%
Restricted cash	0	101	N/M
Other current assets	115	63	-45%
Total current assets	5,234	8,040	54%
Total assets	25,432	29,109	14%
Equity			
Share capital	5,513	5,527	0%
Revaluation reserve	11,021	12,039	9%
Other reserves	1,023	1,024	0%
Retained earnings	4,029	6,432	60%
Total equity	21,587	25,021	16%
Non-current liabilities			
Bank borrowings	390	300	-23%
Lease liabilities	8	61	710%
Deferred income	182	177	-3%
Deferred tax liabilities	1,316	1,504	14%
Employee benefits	122	128	5%
Provisions	817	837	2%
Trade payables	0	0	N/M
Other payables	6	8	47%
Total non-current liabilities	2,841	3,016	6%
Current liabilities			
Bank borrowings	94	93	-1%
Lease liabilities	8	5	-36%
Trade payables	283	408	44%
Contract liabilities	85	42	-51%
Current tax liabilities	172	145	-15%
Deferred income	6	6	0%
Employee benefits	106	100	-6%
Provisions	122	165	36%
Tax for electricity producers	91	1	-99%
Other payables	39	107	N/M
Total current liabilities	1,005	1,072	7%
Total liabilities	3,846	4,088	6%
Total equity and liabilities	25,432	29,109	14%
Total borrowings and lease liabilities	500	460	-8%
Cash & equivalents	3,695	4,757	29%
Net cash	3,196	4,297	34%

Source: Hidroelectrica

Adjusted EBITDA → RON 8,237 m (+37% Y/Y) mainly on increased sale volumes (+33% Y/Y) that pushed up the wholesale and supply sales to RON 11,825m (+30% Y/Y), while OPEX added 16% Y/Y with the advance of supply pass-through costs (+2.2x Y/Y), employees benefit (+14% Y/Y) and turbinated water expenses (+42% Y/Y) partially offset by the decline of windfall tax (-66% Y/Y) and electricity purchased costs (-35% Y/Y)

Net profit → RON 6,365m (+43% Y/Y) helped further up by a net financial result of RON 259m (+24% Y/Y) on higher interest income - The effective income tax reduced as well to 14.7% from 17.6% on declining amounts distributed from tax deducted revaluation reserves - According to the Fiscal Code, certain revaluation reserves are subject to income tax at their distribution as dividends if the revaluation reserves were previously tax deducted

Trade receivables → 3,048m (+2.3x Y/Y) mainly due to significant delays in the billing process of supply customers – The gross unbilled revenues stood at RON 1,229m as of 2023-end

Total borrowings and lease liabilities → RON 460m (-8% Y/Y), of which the largest part is represented by a loan contracted in March 2021 (EUR 130k) for financing the acquisition of Crucea Wind Farm and Hidroelectrica Wind Services. The loan matures in March 2028 and owes a margin on top of EURIBOR 3M

Net electricity output → 17.6 TWh (+30% Y/Y) due to improved hydrology, with the quantity of energy produced in 2023 being above the multiannual average. **Sale volumes → 19.3 TWh (+33% Y/Y)** with supply volumes adding 70% Y/Y to 6.2 TWh (o/w ~ 76% Non-HH). **Realised price (pass-through costs excl) → RON 526 (-9% Y/Y)**, with the decline of wholesale price (-19% Y/Y) to RON 514/MWh, following MACEE implementation and a lower realised price on the balancing market (-48% Y/Y), partially offset by rising supply prices (pass-through costs excl) that added 33% Y/Y to RON 551/MWh, as the price for final non-HH consumers was set relatively high at RON 700/MWh (pass-through costs excl). In 2023, the total volume of electricity sold through MACEE amounted to 5,672 GWh, equivalent to RON 2,552m. From January to December 2023, Hidroelectrica sold a total of 3,594 GWh, equating to a value of RON 1,617.8m. This includes the volume of 2,078 GWh traded in December 2022 for delivery in 2023. Furthermore, during the annual MACEE auction held in December 2023, a contract was secured for the delivery of 2,599 GWh of energy in 2024, valued at RON 1,170m. **Turbinated water expense → RON 639m (+42% Y/Y)** on increased hydro output and tariffs that added 14% Y/Y. **Employees benefit expense → RON 717m (+14% Y/Y)** mainly on increased benefits to cover inflation and to recoup the gap relative to the salary levels recorded by other state-owned companies. The average number of employees added 2% Y/Y. **Supply pass-through costs → RON 1,504m (+2.2x Y/Y)** with supply volumes sale (+70% Y/Y) and injection, distribution and transport tariffs growing by 43% Y/Y on average. The expenses with green certificates rose by 62% Y/Y to RON 297m with the rise of supply volumes partially offset by a decreased quota to 0.4946974 GC/MWh (-1.3% Y/Y). Besides, during the reporting period, the company generated from its own production portfolio a number of 284k green certificates valued at RON 41.4m that reduced the respective expense. **Electricity purchased → RON 456m (-35% Y/Y)** as the average acquisition price declined by 61% Y/Y to RON 268/MWh, more than offsetting the increase in volumes purchased to 1.7 TWh (+70% Y/Y). **Windfall tax → RON 225m (-66% Y/Y)** on declining realised price for windfall computation purposes as more volumes were transferred internally from generation to supply at cost plus an internal margin and the wholesale realised price went down by 19% Y/Y.

Bank deposits → RON 4,349m (+43% Y/Y). The average interest rate on term deposits was 6.96% per year (2022: 6.61% per year). **Restricted cash** represents a collateral deposit of RON 101m at Banca Comerciala Romana for issuance of bank guarantee. As the maturity of the collateral is 30 April 2024, it has been reclassified to current assets. **Deferred tax liability**. According to the Fiscal Code, certain revaluation reserves are subject to income tax at their distribution as dividends, if the revaluation reserves were previously tax deducted. As of 30 December 2023, the deferred tax liability increased by 14% Y/Y to RON 1,504m mainly due to PP&E revaluation reserves subject to income tax. **Non-current provisions**. As of 2023-end, non-current provisions stood at RON 838m, of which RON 746m decommissioning provisions related to the abandoned investment projects.

CAPEX → RON 206m (~ flat Y/Y; 56% below planned CAPEX), o/w Expansion CAPEX of RON 58m (-36% Y/Y).

FY 2024 Outlook

Expect 2024 to shape up as an atypical year for the domestic electricity market

- The introduction of MACEE's optionality starting April the 1st, compels producers to depend on the spot market for volumes that remain uncontracted - As a result, spot prices are likely to settle at levels below those typical of normal market conditions

It is also important to note that during periods marked by relatively low electricity prices, the accuracy of electricity balance forecasts often deteriorates - suppliers, less worried about potential power shortages, may grow complacent about energy availability. This can significantly heighten the risk of imbalances, which, as observed in March, may lead to considerable price spikes on the balancing market

Hidroelectrica: P&L summary

(RONm)	FY 2023	FY 2024E	Y/Y
Net electricity production (TWh)	17.6	15.3	-13%
Revenues	12,160	9,480	-22%
Wholesale and electricity supply	11,825	9,130	-23%
Sale volumes (TWh)	19.3	16.5	-14%
Average price (excl pass - through costs) - RON/MWh	526	448	-15%
Wholesale	6,739	5,197	-23%
Sale volumes (TWh)	13.1	10.8	-17%
Realised price (RON/MWh)	514	479	-7%
OPCOM	6,172	4,447	-28%
Sale volume (TWh)	12.7	10.3	-18%
Realised price (RON/MWh)	487	430	-12%
Balancing market	567	750	32%
Sale volume (TWh)	0.43	0.50	15%
Realised price (RON/MWh)	1,310	1,500	15%
Electricity supplied to final consumers	4,936	3,933	-20%
Sale volumes (TWh)	6.2	5.7	-9%
Average price (excl pass - through costs) - RON/MWh	551	388	-30%
System services	334	350	5%
Other	1	0	N/M
Other operating income	35	33	-4%
Total operating revenues	12,195	9,513	-22%
Turbinated water	639	605	-5%
Turbinated water tariff (RON/MWh)	37.1	39.3	6%
Employee benefit expenses	717	826	15%
No. of employees (avg)	4,564	4,973	9%
Gross monthly benefit expense per employee (RONk)	13.1	13.8	6%
Supply pass-through costs	1,504	1,722	14%
Electricity purchased	456	218	-52%
Volumes (TWh)	1.7	1.2	-27%
Average price (RON/MWh)	268	175	-35%
Depreciation & Amortisation	799	892	12%
PP&E impairment loss (gain)	237	0	0%
Impairment loss on trade receivables	80	62	-23%
<i>Wholesale and electricity supply revenues %</i>	<i>0.7%</i>	<i>0.7%</i>	
Repairs, maintenance, materials and consumables	85	60	-30%
Windfall tax	225	0	0%
Other operating expenses	251	242	-3%
Total operating expenses	4,995	4,627	-7%
Production costs (RON/MWh)	152	150	-2%
Production costs (EUR/MWh)	31	30	-2%
Adjusted EBITDA	8,237	5,779	-30%
<i>Adjusted EBITDA margin</i>	<i>68%</i>	<i>61%</i>	
EBIT	7,200	4,887	-32%
<i>EBIT margin</i>	<i>59%</i>	<i>52%</i>	<i>-13%</i>
Net financial result	259	186	-28%
EBT	7,459	5,073	-32%
<i>Effective Income tax rate</i>	<i>14.7%</i>	<i>16.8%</i>	
Net profit	6,365	4,222	-34%
<i>Net profit margin</i>	<i>52%</i>	<i>45%</i>	

Source: Hidroelectrica; Swiss Capital estimates

For 2024, at the IFRS individual level, Hidroelectrica budgeted a net profit of RON 4,150m, which represents a 35% decrease compared to the level achieved in 2023 primarily attributed to reduced production volumes, from the 6Y record level reached last year, and diminishing electricity prices

2024 Budget. For 2024, at the IFRS individual level, Hidroelectrica budgeted a net profit of RON 4,150m, which represents a 35% decrease compared to the level achieved in 2023. This decline is primarily attributed to reduced production volumes, from the 6Y record level reached last year, and diminishing electricity prices. The company's initial budgeted net profit of RON 4,839m has been revised and adjusted downward by 14% to reflect the recent amendments to the regulations governing the electricity market and the current price environment.

Among these regulatory changes, the most significant, is the introduction of the optionality for the mechanism of the centralised purchase of electricity (MACEE), which now allows purchases at a reduced price of RON 400/MWh, down from the previous quote of RON 450/MWh.

The lowering of the threshold level for the computation of windfall tax does not adversely affect the company's due taxes, as it benefits from a low realised price due to the internal transfer price to the supply segment of approximately RON 204/MWh, our estimate for 2024.

But the introduction of MACEE's optionality starting the 1st of April, may lead to potential market disruptions in 2024. Through MACEE, producers were mandated to sell around 80% of their output. Now, with its optionality, they are left with uncontracted volumes, forcing them to rely on the spot market. This shift may cause a significant influx of volumes into the spot market, where prices averaged RON 329/MWh in April, down 31% compared to April 2023 level, influenced further by oversupply and compounded by low end-consumer demand on mild winter conditions. Nevertheless, Hidroelectrica reported that during the annual MACEE auction held in December 2023, a contract at RON 450/MWh was secured for the delivery of 2,599 GWh of energy in 2024, valued at RON 1,170m.

In its initial budget for 2024, Hidroelectrica has indicated plans to sell 6,188 GWh through the MACEE, from an aggregate of 9,904 GWh budgeted to be delivered across the wholesale markets, inclusive of the balancing market. These volumes were estimated to yield total revenue of RON 5,442m, indicating an average sale price of RON 549.5/MWh. Given the significant proportion, specifically 62%, of the initially planned MACEE volumes priced at RON 450/MWh, alongside the forward price on the BCM for 2024, which is currently positioned at RON 493/MWh, the initially budgeted average price level appears notably high. According to OPCOM data, Hidroelectrica has concluded forward contracts for a total of 351 GWh, with delivery scheduled for 2024, at an average price of RON 643.5/ MWh. After pricing in these contracts, the initially budgeted average price still remains relatively elevated. This heightened level can be attributed primarily to the company's price estimates for the balancing market, not made public. This assumption is based on the observation of current market dynamics, Q1 2024 results and on the historical pricing patterns.

On the 31st of March 2024, the price on the balancing market escalated to a peak of RON 10,000/MWh during a period of notably low consumption levels. It is important to note that during periods marked by relatively low electricity prices, the accuracy of electricity balance forecasts often deteriorates - suppliers, less worried about potential

Hidroelectrica Reinitiation of coverage

SWISS CAPITAL

June 6, 2024

power shortages, may grow complacent about energy availability. This can significantly heighten the risk of imbalances, which, as observed in March 2024, may lead to considerable price spikes.

For the supply segment, Hidroelectrica initially budgeted deliveries of 6,004 GWh, flat compared to 2023 (supplied volumes for covering imbalances excluded) and revenues of RON 3,140m (pass-through costs excluded) implying an average price of RON 523/MWh (-5.1% Y/Y). The pass-through costs were foreseen at RON 1,697m, 13% above 2023's level on increased tariffs and greater number of green certificates to be acquired as, last year, the company benefited from the stock of green certificates transferred following the merger with Crucea Wind Farm.

In the revised note, the company did not disclose all the KPIs revealed in the initial budget. However, the details that were provided are presented below.

The company increased the budgeted net power output to 15.3 TWh, representing a 3% rise from the initial estimate due to better-than-expected hydraulicity. Consequently, Hidroelectrica revised its total power sales forecast to 16.5 TWh, 4% higher than originally budgeted. This adjustment comes as the expected electricity purchases have been raised to 1.24 TWh, 14% up from the initially budgeted level of nearly 1.1 TWh. Compared to 2023, the revised power production and total sale volumes are 13% and 14% lower, respectively.

The company estimated that the reduction of the electricity sale price through MACEE, from RON 450/MWh to RON 400/MWh starting in April 2024, would negatively impact the respective budgeted revenues by RON 159m to RON 2,626m. Adding in the information that 2,599 GWh have been secured at RON 450/MWh, we can infer that the revised budget for 2024 assumed total volume sales on the centralised market of 6,239 GWh, of which 2,599 at RON 450/MWh and 3,640 GWh at RON 400/MWh.

The company did not specify the volume planned for sale on the supply market but indicated a downward adjustment of RON 146m to RON 1,551m (-8.6% vs. the initial budget) for the revised expenses with regulated tariffs and green certificates. This adjustment was made as a result of the decrease in the quantity of electricity expected to be sold to final consumers, as evidenced by Q1 2024 results which showed an 11% year-on-year decline in supplied volumes to 1.3 TWh.

Compared to the initial budget, Hidroelectrica increased salary expenses by RON 79m, primarily due to the higher forecasted Consumer Price Index (CPI). D&A expenses were also raised by RON 91m to reflect the impact of the valuation of property, plant and equipment as of 31 December 2023, information that was not available when the initial budget was drafted. Additionally, the company increased the expenses for electricity purchases by RON 130m due to the higher quantities planned for acquisition compared to the initial budget and prices.

Q1 2024 Net profit: RON 1,326m (-23% Y/Y) on decreased power prices and production

Q1 2024 Results. For Q1 2024, Hidroelectrica posted a net of RON 1,326m (-23% Y/Y) and 0.8% below our estimate of RON 1,337m. Net electricity production decreased by 2.6% Y/Y to 4.3 TWh primarily due to hydrological conditions recorded in March 2024, when the average flow rate of the Danube (6,054 m³/s) decreased by approximately 15% compared to the same period of 2023. Total electricity sales declined by 7.5% Y/Y to 4.48 TWh (volumes of positive imbalances included) as the acquisitions from third parties reduced by 58% Y/Y to 0.18 TWh.

Wholesale revenues (balancing revenues excluded) reached RON 1,265m (-30% Y/Y) as the volumes sold declined by 6% Y/Y to 2.9 TWh and the average realised price dropped to RON 437/MWh (-26% Y/Y). For Q1 2024, Hidroelectrica sold 0.96TWh through MACEE at RON 450/MWh and the rest on the OPCOM market where BCM and DAM prices averaged RON 536/MWh (-45% Y/Y) and RON 372/MWh (-42% Y/Y), respectively.

Balancing revenues grew by 24% Y/Y to RON 144m as volumes added 5.6% Y/Y to 0.09 TWh and the realised prices increased by 17% Y/Y to RON 1,535/MWh.

Supply sales (pass-through costs excluded) declined by 24% Y/Y to RON 622m as volumes sold and realised prices (pass-through costs excluded) decreased by 11% Y/Y to 1.3 TWh and 15% Y/Y to RON 471/MWh, respectively. For Q1 2024, the weights of HH and Non-HH in total volume supplied stood at 39%/61% vs. 25%/75% in Q1 2023. Including the pass-through costs, supply sales landed at RON 896m (-22% Y/Y).

Q1 2024 OPEX declined by 19% Y/Y with the advance of supply pass-through costs (+39% Y/Y) and staff expenses (+11% Y/Y) more than offset by the decline of windfall tax to nil from RON 231m in Q1 2023 and electricity purchased costs to RON 11m (-93% Y/Y). In Q1 2024, Hidroelectrica acquired electricity at an average price of RON 60/MWh, which includes the cost of electricity purchased from prosumers.

Q1 2024 EBITDA declined by 21% Y/Y to RON 1,730m and the respective margin increased to 68% (Q1 2023: 67%).

For 2024, at the IFRS consolidated level, we estimate a net of RON 4,222m (-34% Y/Y)

Adjusted EBITDA is expected to reduce by 33% Y/Y to RON 5,779m, with the respective margin landing at 61%, down from 68% in 2023

From 2023 net profit, Hidroelectrica has announced a DPS of RON 13.99 (Ex-date: June 7; Payment date: June 28), implying a payout from the distributable profit of 99% and a DIVY of 10.9%, based on the opening price on the date of the announcement, or 10.2% if last close considered

2024 Outlook. For 2024, at the IFRS consolidated level, we estimate a net of RON 4,222m (-34% Y/Y). Our total sales and production volumes are in line with the company's guidance. We estimate revenues of RON 9,480m (-22% Y/Y), with wholesale down by 23% Y/Y to RON 5,197m on reduced volumes to 10.8 TWh (-17% Y/Y) and an expected average realised price of RON 479/MWh (-7% Y/Y). We see the supply sales down by 20% Y/Y to RON 3,993m, driven by 9% Y/Y lower volume sales to 5.7 TWh and an weighted average realised price (pass-through costs excluded) of RON 388/MWh, 30% below last year's level impacted by regulatory changes, diving forward and spot prices and increased HH weight in total supplied volumes.

The expected average wholesale price of RON 479/MWh assumes that, through MACEE, the company would sale 6.24 TWh, of which 2.56 TWh at RON 450/MWh, as contracted in December 2023, and the rest at RON 400/MWh. On the forward market, we expect Hidroelectrica to sell 4.1 TWh at an average price of RON 444/MWh, of which 0.35TWh older contracts concluded for delivery in 2024 at an average price of RON 643.5/ MWh and the rest at an average price of RON 425/MWh, 5% below the

June 6, 2024

Out of 2024 estimated bottom-line, we expect a similar payout ratio implying a DPS of 9.3 (-34% Y/Y).

average level estimated for the forward market in 2024. On the balancing market, we estimate volume sales of 0.5 TWh and an average expected price of RON 1,500/MWh, about in line with Q1 2024 achieved level, as the increased risk of imbalances are expected to exert further pressure on prices.

In the supply segment, the regulatory changes are expected to put significant pressure on the company's end-consumers invoiced prices. On the 7th of July 2023, Law 206 approving GEO 153/2022 was published and brought a series of changes impacting the revenues obtained from the supply activity, respectively on the method of computing the invoiced price for the end-consumers for which the electricity consumed is purchased. For this category, **the active energy price was set as the minimum between (1) the caps imposed by GEO 119 and Law 357 that amended Law 27; (2) contract prices; and (3) the acquisition price plus a supply margin of RON 73/MWh, a margin which will be removed starting the 1st of April 2025.**

For 2024, according to the initial budget, Hidroelectrica planned to purchase nearly 1.1 TWh of electricity at an average price of RON 103/MWh. In the revised budget, the company increased the planned quantities to be acquired to 1.24 TWh and the respective expenses by RON 129.6m, implying an average realised price of RON 194.8/MWh. However, in Q1 2024, the realised average price of the purchased electricity stood at RON 60/MWh. The weighted average price, combining the realised price for Q1 2024 and the budgeted price, reveals an average of RON 175/ MWh for FY 2024 purchased electricity.

Consequently, for 2024, we expect Hidroelectrica to charge 1.24 TWh supplied to the end-consumers at RON 248/MWh, which includes the expected acquisition price plus an allowed supply margin of RON 73/MWh. For the remaining volumes expected to be supplied in 2024, which total 4.5 TWh, Hidroelectrica needs to establish a competitive price. Notably, while the beginning of year's offer price of RON 280/MWh for HH consumers may be considered relatively competitive, that for the non-HH consumers of over RON 580/MWh, is relatively high when compared to the current market levels. We believe that the newly amended electricity market regulations, particularly those effective from April 1, 2025, to April 1, 2026, may be indicative for implying competitive prices. These amendments set that the acquisition price charged to end consumers be calculated by adding a 10% markup over the weighted of the BCM and DAM prices, with a 60% weighting for BCM volumes and 40% for DAM volumes. Based on our average price expectations for the two markets in 2024, of RON 447/MWh (-50% Y/Y) and RON 346/MWh (-35% Y/Y), respectively, these amendments would indicate a competitive offer price for Hidroelectrica's non-HH end-consumers of RON 520.6/MWh (supply margin included).

All in all, **for 2024, we expect Hidroelectrica to achieve a weighted average price for the active energy supplied (pass-through costs excluded) to HH (39%) and non-HH (61%) of RON 387.8/MWh, which is 30% lower compared to last year's achieved level of RON 551/MWh (+33% Y/Y). Please note that last year, the weight of non-HH supplied volumes in total was higher as it stood at 75%.**

In line with the management's guidance, we estimate system services revenues of RON 350m (+5% Y/Y).

Turbinated water expenses are expected to decline by 5% Y/Y to RON 605m on reduced volumes partially offset by higher tariffs as indexed to the expected average inflation of 6%.

Staff costs may increase by 15% Y/Y to RON 826m as we see the average number of employees growing by 9% Y/Y to incorporate 450 new headcounts resulted from the acquisition of UCM Resita. The average gross monthly benefits are estimated to expand at a rate of 5.7%, slightly below the expected average inflation level, due to the average gross cost per UCM Resita's employees being lower compared to that of Hidroelectrica's. Overall, the integration of UCM Resita may add approximately RON 35m to Hidroelectrica's staff costs in 2024. Nevertheless, an approximate equivalent of this amount should reduce the repairs and maintenance expenses, which we see declining by 30% Y/Y to RON 60m, as this cost category stems mainly from Hidroelectrica's contracts concluded with UCM Resita.

For 2024, initially, Hidroelectrica has allocated RON 113m for the purchase of nearly 1.1 TWh of electricity, resulting in an average acquisition price of RON 103/MWh. In the revised budget, the respective expense has been increased to RON 242m due to both higher quantities and prices. As we explained above, for 2024 we expect a realised price for the purchased electricity of RON 175/MWh. The level is notably lower than the market rates, reflecting the inclusion of electricity procured from prosumers. As our purchased electricity volume estimate for 2024 aligns with the guidance of 1.24 TWh (-27% Y/Y) provided by the company, we see the respective expense at RON 218m (-52% Y/Y).

For the year, we estimate a net financial result of RON 186m (-28% Y/Y), on reduced term deposits and interest rates.

On the 29th of April OGSM, Hidroelectrica' shareholders approved a DPS of RON 13.99 (Ex-date: June 7; Payment date: June 28), representing a payout from the FY 2023 distributable profit of 99% and a DIVY of 10.9%, based on the opening price on the date of the announcement, or 10.2% if last close considered. Out of 2024 estimated bottom-line, we expect a similar payout ratio implying a DPS of 9.3 (-34% Y/Y).

Valuation

Ex-dividend, our TP would stand at RON 106.9 per share

We initiate the coverage of Hidroelectrica for the second time, this time with financial support from the Bucharest Stock Exchange through the Equity Research Programme.

We issue a NEUTRAL recommendation and a cum-dividend target price of RON 120.9 per share implying a downside potential of 12% against last close. We used a DCF model with a 7-year explicitly forecasted period after which a terminal free cash flow with a perpetual growth rate of 3% was employed.

Hidroelectrica: Discounted Cash Flow

(RONm)	2024E	2025E	2026E	2027E	2028E	2029E	2030E
EBIT	4,887	4,359	3,901	3,287	3,097	2,972	2,854
Plus: D&A	892	903	913	924	934	944	953
Minus: Tax on EBIT	(782)	(697)	(624)	(526)	(496)	(475)	(457)
CAPEX	(432)	(364)	(364)	(364)	(364)	(364)	(250)
(Increase)/decrease in WC	724	223	202	228	133	120	120
Free cash flow	5,289	4,423	4,028	3,549	3,305	3,197	3,220
WACC	10.6%	10.3%	10.0%	9.7%	9.5%	9.2%	8.9%
Present value	4,988	3,782	3,130	2,513	2,138	1,894	1,752
Cumulative net present value	4,988	8,771	11,901	14,414	16,552	18,447	20,199
Growth rate	3.0%						
Terminal value							56,468
Net present value of terminal value	28,220						
Enterprise value	48,418						
Less: Q1 2024 Net debt (Net cash)	(6,704)						
Less: Decommissioning provisions	746						
Value of equity	54,376						
Target price (RON/share), o/w	120.9						
DPS	13.99						
Last close (RON/share)	137.0						
Upside (Downside) potential	-12%						
WACC assumptions							
Risk free rate	6.75%	6.46%	6.17%	5.88%	5.58%	5.29%	5.00%
Market premium	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%
Beta leveraged	0.7	0.7	0.7	0.7	0.7	0.7	0.7
Cost of debt	6.8%	6.5%	6.2%	5.9%	5.6%	5.3%	5.0%
Cost of equity	10.7%	10.4%	10.1%	9.8%	9.5%	9.2%	8.9%
Beta unleveraged	0.7	0.7	0.7	0.7	0.7	0.7	0.7
Debt/(Debt+Equity mv)	2%	1%	0%	0%	0%	0%	0%

Source: Hidroelectrica, Swiss Capital estimates

Hidroelectrica: Peers group

Company	Reuters RIC code	EV/EBITDA			P/E			DIVY			EBITDA margin		
		2023A	2024E	2025E	2023A	2024E	2025E	2023A	2024E	2025E	2023A	2024E	2025E
Verbund	VERB.VI	7.4x	9.3x	9.9x	10.3x	16.3x	17.6x	4.7%	3.2%	2.9%	43.0%	38.8%	38.2%
China Yangtze Power	600900.SS	14.8x	15.0x	14.7x	21.0x	20.3x	19.18	3.5%	3.4%	3.7%	77.1%	78.0%	77.7%
NHPC	NHPC.NS	25.2x	18.2x	14.3x	24.9x	22.6x	18.25	2.1%	1.9%	2.1%	50.5%	55.2%	56.2%
Innergex Renewable Energy	INE.CCP	12.0x	11.7x	10.3x	N/A	N/A	N/A	7.8%	4.0%	4.0%	68.4%	70.0%	73.3%
Median of peers		13.4x	13.3x	12.3x	21.0x	20.3x	18.3x	4.1%	3.3%	3.3%	59.5%	62.6%	64.7%
Hidroelectrica @ Market price		7.0x	9.6x	10.6x	9.7x	14.6x	16.3x	10.2%	6.8%	6.1%	67.7%	61.0%	57.4%
<i>Premium(Discount)</i>		-48%	-28%	-14%	-54%	-28%	-11%	149%	103%	83%	14%	-3%	-11%
Hidroelectrica @ Target price		6.1x	8.4x	9.2x	8.5x	12.9x	14.4x	11.6%	7.7%	6.9%	67.7%	61.0%	57.4%
<i>Premium(Discount)</i>		-55%	-37%	-25%	-59%	-36%	-21%	182%	130%	107%	14%	-3%	-11%

Source: Hidroelectrica; Reuters Ikon; Bloomberg; Swiss Capital estimates

2024E-2030E CAPEX

Hydroelectrica is set to enhance its asset refurbishment efforts, committing total CAPEX of RON 2,902m by 2034 (major modernisation projects only) - This breaks down to an annual average refurbishment CAPEX of approximately RON 264m

In April 2024, Hidroelectrica and Abu Dhabi Future Energy Company PJSC - Masdar agreed to broaden the scope of their joint venture to include onshore and floating solar projects and battery storage systems, with the partnership potentially extending if they achieve the proposed cumulative investments in 2,000 MW

While we acknowledge the potential strategic importance of the early-stage collaboration between Hidroelectrica and Masdar, we prefer not to incorporate these projects into our estimates at this juncture. This cautious approach is due to the preliminary nature of the agreement and our need for detailed information regarding the selection, planning, and development of the proposed ventures before we can evaluate their potential impact

In April 2024, Hidroelectrica, along with key Romanian government officials and business leaders, participated in a strategic visit to the United Arab Emirates. During the visit, a significant development was the agreement between Hidroelectrica and Abu Dhabi Future Energy Company PJSC - Masdar to enhance the scope of their planned Joint Venture Company (JVC). This expansion includes the implementation of onshore and floating photovoltaic solar projects and energy storage systems in batteries, with an exclusive technology agreement spanning an initial three years. This partnership may extend for another three years contingent on the JVC's proposal and approval of cumulative investments in 2,000 MW. The agreement also opens potential for future collaboration in other technologies and geographical areas, pending further approvals and the finalisation of the shareholders agreement.

While we acknowledge the potential strategic importance of the early-stage collaboration between Hidroelectrica and Masdar, we prefer not to incorporate these projects into our financial estimates at this juncture. This cautious approach is due to the preliminary nature of the agreement and our need for detailed information regarding the selection, planning, and development of the proposed ventures before we can evaluate their potential impact accurately.

In 2023, Hidroelectrica's CAPEX stood at RON 206m, relatively flat year-on-year and 55% below the budget.

According to the IPO guidance, Hidroelectrica is set to enhance its asset refurbishment efforts, committing total CAPEX of RON 2,902m (major modernisation projects only) by 2034. This breaks down to an annual average refurbishment expenditure of approximately RON 264m. When combined with the historically consistent maintenance and refurbishment spending, which averaged RON 100m annually, for the 2024-2030 period, our expected average CAPEX indicates a level of RON 364m per year.

For 2024, we added in CAPEX expansion of RON 68m to account for the announced acquisition of UCM Resita and in 2030, we lowered the CAPEX to an estimated normalised level of RON 250m.

Hidroelectrica's refurbishment plan targets several key hydroelectric power plants, specifically focusing on enhancing and modernising facilities at Stejaru, Vidraru, Bradisor, Raul Mare Retezat, and Mariselu. These projects are part of a broader strategy to upgrade infrastructure, improve efficiency, and extend the operational lifespan of these critical energy assets. Each plant will undergo specific upgrades tailored to the needs of the individual facility, aiming to boost their performance and reliability, as well as to extend the lifespan of each hydroelectric power plant by 30Y.

Hidroelectrica: Major refurbishment projects

	Stejaru plant Bistrita branch	Bradisor plant Ramnicu Valcea branch	Vidraru plant Curtea de Arges branch	Raul Mare Retezat plant Hateg branch	Mariselu plant Cluj branch
Current operating capacity (MW)	210	115	210	335	221
Additional capacity potential (MW)	12		10		11
Capacity unlocking potential (MW)		55		150	
Key upgrades	Improve operational efficiency and lower maintenance CAPEX	Upgrade hydro-aggregates and auxiliary installations	Improve operational efficiency and lower maintenance CAPEX	Improve output deficiencies and natural wear and tear	Improve output deficiencies and natural wear and tear
Operating cycle extension	30 years	30 years	30 years	30 years	30 years
Status	Preparing the tender procedure for remaining works	Ongoing update of the feasibility study	Tender procedure for "turn key" project to be started	Ongoing procedure for re-approving the investment objective	Ongoing update of the feasibility study
CAPEX* (RONm)	375	435	721	674	697
Expected completion	2029	2029	2030	2031	2034

Source: Hidroelectrica; * Total CAPEX (Committed, Approved and Planned). Approved and committed CAPEX includes projects for which all necessary approvals / permits have been received, contractors identified and secured, and financing (applicable extent) secured. Planned CAPEX includes identified projects subject to some criteria still being met (e.g., approvals, environmental permits, feasibility studies, procurement strategy, finalisation of litigation procedures, etc.)

2024E-2030E Net electricity production

7Y AVG | 14.9 TWh per year → 5% below 2020-2023 AVG of 15.6 TWh, on normalised hydrological conditions and in line with the average level of the 2020-2022 period that excludes the exceptional hydraulicity of 2023

Starting in 2025, we estimate an average gross production (before refurbishment's impact and hydrological risk) of 15.9 TWh, of which 15.6 TWh hydro and 0.3 TWh wind, in line with the average observed under normal hydrological conditions, an annual hydrological risk of 5%, and an average refurbishment impact of 0.3 TWh per year, in line with the company's guidance.

Overall, we see Hidroelectrica's annual net electricity production averaging 14.9 TWh over the 2024-2030 period, which would be 5% below the 2020-2023 average of 15.6 TWh and in line with the average level of the 2020-2022 period that excludes the exceptional hydraulicity of 2023.

Hidroelectrica: Electricity production (2024E-2030E)

(TWh)	2020A	2021A	2022A	2023A	2024E	2025E	2026E	2027E	2028E	2029E	2030E
Hydro production	15.0	16.9	13.6	17.8	15.9	15.6	15.6	15.6	15.6	15.6	15.6
Y/Y					-11%	-2%	0%	0%	0%	0%	0%
Hydrological risk				0.0	(0.4)	(0.8)	(0.8)	(0.8)	(0.8)	(0.8)	(0.8)
Hydrological risk %				0.0%	2.5%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Refurbishment impact				(0.5)	(0.5)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)
New capacity production							0.00	0.00	0.00	0.00	0.00
Wind production		0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Net electricity production	14.6	16.7	13.5	17.6	15.3	14.8	14.8	14.8	14.8	14.8	14.8
Y/Y		15%	-19%	30%	-13%	-3%	0%	0%	0%	0%	0%

Source: Hidroelectrica; Swiss Capital estimates

2024E-2030E Electricity sales and acquisition volumes

7Y AVG Electricity sales volumes → 16.1 TWh per year, 4% below 2020-2023 AVG of 16.8 TWh and about in line with the average level of the 2020-2022 period of 16.0 TWh that excludes the exceptional hydraulicity of 2023

Supply. We estimate that the supply volumes will reach 5.7 TWh (-8.6% Y/Y) in 2024 and stabilise around 6 TWh annually throughout the explicitly forecasted period. This is below the company's target of 8 TWh per year by 2027, as outlined at the time of the IPO. We believe that the legislative changes impacting the revenues obtained from the supply activity, respectively on the method of computing the invoiced price for the end-consumers, may prompt the company to revise its initial target in this business segment.

Forward and spot markets. On the OPCOM market, we see the volumes sold reducing gradually towards the level of supply sales to 9.6 TWh by 2030.

In 2024, with the MACEE optionality taking effect from the 1st of April, Hidroelectrica is expected to increasingly utilise the DAM for selling its uncontracted volumes. Consequently, we expect that 60% of the total company's sold volumes on the OPCOM to be realised on the DAM. Please note that the company records the volumes sold via MACEE as spot volumes. Starting in 2025, the electricity market is expected to normalise, with Hidroelectrica seen selling 80% of its OPCOM volumes on the forward market.

Balancing market. Accounting for a mild winter, the sale volumes on the balancing market decreased by 25% Y/Y to 0.4 TWh in 2023. Looking ahead, over the explicitly forecasted period, we expect the annual volumes sold in this segment to stabilise around 0.5 TWh.

Electricity acquisitions. Hidroelectrica plans to acquire 1.0 - 1.7 TWh of electricity annually from third parties. For 2024, we estimate acquisitions of 1.2 TWh, in line with the company's guidance, and for the rest of the explicitly forecasted period we assumed that the company would acquire around the same volume annually.

Hidroelectrica: Electricity sales and acquisitions volumes (2024E-2030E)

(TWh)	2020A	2021A	2022A	2023A	2024E	2025E	2026E	2027E	2028E	2029E	2030E
Wholesale o/w	15.3	16.3	10.9	13.1	10.8	10.3	10.3	10.2	10.2	10.1	10.1
Y/Y		6%	-33%	21%	-17%	-5%	0%	0%	0%	0%	0%
OPCOM	14.8	15.4	10.3	12.7	10.3	9.8	9.8	9.7	9.7	9.6	9.6
Y/Y		4%	-33%	23%	-18%	-5%	-1%	-1%	-1%	-1%	-1%
Forward market (BCM)	9.9	12.4	8.2	3.6	4.1	7.8	7.8	7.8	7.7	7.7	7.6
OPCOM %	67%	81%	80%	28%	40%	80%	80%	80%	80%	80%	80%
Spot market (DAM & IDM)	1.8	2.9	2.1	9.1	6.2	2.0	2.0	1.9	1.9	1.9	1.9
OPCOM %	12%	19%	20%	72%	60%	20%	20%	20%	20%	20%	20%
Regulated market	3.2										
Balancing market	0.5	0.9	0.6	0.4	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Y/Y		88%	-39%	-25%	15%	0%	0%	0%	0%	0%	0%
Supply o/w	0.6	1.0	3.7	6.2	5.7	5.8	5.8	5.9	5.9	6.0	6.0
Y/Y		64%	257%	70%	-9%	1%	1%	1%	1%	1%	1%
HH			0.6	1.5	2.2	1.4	1.5	1.5	1.5	1.5	1.5
Supply %			16%	24%	39%	25%	25%	25%	25%	25%	25%
Non-HH			3.1	4.7	3.5	4.3	4.4	4.4	4.4	4.5	4.5
Supply %			84%	76%	61%	75%	75%	75%	75%	75%	75%
Total electricity sales	16.0	17.4	14.5	19.3	16.5	16.1	16.1	16.1	16.1	16.1	16.1
Y/Y		9%	-16%	33%	-14%	-3%	0%	0%	0%	0%	0%
Net electricity production	14.6	16.7	13.5	17.6	15.3	14.8	14.8	14.8	14.8	14.8	14.8
Electricity acquisition	1.4	0.6	1.0	1.7	1.2	1.2	1.2	1.2	1.2	1.2	1.2

Source: Hidroelectrica; Swiss Capital estimates

2024E-2030E Electricity prices

2024E-2030E Realised price (pass through costs excl) → RON 389/MWh, 7% below 2020-2023 average of RON 416/MWh and 2% above 2020-2022 average level of RON 380/MWh

2024E-2030E Wholesale realised price → RON 420/MWh, 2% below 2020-2023

Forward market price (BCM). According to OPCOM, on the forward market, the weighted average price for the contracts with delivery in 2024 currently stands at RON 493/MWh (-44% Y/Y) for 7.5 TWh contracted (47% of contracted volumes on BCM last year). For 2024, we see the BCM's weighted average price reaching RON 447/MWh (-50% Y/Y) assuming that volumes, roughly equivalent to those already contracted, will be further settled for delivery at RON 400/MWh, the threshold set for windfall tax computation and for voluntary sales through MACEE. For 2025, we assumed that 37% of the volumes contracted on the BCM will be traded at RON 427/MWh, in line with

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average of RON 427/MWh and 5% above 2020-2022 average level of RON 398/MWh

2024E-2030E Supply realised price (pass through costs excl) → RON 335/MWh, 13% below 2020-2023 average of RON 384/MWh and 2% above 2020-2022 average level of RON 329/MWh

2024E-2030E Purchased electricity price → RON 182/MWh, 35% below 2020-2023 average of RON 280/MWh

the current level indicated by the domestic forward market, with the rest concluded at a price in line with German 1 Y forward price of RON 412/MWh (-39% Y/Y). That would imply a decline of 7% Y/Y to RON 418/MWh in 2025. Starting in 2026, we see the domestic forward prices aligning to the German market that indicates a level of RON 325/MWh (EUR 64/MWh) by 2030.

Spot market price. According to OPCOM, on the DAM, the weighted average price for the first four months of 2024 stood at RON 361/MWh (-40% Y/Y), with the price for April averaging RON 329/MWh (-31% Y/Y) and 30% below the forward price for the month. For 2024, we estimate the DAM's weighted average price at RON 346/MWh (-35% Y/Y) assuming a discount of 30% to the monthly forward price for the rest of the year. According to OPCOM, on the IDM, the weighted average price for the first four months of 2024 stood at RON 348/MWh (-44% Y/Y), with the price for April averaging RON 266/MWh (-47% Y/Y). For 2024, we estimate the IDM's weighted average price at RON 342/MWh (-36% Y/Y) assuming DAM aligned prices for the rest of the year. For 2025, we see the DAM and IDM's prices at RON 400/MWh (+16% Y/Y) and 3% above BCM's levels afterwards.

Hidroelectrica – OPCOM realised price. On the OPCOM market, we see Hidroelectrica realising a price of RON 430/MWh (-12% Y/Y) in 2024. We assumed the company will sell via MACEE 2.599 TWh at RON 450/MWh, as contracted in December 2023, and 3.64 TWh at RON 400/MWh, in line with the company's guidance. On the BCM, we assumed that 0.351 TWh, contracted through older contracts concluded for delivery in 2024, will be sold at the set price of RON 643.5/MWh and 3.8 TWh will be concluded at a level of RON 425/MWh, 5% below the market's estimated average.

Starting in 2025, we expect the company to sell at the expected market prices, 80% of the OPCOM volumes on the BCM, with the rest concluded for delivery on DAM.

Overall, over the 2024-2030 period, we see Hidroelectrica realising an average price of RON 367/MWh on the OPCOM market, 4% below 2020-2023 average level of RON 381/MWh.

Hidroelectrica – BM realised price. On the balancing market, we expect Hidroelectrica to realise a price of RON 1,500/MWh in 2024, roughly in line with the level attained in Q1 2024. This would represent more than four times the estimated average price of the spot market. Over the 2025-2030 period, we estimate the company will continue to realise prices four times higher than the spot market average, with the increased risk of imbalances continuing to exert pressure on prices.

Hidroelectrica – Supply realised price (pass-through costs excl). According to Hidroelectrica's website, at the beginning of the year, the company's supply offer for 2024 stood at RON 280/MWh for HH and at RON 580/MWh for small Non-HH (pass-through costs excluded).

Law 206/2023. On 7 July 2023, Law 206 approving GEO 153/2022 was published and brought a series of changes with potential impact on the revenues obtained from the supply activity, respectively on the method of computing the invoiced price for the consumers for which the electricity consumed is purchased. For this category, the

June 6, 2024

active energy price was set as the minimum between (1) the caps imposed by GEO 119 and Law 357 that amended Law 27; (2) contract prices; and (3) the acquisition price plus a supply margin of RON 73/MWh, which will be removed starting the 1st of April 2025.

For 2024, according to the initial budget, Hidroelectrica planned to purchase nearly 1.1 TWh of electricity at an average price of RON 103/MWh. In the revised budget, the company increased the planned quantities to be acquired to 1.24 TWh and the respective expenses by RON 129.6m, implying an average realised price of RON 194.8/MWh. However, in Q1 2024, the realised average price of the purchased electricity stood at RON 60/MWh. The weighted average price, combining the realised price for Q1 2024 and the budgeted price, reveals an average of RON 175/ MWh for FY 2024 purchased electricity.

Consequently, for 2024, we expect Hidroelectrica to charge 1.24 TWh supplied to the end-consumers at RON 248/MWh, which includes the expected acquisition price plus an allowed supply margin of RON 73/MWh. For the remaining volumes expected to be supplied in 2024, which total 4.5 TWh, Hidroelectrica needs to establish a competitive price. Notably, while the beginning of year's offer price of RON 280/MWh for HH consumers may be considered relatively competitive, that for the non-HH consumers of over RON 580/MWh, is relatively high when compared to the current market levels. We believe that the newly amended electricity market regulations, particularly those effective from April 1, 2025, to April 1, 2026, may be indicative for implying competitive prices. These amendments set that the acquisition price charged to end consumers be calculated by adding a 10% markup over the weighted of the BCM and DAM prices, with a 60% weighting for BCM volumes and 40% for DAM volumes. Based on our average price expectations for the two markets in 2024, of RON 447/MWh (-50% Y/Y) and RON 346/MWh (-35% Y/Y), respectively, these amendments would indicate a competitive offer price for Hidroelectrica's non-HH end-consumers of RON 520.6/MWh (supply margin included).

All in all, for 2024, we expect Hidroelectrica to achieve a weighted average price for the active energy supplied (pass-through costs excluded) to HH (39%) and non-HH (61%) of RON 388/MWh, which is 30% lower compared to last year's achieved level of RON 551/MWh (+33% Y/Y). Please note that last year, the weight of non-HH supplied volumes in total was higher as it stood at 75%.

Applying the same rationale to the rest of the explicitly forecasted period but increasing the weight of non-HH supplied volumes back to 75% as the atypical market conditions of 2024, driven by the MACEE optionality, are expected to end in 2025, we estimate that by 2030, Hidroelectrica would realise a weighted average price for the supplied active energy of RON 335/MWh. This is 13% lower than the average level of RON 384/MWh recorded over the 2020-2023 period and 2% above the average level of the 2020-2022 period.

Hidroelectrica – Purchased electricity price. In 2023, Hidroelectrica purchased 1.7 TWh of electricity at an average price of RON 268/MWh, which stood 49% below the average spot price. As explained above, for 2024, we estimate 1.24 TWh (-27% Y/Y) to

June 6, 2024

be acquired from third parties at an average price of RON 175/MWh (-61% Y/Y), reflecting discounts to forward and spot markets estimated rates of 61% and 49%, respectively. For the rest of the explicitly forecasted period, our estimated price for the purchased electricity assumes a 49% discount to the spot average rates, in line with the budgeted discount for 2024 and that achieved in 2023.

Hidroelectrica: Electricity prices (2024E-2023E)

(RON/MWh)	2020A	2021A	2022A	2023A	2024E	2025E	2026E	2027E	2028E	2029E	2030E
Hidroelectrica - Average price (pass-through costs incl)	219	348	624	604	552	548	529	498	495	495	495
Y/Y		59%	79%	-3%	-9%	-1%	-4%	-6%	-1%	0%	0%
Hidroelectrica - Average price (pass - through costs excl)	215	343	581	526	448	433	407	370	360	355	350
Y/Y		59%	69%	-9%	-15%	-3%	-6%	-9%	-3%	-1%	-1%
<i>EEX - Germany baseload forward 1 year</i>	193	439	440	1,474	680	412	381	344	334	329	325
Y/Y		127%	0%	235%	-54%	-39%	-8%	-10%	-3%	-1%	-1%
Wholesale price	213	345	637	514	479	472	441	399	387	382	377
Y/Y		62%	85%	-19%	-7%	-2%	-7%	-10%	-3%	-1%	-1%
Hidroelectrica - OPCOM	206	300	532	487	430	414	383	346	336	331	327
Y/Y		45%	78%	-8%	-12%	-4%	-8%	-10%	-3%	-1%	-1%
Hidroelectrica - Forward market (BCM)	234	269	515	467	444	418	381	344	334	329	325
Y/Y		15%	92%	-9%	-5%	-6%	-9%	-10%	-3%	-1%	-1%
<i>Market - Forward market (BCM)</i>	254	280	587	889	447	418	381	344	334	329	325
Y/Y		10%	110%	51%	-50%	-7%	-9%	-10%	-3%	-1%	-1%
Hidroelectrica - Spot market (DAM & IDM)	222	430	600	495	421	400	392	354	344	339	335
Y/Y		93%	40%	-17%	-15%	-5%	-2%	-10%	-3%	-1%	-1%
<i>Market - Spot market (DAM & IDM)</i>	197	539	1,349	529	346	400	392	354	344	339	335
Y/Y		174%	150%	-61%	-35%	16%	-2%	-10%	-3%	-1%	-1%
Hidroelectrica - Regulated market	109										
Hidroelectrica - Balancing market	414	1,087	2,521	1,310	1,500	1,600	1,570	1,418	1,376	1,356	1,338
Y/Y		163%	132%	-48%	15%	7%	-2%	-10%	-3%	-1%	-1%
<i>Spot price x</i>	2.1x	2.0x	1.9x	2.5x	4.3x	4.0x	4.0x	4.0x	4.0x	4.0x	4.0x
Hidroelectrica - Supply (pass-through costs incl)	355	407	585	791	690	684	683	671	679	686	693
Y/Y		15%	44%	35%	-13%	-1%	0%	-2%	1%	1%	1%
Hidroelectrica - Supply (pass-through costs excl)	262	310	414	551	388	364	348	320	312	309	306
Y/Y		18%	34%	33%	-30%	-6%	-5%	-8%	-2%	-1%	-1%
Hidroelectrica - Purchased electricity price	11	141	697	268	175	203	199	180	174	172	169
<i>Premium/(Discount) to BCM</i>	N/M	-50%	19%	-70%	-61%	-52%	-48%	-48%	-48%	-48%	-48%
<i>Premium/(Discount) to DAM</i>	N/M	-74%	-48%	-49%	-49%	-49%	-49%	-49%	-49%	-49%	-49%

Source: Hidroelectrica; Swiss Capital estimates; OPCOM; EEX

2024E-2030E Operating revenues

2024E-2030E Revenues → -5% CAGR

By 2030, Hidroelectrica's revenues may decrease by 31%, falling to RON 8,375m from RON 12,160m recorded in 2023, due to declining electricity prices and reduced volumes compared to last year's record

Wholesale of electricity (OPCOM and BM). We see FY 2024 wholesale of electricity decreasing by 23% Y/Y to RON 5,197m, with the average realised price expected to go down to RON 479/MWh (-7% Y/Y) and sale volumes seen lowering to 10.8 TWh (-17% Y/Y) on declining production from the peak achieved last year.

Over the 2024-2030 period, we see Hidroelectrica's wholesale of electricity declining at a 7Y CAGR of 5%, with volumes decreasing at a CAGR of 4%, as increased quantities are expected to be allocated to the supply segment, and average prices reducing at a CAGR of 4%.

Electricity supplied to final consumers. On the supply side, we expect sales of RON 3,933m in 2024 (-20% Y/Y) with volumes down by 9% Y/Y to 5.7 TWh and the average realised price (pass-through costs incl) declining by 13% Y/Y. Overall, over the 2024-

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**2024E-2030E Wholesale of electricity →
- 8% CAGR, (7Y CAGR Volumes: -4% | 7Y
CAGR Prices: -4%)**

**2024E-2030E Supply sales → -2% CAGR
(7Y CAGR Volumes: -1% | 7Y CAGR
Prices: -2%)**

2030 period, we see Hidroelectrica's supply sales decreasing at a 7Y CAGR of 2%, with prices (pass-through costs incl) declining at a CAGR of 2%. Following the estimated decrease in supplied volumes for 2024, we expect a compound annual growth rate of 1% in supplied volumes over the 2025-2026 period.

System services. For 2024, following management's guidance, we estimate system services of RON 350m (+5% Y/Y). For the rest of the explicitly forecasted period, we see the annual growth of this revenue category mirroring the expected average inflation rate.

Sales of green certificates are estimated to nil over the explicitly forecasted period as the company sells to the supply business the GC received through Crucea wind farm.

Hidroelectrica: Operating revenues (2024E-2030E)

(RONm)	2020A	2021A	2022A	2023A	2024E	2025E	2026E	2027E	2028E	2029E	2030E
Revenues	3,841	6,489	9,452	12,160	9,480	9,161	8,863	8,381	8,342	8,353	8,375
Y/Y		69%	46%	29%	-22%	-3%	-3%	-5%	0%	0%	0%
Wholesale of electricity o/w	3,270	5,629	6,921	6,739	5,197	4,865	4,525	4,070	3,933	3,860	3,793
Y/Y		72%	23%	-3%	-23%	-6%	-7%	-10%	-3%	-2%	-2%
Volumes (TWh)	15.3	16.3	10.9	13.1	10.8	10.3	10.3	10.2	10.2	10.1	10.1
Y/Y		6%	-33%	21%	-17%	-5%	0%	0%	0%	0%	0%
Price (RON/MWh)	213	345	637	514	479	472	441	399	387	382	377
Y/Y		62%	85%	-19%	-7%	-2%	-7%	-10%	-3%	-1%	-1%
OPCOM	3,064	4,610	5,474	6,172	4,447	4,064	3,740	3,361	3,245	3,182	3,124
Volumes (TWh)	14.8	15.4	10.3	12.7	10.3	9.8	9.8	9.7	9.7	9.6	9.6
Price (RON/MWh)	206	300	532	487	430	414	383	346	336	331	327
Balancing market	206	1,019	1,447	567	750	800	785	709	688	678	669
Volumes (TWh)	0.5	0.9	0.6	0.4	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Price (RON/MWh)	414	1,087	2,521	1,310	1,500	1,600	1,570	1,418	1,376	1,356	1,338
Other revenues from customer contracts			40	150							
Electricity supplied to final consumers	222	419	2,149	4,936	3,933	3,932	3,962	3,924	4,009	4,082	4,159
Y/Y		88%	413%	130%	-20%	0%	1%	-1%	2%	2%	2%
Volumes (TWh)	0.6	1.0	3.7	6.2	5.7	5.8	5.8	5.9	5.9	6.0	6.0
Y/Y		64%	257%	70%	-9%	1%	1%	1%	1%	1%	1%
Price (RON/MWh)	355	407	585	791	690	684	683	671	679	686	693
Y/Y		15%	44%	35%	-13%	-1%	0%	-2%	1%	1%	1%
System services	336	416	317	334	350	364	376	387	399	411	423
Y/Y		24%	-24%	5%	5%	4%	3%	3%	3%	3%	3%
Volumes (TWh)	6.4	7.5	5.3	4.7	5.0	5.0	5.0	5.0	5.0	5.0	5.0
Production %	44%	45%	39%	27%	33%	34%	34%	34%	34%	34%	34%
Tariff (RON/MWh)	52	56	59	71	70	73	75	77	80	82	85
Y/Y		7%	7%	20%	-1%	4%	3%	3%	3%	3%	3%
Sales of green certificates	0	23	25	0	0	0	0	0	0	0	0
Maintenance services	13	3	1	1	0	0	0	0	0	0	0
Other operating income	69	175	67	35	33	33	33	33	33	33	33
Gains from taking control and on bargain purchase	26	32	0	0	0	0	0	0	0	0	0
Compensation income, fines and penalties	20	119	47	1	0	0	0	0	0	0	0
Net profit/ (losses) from the sale of tangible assets	0	0	0	0	0	0	0	0	0	0	0
Other Income	22	25	20	33	33	33	33	33	33	33	33
Total operating revenues	3,910	6,665	9,519	12,195	9,513	9,194	8,896	8,415	8,375	8,386	8,409

Source: Hidroelectrica; Swiss Capital estimates

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2024E-2030E OPEX

2024E-2030E OPEX → +2% CAGR

In 2024, OPEX may decrease by 7% Y/Y to RON 4,627m - This reduction is largely due to the expected declines in expenses related to turbinated water, electricity purchases, and windfall tax, which are estimated to more than offset increases in supply pass-through costs and employee benefit expenses

Turbinated water. For the turbinated water tariffs, we expect an annual adjustment in line with the average inflation of the year. Thus, for 2024 we expect turbinated water expenses of RON 605m (-5% Y/Y) to account for the reduced gross hydro output and a tariff of RON 38.1/MWh (+6% Y/Y). Overall, we see the respective annual expenses averaging RON 659m over the explicitly forecasted period.

Employee benefit expenses. In 2023, the company reported an average number of employees of 4,564 (+2% Y/Y) remunerated with an average monthly gross salary of RON 12.0k (+9% Y/Y). For 2024, we expect increased staff costs to RON 826m (+15% Y/Y) as we see the average number of employees growing by 9% Y/Y to incorporate 500 new headcounts, of which 450 resulted from the acquisition of UCM Resita and 50 from the development of the supply segment. For 2024, the average gross monthly benefits are estimated to expand at a rate of 5.7%, slightly below the expected average inflation level, due to the average gross cost per UCM Resita's employees being lower compared to that of Hidroelectrica's. Overall, the integration of UCM Resita may add approximately RON 35m to Hidroelectrica's staff costs in 2024. Nevertheless, an approximate equivalent of this amount should reduce the repairs and maintenance expenses, as this cost category also stems from Hidroelectrica's contracts concluded with UCM Resita.

Beyond 2024, we do not anticipate any additional headcount increases. Assuming that gross salaries are adjusted annually in line with the expected average inflation, employee benefit expenses are estimated to increase by an annual average of around 3% by 2030.

Supply pass-through costs. The supply pass-through costs include the **transport and distribution of electricity (T&D)** and **green certificates expenses**. Over the 2024-2030 period, the T&D costs are expected to average 42% of supply revenues, above the 27% average of 2020-2023 period on increased tariffs and reduced power prices. Compared to 2023, the green certificates expenses are seen rising by 1.5x to RON 431m by 2030, with the annual mandatory purchase quota adding 1% per year starting in 2025 and the price steadily increasing towards the minimum level set currently by law of EUR 29/GC. The annual expense would be reduced by about RON 37m due to the internal transfers of the received certificates by Crucea Wind Farm entitled to 0.75 GC per MWh produced. For 2023, the applicable annual quota was set at 0.4946974 green certificate per MWh (2022: 0.5014313 green certificate per MWh).

Electricity purchased. Hidroelectrica plans to procure annually 1.0 - 1.7 TWh of electricity from third parties. In 2023, Hidroelectrica purchased 1.7 TWh of electricity at an average price of RON 268/MWh, which stood 49% below the average spot price and 70% below the average forward price. For 2024, as guided by the company, we expect 1.2 TWh (-27% Y/Y) to be acquired from third parties, at an average price that we estimate at RON 175/MWh (-35% Y/Y). Consequently, the expenses for purchased electricity in 2024 are expected at RON 218m (-52% Y/Y). For the rest of the explicitly forecasted period, our estimated price for the purchased electricity assumes a 49% discount to the spot average rates, in line with the budgeted discount for 2024 and that achieved in 2023.

Considering the power production outlook, the development of the supply segment, and the expected balance between the supply and wholesale market volumes in the long term, we expect Hidroelectrica to maintain its procured volumes from third parties at the 2024 level. Accordingly, we see the electricity purchase costs averaging RON 226m over the explicitly forecasted period.

Impairment loss on trade receivables is expected at 0.7% of wholesale and supply revenues for 2024-2030 period, in line with 2023 results. **Repairs, maintenance, materials and consumables** expenses are expected to decline by 30% Y/Y in 2024 to RON 60m. This significant reduction is attributed to an estimated cost transfer of RON 35m from this cost category to staff expenses, following the acquisition of UCM Resita. Beyond 2024, we expect this expense type to grow in line with the average inflation estimates. **Other operating expenses** are expected to account for a higher proportion of Hidroelectrica's revenues starting in 2024, primarily due to the estimated decrease in revenue figures. Some other operating expenses are estimated as a percentage of revenues, while others are adjusted based on inflation or maintained at their 2023 levels, depending on the nature of the costs.

We see the windfall tax extended beyond March 2025, as the gas market witnessed a similar situation in which a temporary windfall tax was introduced in 2013 for two years, but remained in place up to date – Anyway, given the method used to calculate the realised price for windfall tax purposes, Hidroelectrica paid a tax of RON 225m in 2023. We expect that the company will not be liable for this tax in the future as market prices are expected to decline significantly

Over the 2024-2030 period, we see the internal transfer price to the supply segment averaging RON 234/MWh

Windfall tax. Starting November 2021, the Government introduced a new tax for electricity producers. The tax, paid on a monthly basis, was computed as 80% (1 November 2021 - 31 August 2022) and 100% (1 September 2022 - 31 March 2025) of net monthly average selling price in excess of RON 450/MWh. Starting in April 2024, this threshold was reduced to RON 400/MWh. The windfall tax regulation changed several times in 2022, and starting 2023, the way the tax is computed is as follows: (1) Volume - Sales volume net of externally sourced electricity. For windfall tax computation purposes, the sale volume considered (OPCOM, Balancing, and Supply) is net of externally sourced electricity, meaning that only the internally generated volume is accounted for; (2) Price – The realised price for wholesale and the internal transfer price for supply sales. For windfall tax computation purposes, in the case of the wholesale segment, the price considered is the realised price on the wholesale market (OPCOM and Balancing market). In the case of the supply segment, the price considered is the internal transfer price from generation to supply activity. This is based on the average electricity production cost in the last 12 months ending 2 months prior to the calculation month, plus an internal margin.

In 2023, Hidroelectrica paid a windfall tax of RON 225m, as the company sold the electricity in excess of MACEE's requirements on the OPCOM at relatively high prices.

Over the 2024-2030 period, we estimate the internal transfer price to the supply segment would average RON 234/MWh, assuming a 50% mark-up to the previous year's production cost, flat compared to 2023 level.

Hidroelectrica: Windfall tax (2024E-2030E)

	2020A	2021A	2022A	2023A	2024E	2025E	2026E	2027E	2028E	2029E	2030E
Windfall tax (RONm)	0	133	672	225	0	0	0	0	0	0	0
Volumes considered for windfall tax (TWh)				17.6	15.3	14.8	14.8	14.8	14.8	14.8	14.8
Realised price considered for windfall tax (RON/MWh)				455	399	396	376	348	342	339	337
Threshold price (RON/MWh)				450	400	400	400	400	400	400	400
Wholesale											
Volumes considered for windfall tax (TWh)	15.3	16.3	10.9	13.1	10.8	10.3	10.3	10.2	10.2	10.1	10.1
Realised price (RON/MWh)	213	345	637	514	479	472	441	399	387	382	377
OPCOM											
Sales volume (TWh)	14.8	15.4	10.3	12.7	10.3	9.8	9.8	9.7	9.7	9.6	9.6
Less: Electricity purchased (TWh)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Volumes considered for windfall tax (TWh)	14.8	15.4	10.3	12.7	10.3	9.8	9.8	9.7	9.7	9.6	9.6
Realised price (RON/MWh)	206	300	532	487	430	414	383	346	336	331	327
Balancing market											
Sales volume (TWh)	0.5	0.9	0.6	0.4	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Volumes considered for windfall tax (TWh)	0.5	0.9	0.6	0.4	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Realised price (RON/MWh)	414	1,087	2,521	1,310	1,500	1,600	1,570	1,418	1,376	1,356	1,338
Supply											
Sales volume (TWh)	0.6	1.0	3.7	6.2	5.7	5.8	5.8	5.9	5.9	6.0	6.0
Less: Electricity purchased (TWh)	N/A	N/A	1.0	1.7	1.2	1.2	1.2	1.2	1.2	1.2	1.2
Volumes considered for windfall tax (TWh)	N/A	N/A	3.7	4.5	4.5	4.5	4.6	4.6	4.7	4.7	4.8
Internal transfer price (RON/MWh)											
Mark up to production costs (Y-1)				51%	50%	50%	50%	50%	50%	50%	50%
Production costs (RON/MWh)	108	123	187	136	147	154	158	161	165	169	173
Gross production (TWh)	15.0	17.1	13.9	18.1	16.2	15.9	15.9	15.9	15.9	15.9	15.9
Production costs (RONm) o/w	1,622	2,095	2,603	2,467	2,383	2,447	2,508	2,566	2,626	2,687	2,748
Turbinated water	307	540	451	639	605	618	639	658	677	698	719
Employee benefit expenses	490	590	626	717	826	864	892	919	946	975	1004
Depreciation & Amortisation	721	761	772	799	892	903	913	924	934	944	953
Repairs, maintenance, and consumables	105	71	82	85	60	62	64	66	68	70	72
Windfal tax	0	133	672	225	0	0	0	0	0	0	0

Source: Hidroelectrica; Swiss Capital estimates

Hidroelectrica: OPEX (2024E-2030E)

(RONm)	2020A	2021A	2022A	2023A	2024E	2025E	2026E	2027E	2028E	2029E	2030E
Turbinated water	307	540	451	639	605	618	639	658	677	698	719
Y/Y		76%	-17%	42%	-5%	2%	3%	3%	3%	3%	3%
Volumes (Hydro output - TWh)	14.6	16.5	13.6	17.8	15.9	15.6	15.6	15.6	15.6	15.6	15.6
Y/Y		13%	-18%	31%	-11%	-2%	0%	0%	0%	0%	0%
Tariff (RON/MWh)	21.0	32.7	33.1	35.9	38.1	39.6	40.9	42.2	43.4	44.7	46.1
Y/Y		55%	1%	9%	6%	4%	3%	3%	3%	3%	3%
Employee benefit expenses	490	590	626	717	826	864	892	919	946	975	1004
Y/Y		20%	6%	15%	15%	5%	3%	3%	3%	3%	3%
Avg no. of employees	4,456	4,393	4,491	4,564	4,973	5,223	5,223	5,223	5,223	5,223	5,223
Y/Y		-1%	2%	2%	9%	5%	0%	0%	0%	0%	0%
Salaries and other remuneration	466	560	595	659	759	793	820	844	870	896	922
Avg. monthly gross salary (RONk)	8.7	10.6	11.0	12.0	12.7	12.7	13.1	13.5	13.9	14.3	14.7
Y/Y		22%	4%	9%	6%	0%	3%	3%	3%	3%	3%
Social security contributions	11	12	15	28	32	33	35	36	37	38	39
Salaries and other remuneration %	2.4%	2.2%	2.6%	4.2%	4.2%	4.2%	4.2%	4.2%	4.2%	4.2%	4.2%
Meal tickets	13	17	21	31	35	37	38	39	40	41	43
Salaries and other remuneration %	2.7%	3.1%	3.5%	4.6%	4.6%	4.6%	4.6%	4.6%	4.6%	4.6%	4.6%
Supply pass-through costs o/w	87	164	681	1,504	1,722	1,837	1,946	2,055	2,168	2,245	2,325
Y/Y		89%	315%	121%	14%	7%	6%	6%	6%	4%	4%
Transport and distribution of electricity	73	110	498	1,208	1,489	1,562	1,627	1,690	1,756	1,824	1,894
Supply revenue %	33%	26%	23%	24%	38%	40%	41%	43%	44%	45%	46%
Green certificates	14	54	183	297	233	275	319	364	412	421	431
Y/Y		285%	241%	62%	-22%	18%	16%	14%	13%	2%	2%
Supplied volumes (TWh)	0.63	1.03	3.68	6.24	5.70	5.75	5.80	5.85	5.90	5.95	6.00
Y/Y		64%	257%	70%	-9%	1%	1%	1%	1%	1%	1%
GC quota (GC/MWh)	0.451	0.451	0.501	0.495	0.495	0.500	0.505	0.510	0.515	0.520	0.525
Y/Y		0%	11%	-1%	0%	1%	1%	1%	1%	1%	1%
GC acquisition price (EUR/GC)	10	24	20	19	17	19	22	24	27	27	27
Y/Y		130%	-14%	-4%	-15%	16%	13%	12%	11%	0%	0%
Electricity purchased	15	90	697	456	218	252	247	223	217	214	211
Y/Y		486%	674%	-35%	-52%	16%	-2%	-10%	-3%	-1%	-1%
Volumes (TWh)	1.4	0.6	1.0	1.7	1.2	1.2	1.2	1.2	1.2	1.2	1.2
Price (RON/MWh)	11	141	697	268	175	203	199	180	174	172	169
Y/Y		N/M	394%	-61%	-35%	16%	-2%	-10%	-3%	-1%	-1%
Depreciation & Amortisation&Impairmens	826	1,120	918	1,036	892	903	913	924	934	944	953
Depreciation & Amortisation	721	761	772	799	892	903	913	924	934	944	953
PP&E impairment loss	106	359	146	237	0	0	0	0	0	0	0
Impairment loss on trade receivables	0	11	43	80	62	62	60	57	56	56	57
Wholesale and electricity supply %	0.0%	0.2%	0.5%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%
Repairs, maintenance, materials and consumables	105	71	82	85	60	62	64	66	68	70	72
Y/Y		-32%	16%	4%	-30%	4%	3%	3%	3%	3%	3%
Other operating expenses o/w	206	189	338	251	242	238	234	227	211	212	214
Revenues %	5.4%	2.9%	3.6%	2.1%	2.6%	2.6%	2.6%	2.7%	2.5%	2.5%	2.6%
Movement in provisions, net	58	36	74	33	38	37	35	34	17	17	17
Revenues %	1.5%	0.6%	0.8%	0.3%	0.4%	0.4%	0.4%	0.4%	0.2%	0.2%	0.2%
Local taxes	50	53	61	51	57	55	53	50	50	50	50
Revenues %	1.3%	0.8%	0.6%	0.4%	0.6%	0.6%	0.6%	0.6%	0.6%	0.6%	0.6%
Security	16	16	21	24	26	27	28	29	29	30	31
Y/Y		-1%	28%	18%	6%	4%	3%	3%	3%	3%	3%
Sponsorship	11	13	2	6	6	6	6	6	6	6	6
Professional services	11	10	11	14	15	16	16	17	17	18	19
Y/Y		-12%	9%	32%	6%	4%	3%	3%	3%	3%	3%
Services related to abandoned constructions	8	8	8	9	9	9	9	9	9	9	9
Other	50	53	61	108	91	88	86	82	82	82	82
Revenues %	1.3%	0.8%	0.6%	0.9%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%
Windfall tax	0	133	672	225	0	0	0	0	0	0	0
Total operating expenses	2,036	2,909	4,508	4,995	4,627	4,836	4,995	5,128	5,278	5,415	5,555
Y/Y		43%	55%	11%	-7%	5%	3%	3%	3%	3%	3%

Source: Hidroelectrica; Swiss Capital estimates

Hidroelectrica: P&L summary (2024E-2030E)

(RONM)	2020A	2021A	2022A	2023A	2024E	2025E	2026E	2027E	2028E	2029E	2030E
Net electricity production (TWh)	14.6	16.7	13.5	17.6	15.3	14.8	14.8	14.8	14.8	14.8	14.8
Y/Y		15%	-19%	30%	-13%	-3%	0%	0%	0%	0%	0%
Revenues	3,841	6,489	9,452	12,160	9,480	9,161	8,863	8,381	8,342	8,353	8,375
Y/Y		69%	46%	29%	-22%	-3%	-3%	-5%	0%	0%	0%
Wholesale and electricity supply	3,492	6,048	9,070	11,675	9,130	8,797	8,487	7,994	7,943	7,942	7,952
Y/Y		73%	50%	29%	-22%	-4%	-4%	-6%	-1%	0%	0%
Sale volumes (TWh)	16.0	17.4	14.5	19.3	16.5	16.1	16.1	16.1	16.1	16.1	16.1
Y/Y		9%	-16%	33%	-14%	-3%	0%	0%	0%	0%	0%
Average price (excl pass - through costs) - RON/MWh	215	343	581	526	448	433	407	370	360	355	350
Y/Y		59%	69%	-9%	-15%	-3%	-6%	-9%	-3%	-1%	-1%
Wholesale (RON/MWh)	213	345	637	514	479	472	441	399	387	382	377
Y/Y		62%	85%	-19%	-7%	-2%	-7%	-10%	-3%	-1%	-1%
Supply (RON/MWh)	262	310	414	551	388	364	348	320	312	309	306
Y/Y		18%	34%	33%	-30%	-6%	-5%	-8%	-2%	-1%	-1%
System services	336	416	317	334	350	364	376	387	399	411	423
Other	13	26	65	152	0	0	0	0	0	0	0
Other operating income	69	175	67	35	33	33	33	33	33	33	33
Total operating revenues	3,910	6,665	9,519	12,195	9,513	9,194	8,896	8,415	8,375	8,386	8,409
Turbined water	307	540	451	639	605	618	639	658	677	698	719
Employee benefit expenses	490	590	626	717	826	864	892	919	946	975	1,004
Supply pass-through costs	87	164	681	1,504	1,722	1,837	1,946	2,055	2,168	2,245	2,325
Electricity purchased	15	90	697	456	218	252	247	223	217	214	211
Revenues %	0%	1%	7%	4%	2%	3%	3%	3%	3%	3%	3%
Volumes (TWh)	1.4	0.6	1.0	1.7	1.2	1.2	1.2	1.2	1.2	1.2	1.2
Y/Y		-54%	55%	71%	-27%	0%	0%	0%	0%	0%	0%
Average price (RON/MWh)	11	141	697	268	175	203	199	180	174	172	169
Y/Y		N/M	394%	-61%	-35%	16%	-2%	-10%	-3%	-1%	-1%
Depreciation & Amortisation	721	761	772	799	892	903	913	924	934	944	953
PP&E impairment loss	106	359	146	237	0	0	0	0	0	0	0
Impairment loss on trade receivables	0	11	43	80	62	62	60	57	56	56	57
Repairs, maintenance, materials and consumables	105	71	82	85	60	62	64	66	68	70	72
Windfall tax	0	133	672	225	0	0	0	0	0	0	0
Other operating expenses	206	189	338	251	242	238	234	227	211	212	214
Total operating expenses	2,036	2,909	4,508	4,995	4,627	4,836	4,995	5,128	5,278	5,415	5,555
Y/Y		43%	55%	11%	-7%	5%	3%	3%	3%	3%	3%
Production costs (RON/MWh)	108	123	187	136	147	154	158	161	165	169	173
Y/Y		13%	53%	-27%	8%	5%	3%	2%	2%	2%	2%
Production costs (EUR/MWh)	22	25	38	28	30	31	32	32	33	34	34
EBITDA	2,595	4,516	5,783	8,000	5,779	5,262	4,814	4,211	4,031	3,916	3,807
EBITDA margin	68%	70%	61%	66%	61%	57%	54%	50%	48%	47%	45%
Adjusted EBITDA	2,674	4,844	5,929	8,237	5,779	5,262	4,814	4,211	4,031	3,916	3,807
Adjusted EBITDA margin	70%	75%	63%	68%	61%	57%	54%	50%	48%	47%	45%
EBIT	1,874	3,756	5,011	7,200	4,887	4,359	3,901	3,287	3,097	2,972	2,854
EBIT margin	49%	58%	53%	59%	52%	48%	44%	39%	37%	36%	34%
Net financial result	33	29	209	259	186	151	125	146	132	122	108
EBT	1,907	3,785	5,220	7,459	5,073	4,510	4,026	3,432	3,230	3,094	2,961
Net profit	1,558	3,116	4,461	6,365	4,222	3,788	3,382	2,883	2,713	2,599	2,487
Net profit margin	41%	48%	47%	52%	45%	41%	38%	34%	33%	31%	30%
Net cash	2,032	3,086	3,196	4,398	3,511	3,894	4,649	4,993	5,582	6,224	6,991

Source: Hidroelectrica; Swiss Capital estimates

2024E-2030E P&L

7Y forward market price expected to average RON 368/MWh by 2030, 27% below 2020-2023 level of RON 503/MWh and 59% below the peak of 2023

Although our estimates for domestic electricity prices align with European benchmarks, we acknowledge the potential for significant deviations driven by country-specific conditions

Expect 2024 to shape up as an atypical year for the domestic electricity market

EBITDA (adj.) may average RON 4.55b over 2024-2030, 45% below 2023 record of RON 8.2b and about in line with the 2020-2022 average level of RON 4.48b

Adjusted EBITDA is seen declining at a 7Y CAGR of 10% by 2030, a trend driven by costs inflationary pressures combined with falling power prices

Net profit may average RON 3.15b over the 2024-2030 period, 50% below 2023 record of RON 6.37b and slightly above 2020-2022 average level of RON 3.05b

The current forward electricity prices mark a significant shift from the long-term level suggested by the European curves around the time of Hidroelectrica's IPO last year which indicated prices in the range of EUR 90-100/MWh. Apparently, the current "central" scenario assumes no further market disruptions, alongside an accelerated expansion of renewables in order to reduce the general dependency on fossil fuels.

We see Hidroelectrica's realised average wholesale and supply price (pass-through costs excl) decreasing at 3% CAGR from RON 526/MWh in 2023 to RON 350/MWh by 2030. Although our estimates for domestic electricity prices align with European benchmarks, we acknowledge the potential for significant deviations driven by country-specific conditions. The scheduled refurbishment of a nuclear unit may exert upward pressure on domestic electricity prices starting in 2026. Over the 2027-2029 period, Nuclearelectrica plans to refurbish a nuclear unit with an installed capacity of 0.7 GW, which typically produces 5 TWh annually. The necessary preparations for this overhaul will begin in 2026, rendering approximately 2 TWh of production capacity temporarily unavailable.

We estimate a 7Y average forward market price of RON 368/MWh by 2030, 27% below 2020-2023 average level of RON 503/MWh and 59% below the weighted average price recorded in 2023 of RON 889/MWh. In 2024, the forward market price is expected to decline to RON 447/MWh, marking a 50% Y/Y dive from last year's peak, which was significantly influenced by the escalation of the geopolitical conflicts. Also, this year, the spot market price is estimated to average RON 346/MWh, 35% below the 2023 level of RON 529/MWh, further impacted by the introduction of MACEE's optionality starting the 1st of April. This change has left producers with uncontracted volumes, forcing them to rely on the spot market. This shift may cause a significant influx of volumes into the spot market, where prices averaged RON 329/MWh in April, down from RON 436/MWh in January influenced by oversupply and compounded by low demand. Overall, by 2030, the spot prices are expected to average a low-single digit on top of forward prices.

Adjusted EBITDA is seen declining at a 7Y CAGR of 10% by 2030, while margins may decline from 68% in 2023 to 45% by 2030, a trend driven by costs inflationary pressures combined with falling power prices.

Net financial result is expected to trend down on lowering interest rates.

Hidroelectrica's net profit may average RON 3.15b in the 2024-2030 period, 5% below 2023 record level of RON 6.37b and 4% above the 2020-2022 level of RON 3.05b.

Our estimates show net cash accumulating throughout the explicitly forecasted period as we have eschewed special dividends, opting instead to reserve funds for potential investments in RES projects.

Financial summary

Hidroelectrica: P&L (IFRS consolidated)

(RONm)	2020A	2021A	2022A	2023A	2024E	2025E	2026E	2027E	2028E	2029E	2030E
Revenues	3,841	6,489	9,452	12,160	9,480	9,161	8,863	8,381	8,342	8,353	8,375
Wholesale of electricity	3,270	5,629	6,961	6,890	5,197	4,865	4,525	4,070	3,933	3,860	3,793
Electricity supplied to final consumers	222	419	2,149	4,936	3,933	3,932	3,962	3,924	4,009	4,082	4,159
System services	336	416	317	334	350	364	376	387	399	411	423
Sales of green certificates	0	23	25	0	0	0	0	0	0	0	0
Maintenance services	13	3	1	1	0	0	0	0	0	0	0
Other operating income	69	175	67	35	33	33	33	33	33	33	33
Total operating revenues	3,910	6,665	9,519	12,195	9,513	9,194	8,896	8,415	8,375	8,386	8,409
Turbined water	(307)	(540)	(451)	(639)	(605)	(618)	(639)	(658)	(677)	(698)	(719)
Employee benefit expenses	(490)	(590)	(626)	(717)	(826)	(864)	(892)	(919)	(946)	(975)	(1,004)
Electricity purchased	(15)	(90)	(697)	(456)	(218)	(252)	(247)	(223)	(217)	(214)	(211)
Supply pass-through costs	(87)	(164)	(681)	(1,504)	(1,722)	(1,837)	(1,946)	(2,055)	(2,168)	(2,245)	(2,325)
D&A&Impairments	(826)	(1,120)	(918)	(1,036)	(892)	(903)	(913)	(924)	(934)	(944)	(953)
D&A	(721)	(761)	(772)	(799)	(892)	(903)	(913)	(924)	(934)	(944)	(953)
PP&E impairment loss	(106)	(359)	(146)	(237)	0	0	0	0	0	0	0
Impairment loss on trade receivables	(0)	(11)	(43)	(80)	(62)	(62)	(60)	(57)	(56)	(56)	(57)
Repair, maintenance, and consumables	(105)	(71)	(82)	(85)	(60)	(62)	(64)	(66)	(68)	(70)	(72)
Windfall tax	0	(133)	(672)	(225)	0	0	0	0	0	0	0
Other	(206)	(189)	(338)	(251)	(242)	(238)	(234)	(227)	(211)	(212)	(214)
Total operating expenses	(2,036)	(2,909)	(4,508)	(4,995)	(4,627)	(4,836)	(4,995)	(5,128)	(5,278)	(5,415)	(5,555)
EBITDA	2,595	4,516	5,783	8,000	5,779	5,262	4,814	4,211	4,031	3,916	3,807
Adjusted EBITDA*	2,674	4,844	5,929	8,237	5,779	5,262	4,814	4,211	4,031	3,916	3,807
EBIT	1,874	3,756	5,011	7,200	4,887	4,359	3,901	3,287	3,097	2,972	2,854
Net financial result	33	29	209	259	186	151	125	146	132	122	108
EBT	1,907	3,785	5,220	7,459	5,073	4,510	4,026	3,432	3,230	3,094	2,961
Net profit	1,558	3,116	4,461	6,365	4,222	3,788	3,382	2,883	2,713	2,599	2,487

Source: Hidroelectrica, Swiss Capital estimates; *Adjusted for PP&E impairments and gains from bargain purchase of subsidiaries

Hidroelectrica: Balance Sheet (IFRS consolidated)

(RONm)	2020A	2021A	2022A	2023A	2024E	2025E	2026E	2027E	2028E	2029E	2030E
Long term assets	14,066	18,243	20,198	21,069	20,609	20,070	19,167	18,607	18,037	17,456	16,753
Inventory	68	65	72	71	63	66	69	71	73	76	78
Trade receivables	338	664	1,351	3,048	2,262	2,076	1,902	1,699	1,590	1,492	1,396
Other receivables	37	113	115	63	49	47	46	43	43	43	43
Cash&equivalents	2,085	3,677	3,695	4,858	3,878	4,171	4,774	5,060	5,648	6,291	7,057
Current assets	2,528	4,519	5,234	8,040	6,252	6,361	6,791	6,873	7,355	7,902	8,574
Total assets	16,594	22,762	25,432	29,109	26,862	26,431	25,958	25,480	25,392	25,358	25,327
Short term debt & Lease liabilities	35	97	102	98	95	95	35	5	5	5	5
Trade Payables	173	171	283	408	363	382	397	408	422	434	447
Other	503	739	620	566	527	546	561	573	586	598	611
Current liabilities	711	1,008	1,005	1,072	985	1,024	992	986	1,013	1,038	1,063
Long term debt & Lease liabilities	18	493	398	362	271	181	91	61	61	61	61
Deferred tax liabilities	350	1,017	1,316	1,504	1,504	1,504	1,504	1,504	1,504	1,504	1,504
Provisions	661	729	817	837	837	837	837	837	837	837	837
Other	344	332	310	314	314	314	314	314	314	314	314
Long term liabilities	1,373	2,570	2,841	3,016	2,926	2,835	2,745	2,716	2,716	2,716	2,716
Shareholders' equity	14,510	19,184	21,587	25,021	22,951	22,572	22,221	21,778	21,663	21,605	21,549
Equity & liabilities	16,594	22,762	25,432	29,109	26,862	26,431	25,958	25,480	25,392	25,358	25,327

Source: Hidroelectrica, Swiss Capital estimates

Hidroelectrica: Cash Flow (IFRS consolidated)

(RONm)	2024E	2025E	2026E	2027E	2028E	2029E	2030E
Profit before taxes	5,073	4,510	4,026	3,432	3,230	3,094	2,961
(-) Income tax	(851)	(722)	(644)	(549)	(517)	(495)	(474)
(+) Depreciation	892	903	913	924	934	944	953
(-) (Increase) / Decrease in working capital	724	223	202	228	133	120	120
Cash flow from operations	5,837	4,914	4,497	4,035	3,780	3,664	3,560
Capital expenditures/long term investments	(432)	(364)	(364)	(364)	(364)	(364)	(250)
Cash flow from investing	(432)	(364)	(364)	(364)	(364)	(364)	(250)
Cash surplus (deficit) generated before financing	5,406	4,550	4,134	3,671	3,416	3,300	3,310
Increase (decrease) in debt	(93)	(90)	202	(59)	0	0	0
Dividends paid	(6,293)	(4,167)	(3,733)	(3,327)	(2,828)	(2,658)	(2,544)
Cash flow from financing	(6,386)	(4,257)	(3,530)	(3,386)	(2,828)	(2,658)	(2,544)
Total change in cash	(980)	293	603	286	588	642	767
Cash Balance - Beginning of Period	4,858	3,878	4,171	4,774	5,060	5,648	6,291
Cash Balance - End of Period	3,878	4,171	4,774	5,060	5,648	6,291	7,057

Source: Hidroelectrica, Swiss Capital estimates

Hidroelectrica: Key Ratios (IFRS consolidated)

	2020A	2021A	2022A	2023A	2024E	2025E	2026E	2027E	2028E	2029E	2030E
Profitability											
Adjusted EBITDA margin	69.6%	74.6%	62.7%	67.7%	61.0%	57.4%	54.3%	50.2%	48.3%	46.9%	45.5%
Net profit margin	40.6%	48.0%	47.2%	52.3%	44.5%	41.4%	38.2%	34.4%	32.5%	31.1%	29.7%
Asset management											
Inventory turnover (Days)	19	11	7	6	6	6	6	6	6	6	6
Days sales outstanding	32	37	51	90	86	82	77	73	69	64	60
Payables days	47	29	27	35	35	35	35	35	35	35	35
Leverage and liquidity											
Leverage (total liab/equity)	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Gearing (Net debt/equity)	-0.1	-0.2	-0.1	-0.2	-0.1	-0.2	-0.2	-0.2	-0.3	-0.3	-0.3
Net debt/EBITDA	-0.8	-0.7	-0.6	-0.5	-0.6	-0.7	-0.9	-1.2	-1.4	-1.6	-1.8
Debt/Equity	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Current ratio	3.6	4.5	5.2	7.5	6.3	6.2	6.8	7.0	7.3	7.6	8.1
Quick ratio	3.5	4.4	5.1	7.4	6.3	6.1	6.8	6.9	7.2	7.5	8.0
Payout ratio (regular+special DPS)*	147%	123%	97%	99%	99%	99%	98%	98%	98%	98%	98%

Source: Hidroelectrica, Swiss Capital estimates; * Based on IFRS consolidated result

Hidroelectrica: Valuation Multiples (IFRS consolidated)

	2020A	2021A	2022A	2023A	2024E	2025E	2026E	2027E	2028E	2029E	2030E
EPS	3.5	6.9	9.9	14.2	9.4	8.4	7.5	6.4	6.0	5.8	5.5
BVPS	32.3	42.6	48.0	55.6	51.0	50.2	49.4	48.4	48.2	48.0	47.9
DPS o/w	5.1	8.5	9.7	14.0	9.3	8.3	7.4	6.3	5.9	5.7	5.4
DPS regular	2.9	6.3	8.7	14.0	9.3	8.3	7.4	6.3	5.9	5.7	5.4
DPS special	2.2	2.2	1.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Valuation multiples @ Market price											
EV/EBITDA	21.5	12.3	9.6	7.0	9.6	10.6	11.6	13.2	13.8	14.2	14.6
P/E	39.6	19.8	13.8	9.7	14.6	16.3	18.2	21.4	22.7	23.7	24.8
Dividend yield	3.7%	6.2%	7.1%	10.2%	6.8%	6.1%	5.4%	4.6%	4.3%	4.1%	3.9%
Valuation multiples @ Target price											
EV/EBITDA	18.7	10.7	8.4	6.1	8.4	9.2	10.1	11.5	12.0	12.4	12.7
P/E	34.9	17.4	12.2	8.5	12.9	14.4	16.1	18.9	20.0	20.9	21.9
Dividend yield	4.2%	7.0%	8.0%	11.6%	7.7%	6.9%	6.1%	5.2%	4.9%	4.7%	4.5%

Source: Hidroelectrica, Swiss Capital estimates

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A “**BUY**” recommendation indicates that upside is between 15% and 30%.

A “**NEUTRAL**” recommendation indicates that upside or downside is less than 15%.

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Mentioned companies

Company	BSE	Rating	Price	Price date	Disclosure
Hidroelectrica	H2O	NEUTRAL	137.0	5/06/2024	NONE

Rating history for Hidroelectrica

Date	Rating	Share Price (RON)	Target Price (RON)
24/08/2023	Initiation of coverage - BUY	111.5	138.6

6/06/2024	Reinitiation of coverage - NEUTRAL	137.0	120.9
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