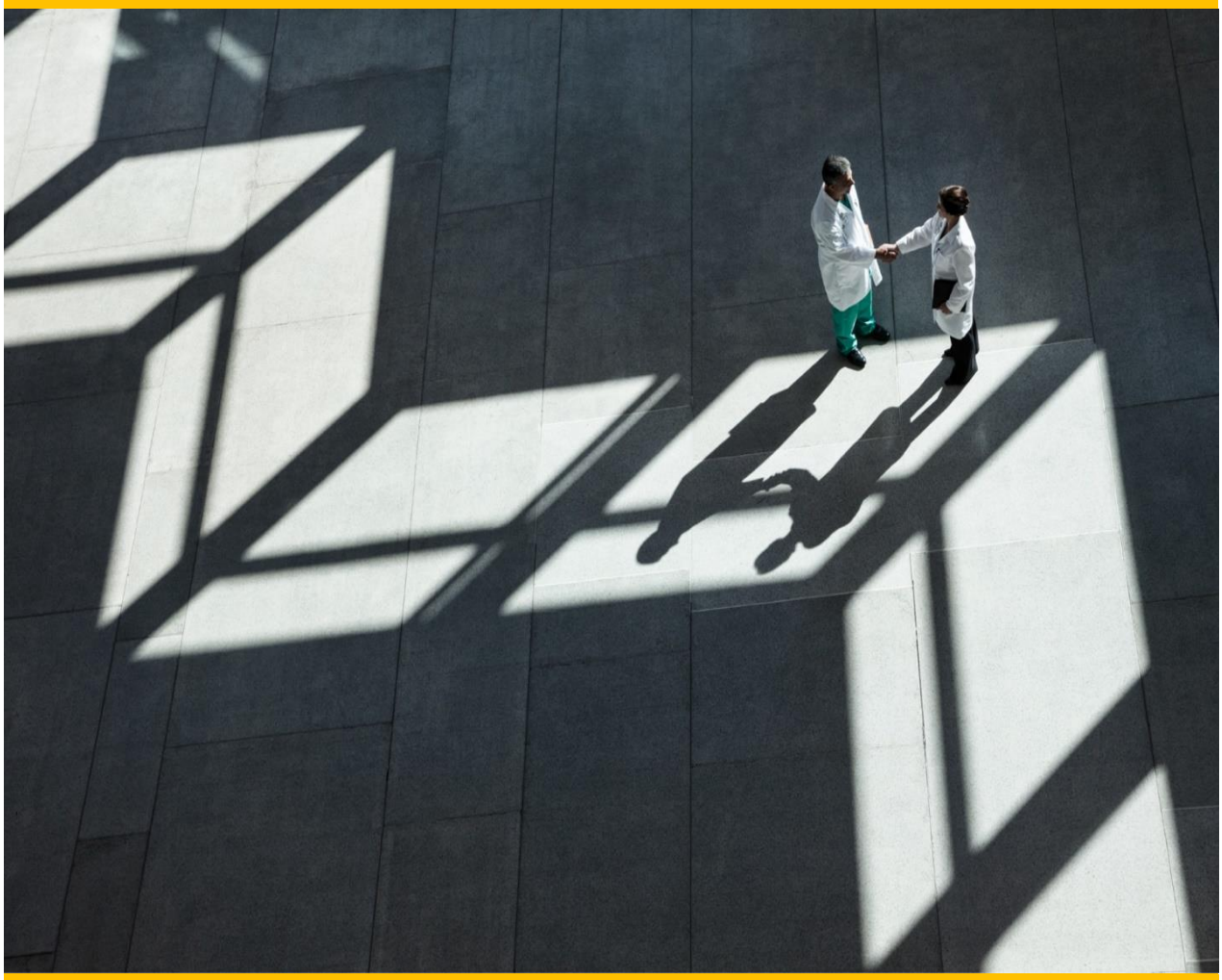
Policies, risk management and the results obtained

Risk Management Service

Table of Contents



INTRODUCTION

SNN ensures the methodical and methodological organization of the risk management function at the level of the entire organization, as an integral part of the nuclear safety culture, but also with a view to achieving the operating goals proposed under safety and cost effectiveness conditions. Risk assessment within SNN is carried out periodically (quarterly), according to MR-00-01 – Risk management procedure within S.N. Nuclearelectrica S.A., and results are described in the Risk Management Report, with a focus on the main risks which the Company faces.

1. Risk policy

In support of carrying out its activity, of the achievement of the business objectives and of compliance with the applicable national legislative framework, S.N. Nuclearelectrica S.A. has implemented, developed and improved constantly a risk management framework according to the provisions of OSGG 600/2018 regarding the approval of the Code of Managerial Internal Control of public entities, for the management and control of corporate risks in particular, complementary to the risk management framework implemented in Cernavoda NPP and NFP Pitesti for the management and control of operational-technical risks.

SNN has established a risk management function with a risk management process, methodology and framework that support the maintaining of risks at an acceptable level.

In the development of the corporate risk management framework, the provisions of the applied standards regarding risk management were considered (SR ISO 31000:2018 "Risk Management. Guidelines" and "SR EN 31010:2010 Risk Management. Risk Management Techniques"), as well as those of COSO (Committee of Sponsoring Organizations of the Treadway Commission).

The management of SN Nuclearelectrica SA pays special attention to the adequate management of the risks to which the organization is exposed, for continuing the operation of the plant under conditions of safety and nuclear security at levels of operational excellence.

The functioning of the risk management framework within SN Nuclearelectrica SA contributes to ensuring the protection of assets, the reliability of financial reporting, the efficiency and effectiveness of activities and processes, in accordance with the relevant legislative framework, the organization's internal rules and procedures.

The management of SN Nuclearelectrica SA intends to maintain viable and constantly improve the risk management framework so that it remains adequate and adapted to the changes in the internal and external environment of the organization.

The main coordinates and instruments of the corporate risk management framework are:

- Entities (compartments), processes, roles, tools, responsibilities and managers established in a manner that provides reasonable assurance to the management of the organization and to

third parties that the risks to which the organization is exposed are evaluated, managed, monitored and reviewed adequately,
- Circulation of information regarding risks within SNN through a dedicated IT application developed internally, for making informed decisions from a risk perspective,
- Uniform evaluation throughout the organization, using a common evaluation metric, of the probability of occurrence and the potential impact,
- A counterparty credit risk evaluation framework,
- Prudential eligibility criteria for direct bilateral contracting in the electricity trading activity of SNN,
- Eligibility criteria for the issuers of guarantees set up in favor of SNN for the activity of electricity trading and the procurement activity,
- Processes, roles, responsibilities and tools for verifying the compliance of guarantees established in favor of SNN, through a dedicated IT application developed internally,
- A risk tolerance limit (risk appetite), expressed in score/ quotation/ risk exposure, between the quotations of medium risks and the quotations of high risks, low score risks being considered tolerable, and those above this score being considered intolerable,
- A constantly monitored risk profile (the current risk profile below).

1.1. Risk profile and risk tolerance limit

On a yearly basis, the Risk Management Service reviews the risk profile and risk tolerance limit, which it submits to SCIM Monitoring Committee for endorsement and to the General manager for approval.

The risk profile of SNN for 2022 - 2023 is structured as follows:

Risk name	Weight 2022	Weight 2023	Risk level for 2022	Risk level for 2023	Trend 2022	Trend 2023
Operational Risk	40%	35%	Low	Low	→	↗
Market/price risk	5%	8%	High	High	↗	→
Credit risk/ counterparty	5%	7%	High	High	↗	→
Competitive risk	5%	5%	High	Medium	→	↗
Macro-economic risk	5%	5%	High	High	↗	→
Geopolitical risk	-	10%	High	High	-	→
Regulatory/ legislative risk	10%	10%	High	High	↗	→
Risk related to the specialized workforce	10%	5%	High	Medium	→	↗
Risk related to the investment/ maintenance/ refurbishment works (U1 & U2)	5%	5%	Medium	Medium	→	→
Project risk (U3 & U4, SMR, Cobalt)	10%	5%	Medium	Medium	→	→
Development and assimilation of subsidiaries CNU, EnergoNuclear, Nuclearelectrica Serv, Ropwer	5	5%	Medium	Medium	→	→
Overall risk profile	100%	100%	Medium	Medium	→	→

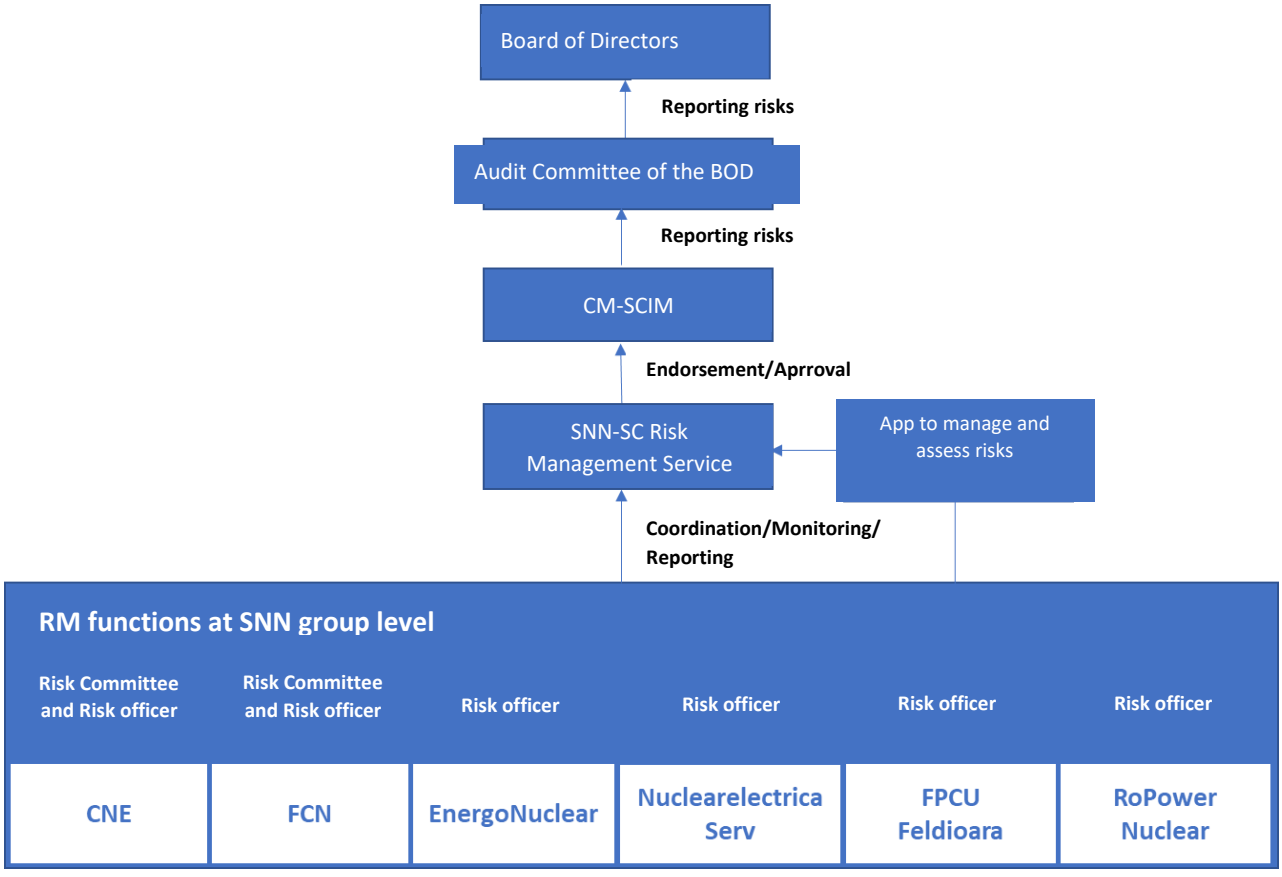
The risk tolerance limit of SNN, expressed in score/ quotation/ risk exposure, is 14, low score risks being considered tolerable, and those above this score being considered intolerable, both under the conditions of the internal procedures regarding the risk management.

For monitoring significant risks (with a residual exposure higher than the tolerance limit established in the 14th quotation), the Control Measures Implementation Plan shall be prepared within the Risk Management Report, which is endorsed by CM-SCIM and approved by the General Manager of the Company.

2. Internal risk management framework

For the achievement of the mission undertaken by the Administration Plan, S.N. Nuclearelectrica S.A. has set and pursues its general objectives, the subunit objectives and the specific/department objectives on different time horizons at the company level and at the level of organizational entities (e.g. branches, directorates, compartments).

S.N. organizational structure Nuclearelectrica S.A. allows the compartment directly responsible for the administration and coordination of the risk management framework to work with all departments of the organization and/or with the entities of the SNN Group:



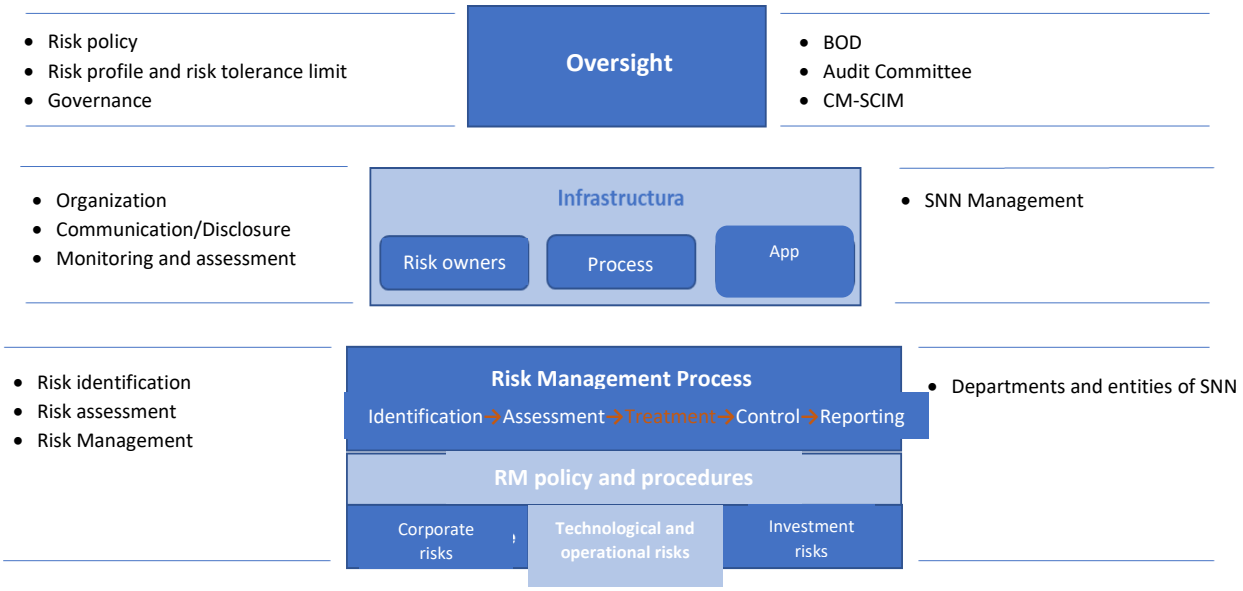
2.1. Overview of SNN risks

Effective risk management is essential for SNN Group companies in achieving their objectives, operating under safety and Nuclear Security conditions, and for maintaining excellence standards in the long term.

The main responsibility of SMR is to develop the framework for effective risk management, to facilitate and supervise its implementation and application by the business function.

The Risk Management Service cultivates and promotes the risk culture and the application of risk management principles and procedures through the activity it carries out and through training sessions held with an audience (physically or online) or through the creation of training materials in the internal professional training platform of SNN.

Risk Management Framework



In order to implement the RM framework, a suitable infrastructure is necessary, as well as trained personnel (risk owners), processes and technologies (risk management computer application).

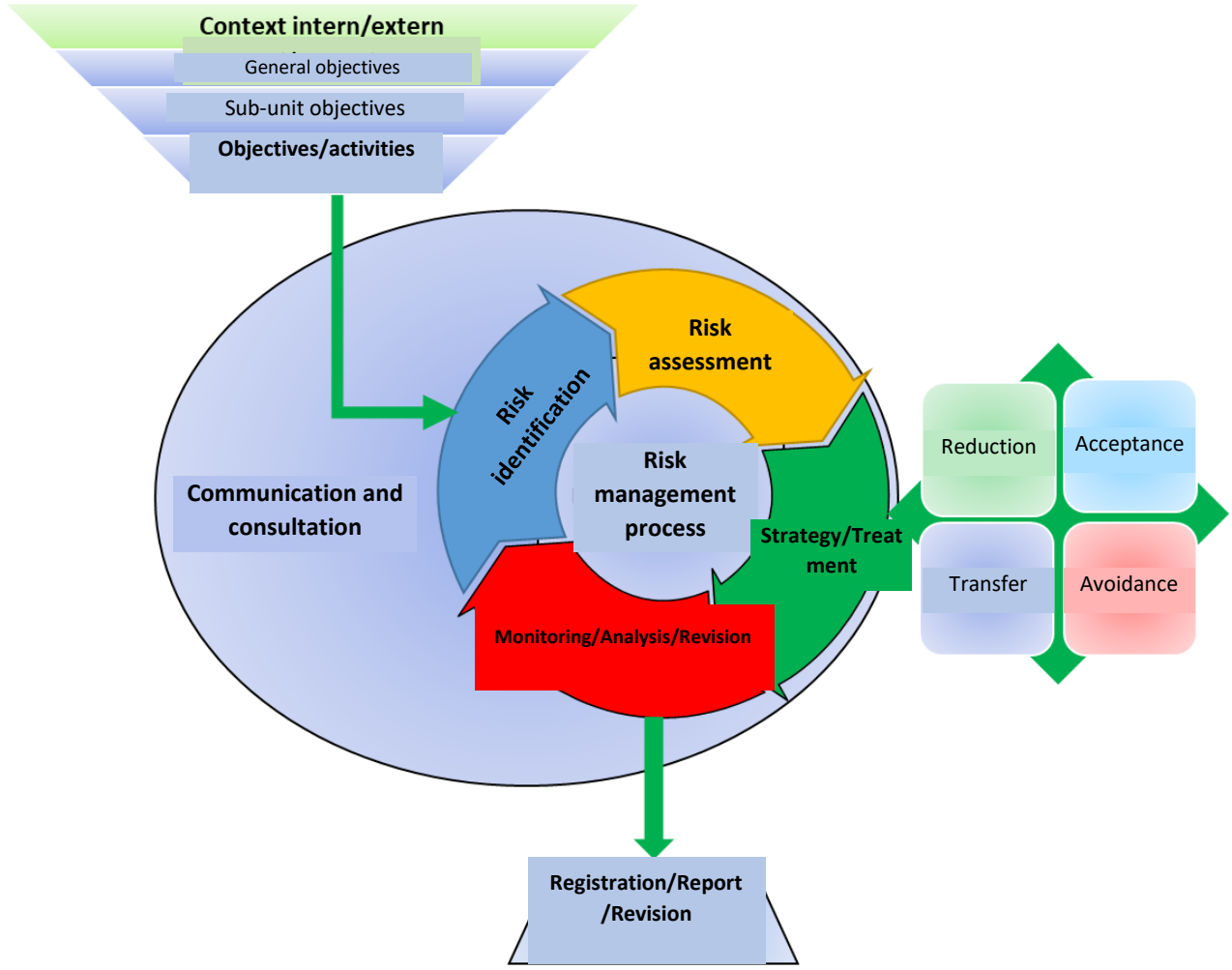
The risk management process is an integral part of the company's processes and activities. It can be applied at strategic, operational, program or project level.

The risk management principles, practices and policies, as well as the related computer applications, are applied/used uniformly in all the SNN Group entities.

The risk register is a dynamic work instrument. Any SNN employee can report risks to the Risk Management Service or to the person responsible for risks within the department they are part of, risks that are then analyzed, introduced and evaluated by risk owners throughout the year. Reporting to CM-SCIM and the interested parties is done quarterly.

- *Corporate risks*, mentioned in the diagram above, refer to macroeconomic, business, credit, operational, market, climate, geopolitical risk.
- *Technological and operational risks* are specific to the electricity production activities and the administration of the operation of the Cernavoda NPP plant and the NFP Pitesti plant.
- *Investment risks* refer to the risk of project, refurbishment, maintenance works, investment works, at the level of the SNN Group.

The stages/activities of the risk management process, according to SR ISO 31000:2018, applied in SNN, are:



The external and internal context represents the environment in which the Company wants to define and achieve its objectives. The risk management takes place in the context of the Company's objectives and activities.

Risks can occur, change or disappear as the external and internal context of the organization changes.

Communication and consultation with the appropriate external and internal stakeholders should take place throughout all stages of the risk management process.

As a result of the passage of time, changes may occur in the conditions, circumstances, circumstances and/or risk control mechanisms, for which reason all identified risks must be

controlled by appropriate measures and monitored over time, in order to identify any change that may generate the occurrence of a risk event and/or a risk reclassification.

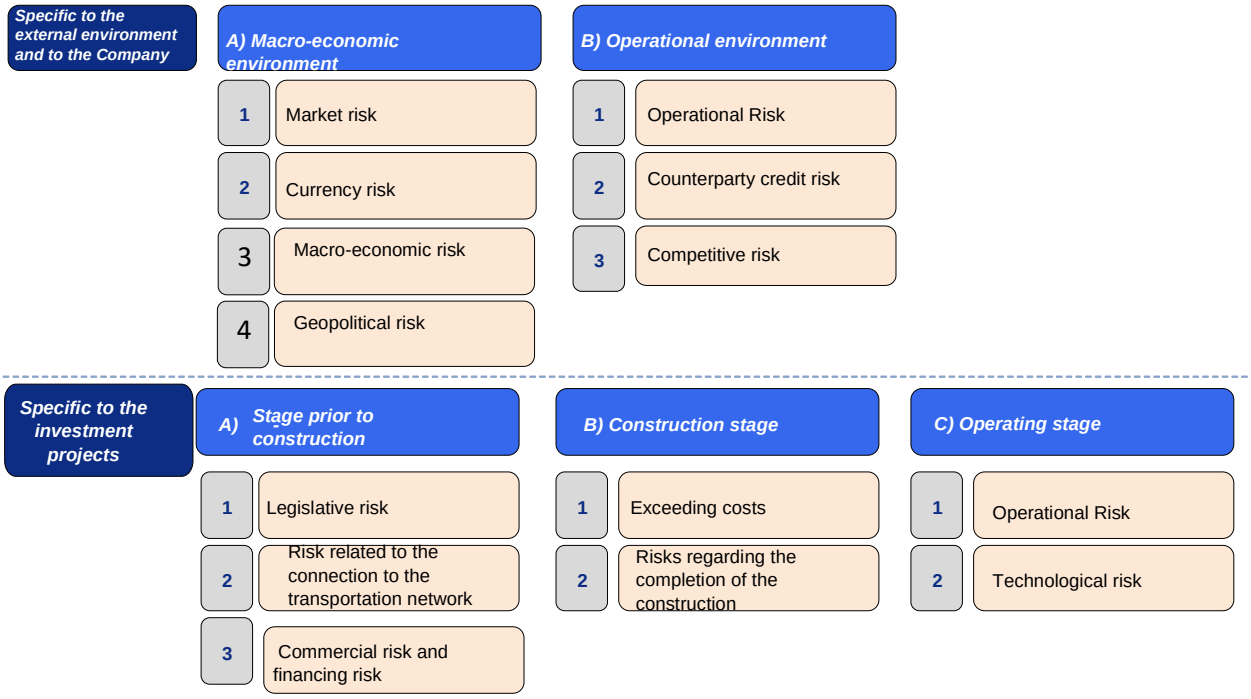
The periodic analysis focuses on aspects related to circumstances, the occurrence of new risks, changes in impact or probability, the need to escalate decisions, the stage of implementation and the effectiveness of control measures.

The risk management process is a continuous and cyclical process, with the following characteristics:

- Improves performance and contributes to company development;
- Supports the achievement of objectives;
- Must be integrated in the company governance, including in decision-making;
- Creates value;
- Is influences by human and cultural factors;
- Is dynamic, responds to changes;
- Anticipates, detects, recognizes and reacts to changes promptly and appropriately.

SNN set up the main middle-term and long-term strategies mainly considering to maintain nuclear safety, to continuously rise and increase its shareholders' profit, and the activity risk analysis is more important in such context.

The figure below includes the general presentation of risks from the environmental point of view (macroeconomic and operational), and the specific risks of investment projects.



Source: SNN analysis

The risk owners, based on the risk methodology in force, classify risks into risk categories according to the internal needs for analysis identified within the organization and permanently adapt the classifications and reports regarding risk information according to these internal needs of the organization's departments and the falling into the approaches and classifications made in other compartments or functions within SNN.

SNN has established mitigation methods for several subcategories of risks, as follows:

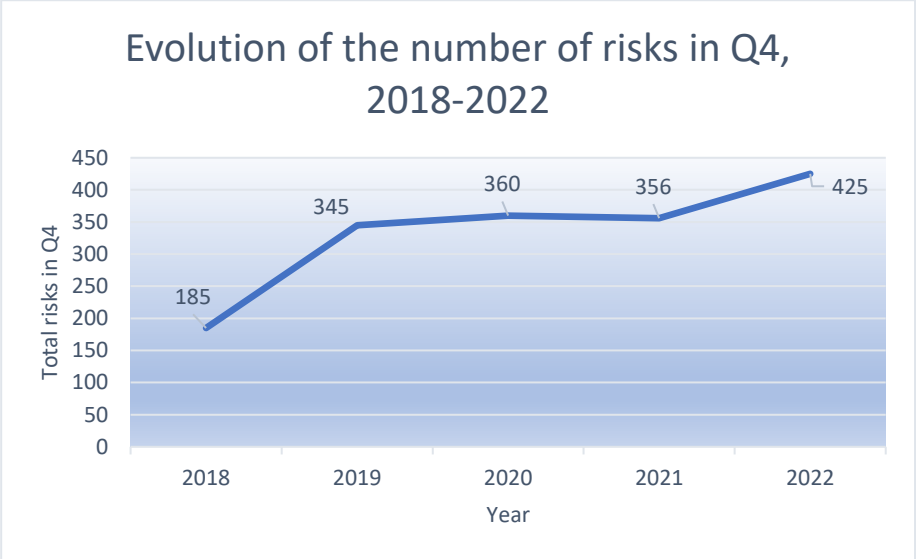
Item	Risk category	Mitigation method
1. Macro-economic environment		
1.1	Market risk	- long-term bilateral contracts, with fixed prices or well-defined price formulas;
1.2	Legislative/regulatory risk	- use of the best technologies that ensure the environment sustainability; - continuous communication with the authorities;
1.3	Currency risk	- negotiation of price conditions that include the currency risk
2. Operational environment		
2.1.	Commercial risk	- negotiation of contracts for a period of more than 1 year, with predefined prices; - policy of evaluation of commercial partners; - capitalization of export opportunities.
2.2	Regarding costs	- conclusion of contracts for the compensation of revenues from the electricity production when the reactors are stopped, thus anticipating the unplanned shutdowns.
2.3	Counterparty risk	- well-designed and detailed long-term contracts; - application of a rating system in the case of parties with which bilateral contracts are concluded; - guarantees (cash in the Company's accounts, letters of guarantee, binding letters of commitment, of the PCG - Parent Company guarantee type).
2.4	Competitive risk	- continuous monitoring of the markets, - applying a cost control policy.

3. Results of the Risk Management Service

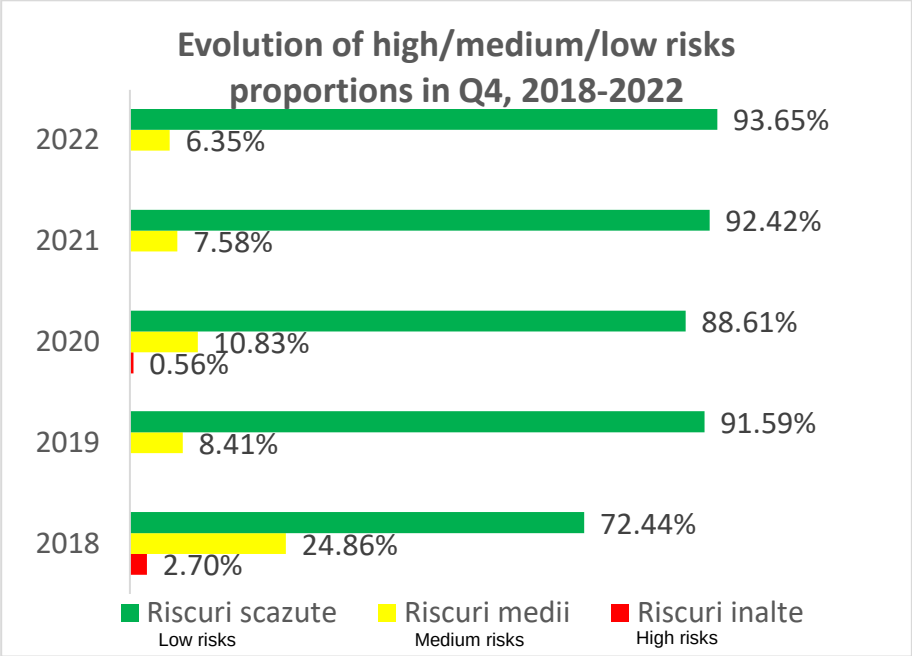
Since 2018, the risk management function has been reorganized at the company level, including and examining on a frequent basis, the risks identified and assessed by the structures within Subsidiaries and Headquarters. Sustained efforts for implementing the risk management culture within the entire company, enhancement of the specialized counseling of the staff in charge with departmental risks, organization of training programmes related to the management risk, have determined the development of competencies of the staff responsible for the correct application of the risk management methodology. The result of the actions undertaken is emphasized by the evolution of the risk components, respectively in case of the average exposure, a mitigation trend is noticed both for inherent risks and for residual risks, and moreover, a significant reduction of the average residual exposure, which demonstrates that the identified risks have been carefully assessed and monitored, and the actions intended for their mitigation have been efficient and effective. Thus, SNN managed

to achieve the economic and financial objectives and indicators, with unprecedented results in the last years.

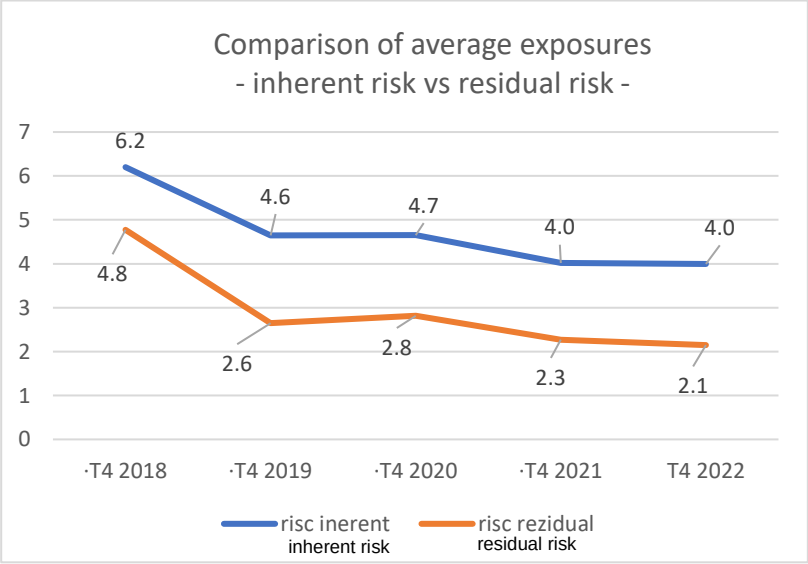
As one can see in the diagram below, the risk register was enriched during 2022, so that at the end of Q4, 425 risks were registered, as compared to 356 risks at the end of Q4 2021. Subsidiary and project risks add to the 425 risks, as follows: EnergoNuclear (16), Nuclearelectrica Serv (8), FPCU Feldioara (10) and risks related to major projects (CTRF – 8, RT U1 – 9, SMR – 9, U3&4 – 11 and U5 – 7).



Regarding the evolution of risks, one can see in the presentation below that during the last 2 years, no risks were identified that exceeded the Company's risk tolerance limit, and the percentage of average risks decreased from one year to the next. These results show that the risk management process is efficient, and the permanent monitoring of the control actions and instruments determines the continuous improvement of results and the prevention of occurrence of any significant risks.



Regarding the average exposure in Q4, it is noted that the inherent average exposure in Q4 2022 is maintained as compared to Q4 2021, as well as a slight decrease in the residual average exposure in the same period of time, which shows that the identified risks were carefully monitored and their mitigation actions were efficient and effective. Thus, SNN managed to achieve the economic and financial objectives and indicators, with unprecedented results in the last years.



Source: SNN analysis

3.1 Development stages of the risk management function at the level of SNN SA

2018 and previously	2019-2022	Future
▪ **Risk management based on risk sheets and record of risks** - Department organization / in subsidiaries - Records of risks for each subsidiary - Risk committees in subsidiaries - Hierarchical reporting (down-top) - Aggregation/ summary of information in SMR ▪ **Assessment of the commercial counterparty risk** - Reporting and risk limits	▪ **Risk management with a software application** - Centralized organization and management at the organization level - Sole record of risks - Predefined functionalities and reports - Correlation of risks – threats – vulnerabilities ▪ **Determination of risk profile and risk tolerance limit** ▪ **Assessment of the commercial counterparty risk** - Reporting and risk limits ▪ **Banking/ insurer counterparty risk management** ▪ **Checking and monitoring guarantees issued in favor of SNN** ▪ **Analysis/ involvement in strategic projects** ▪ **Other monitored/ examined risks:** - Macro-economic (internal and international) risk - Market risk (including foreign exchange rate) - ESG risk - Sensitive function risk - Demographic risk - Geopolitical risk/ threats - Computer risk (cyber risk) - Covid 19 risk - Project risk ▪ **Staff training**	▪ **Integrated risk management** ▪ **Multi-company perspective (Nuclearelectrica, EnergoNuclear, Feldioara, Nuclearelectrica Serv, RoPower Nuclear)** ▪ **Increased digitalization level of activity** 

3.2 Continuous improvement actions of the Risk Management Process

With a view to achieving the objective of reporting capabilities development and improvement, risk control and management, SMR implemented a series of continuous actions/measures intended for the improvement of the risk management framework, among which we remind:

▪ The reduction of the reporting time of the risk information (risk management) and defining the related performance indicators (KPI). Thus, if during the first years of activity of the risk management function, reporting took place within 2-3 months from the examined period, at present it takes place within approximately 20 days from the closure of the examined quarter.

▪ The introduction of new risk categories in the periodic analysis, depending on the dynamics of business needs.

▪ The periodical review of the counterparty risk for all counterparties with which commercial contracts have been concluded on PC-OTC market and beyond.

▪ Automation/ digitalization of the risk management processes by developing applications of the risk information circulation management (ARM). ARM application approaches all the risk management process: visualization, addition, amendment/ update, return, deletion and validation od risks, allowing a perspective of the risk evolution in time, monitoring of the actions related to thereto and generating reports of interest for the company management.

▪ Automation/ digitalization of the process of managing the guarantee instruments issued in favor of SNN through the development of the AGNI application. The application addresses the following

business needs: verification of the guarantees issued in favor of SNN and the eligibility of issuers; management of information on guarantees and issuers; approval of exemptions/exceptions regarding the guarantees and issuers; reports for the guarantees registered in the application.

▪ Increase in the competencies level of the Company's staff as regards the risk management both by participation in the training courses and the carrying out of certain training sessions based on internal resources for the Executive staff of SNN, Cernavoda NPP and NFP Pitesti.

▪ The review, improvement and/or recalibration/ periodical adjustment of the risk management instruments (for example, internal procedures, algorithms and models, rating scales, risk profile, risk tolerance limit, operational and informational flows).