



## **Romanian Hydro Energy Summit Bucharest - February 2016**

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- Corporate governance impact
- Financing considerations
- Classical approach
- Challenges for stakeholders

# Does business ethics pay?



## UK IBE - Ethics and Financial Performance Study:

study compares commitment to ethics/corporate responsibility against financial performance

## Corporate Financial Performance Indicators:

1. Market Value Added (MVA),
2. Economic Value Added (EVA),
3. Price Earnings Ratio (P/E), and
4. Return on Capital Employed (ROCE)

## Corporate Ethics measured:

1. Having a code of ethics,
2. Having ratings for managing socio/ethical risks, and
3. Being cited consistently in the annual list of Britain's Most Admired Companies

# Does business ethics pay?



- Companies with a code of ethics generated significantly more Economic Value Added (EVA) and Market Value Added (MVA) than those without codes.
- Companies with a code of ethics experienced far less P/E ratio volatility over a four year period, than those without them.
- No discernable difference was found in ROCE (Return on Capital Employed) between those with or without a code.
- The companies with an explicit commitment to doing business ethically have produced profit/turnover ratios at 18% higher than those without a similar commitment.
- The general conclusion from this study is that there is strong evidence to indicate that larger UK companies with codes of ethics, e.g. those who are explicit about business ethics, out-perform in financial and other indicators

Institute of Business Ethics - Webley and More - Ethics and financial performance – Does Business Ethics Pay?

# Return on Character



## KRW Study to Measure the Return on Character

Highly principled leaders (as evaluated by their employees) and their organizations had an **average return on assets of 9.35%** over a two-year period. That's nearly five times as much as what those with low character ratings had; their ROA averaged only **1.93%**.

The researchers identified four moral principles - **integrity, responsibility, forgiveness, and compassion**. Then they sent anonymous surveys to employees at 84 U.S. companies and non-profits, asking, among other things, how consistently their CEOs and management teams embodied the four principles. They also analyzed the organizations' financial results.

## Virtuoso CEOs

At one end of the spectrum are the 10 executives we have the "virtuoso CEOs" - those whose employees gave them and their management teams high ratings on all four principles. People reported that these leaders frequently engaged in behaviors that reveal strong character—for instance, standing up for what's right, expressing concern for the common good, letting go of mistakes (their own and others'), and showing empathy.

Fred Kiel - Measuring the Return on Character

# Return on Character



## Self-focused CEOs

At the other end of the spectrum, the 10 lowest scorers - called “self-focused CEOs” - were often described as warping the truth for personal gain and caring mostly about themselves and their own financial security, no matter the cost to others. Employees said that the self-focused CEOs told the truth “slightly more than half the time,” couldn’t be trusted to keep promises, often passed off blame to others, frequently punished well-intentioned people for making mistakes, and were especially bad at caring for people.

## Findings

In addition to outperforming the self-focused CEOs on financial metrics, the virtuosos received higher employee ratings for vision and strategy, focus, accountability, and executive team character.

Fred Kiel - Measuring the Return on Character

# Financing considerations



## Country specific conditions:

- Macro economic considerations
- Investment climate
- Workforce

## Sector specific considerations:

- Market regulation
- Existing infrastructure
- EU Energy Union
- Competition

# Financing considerations

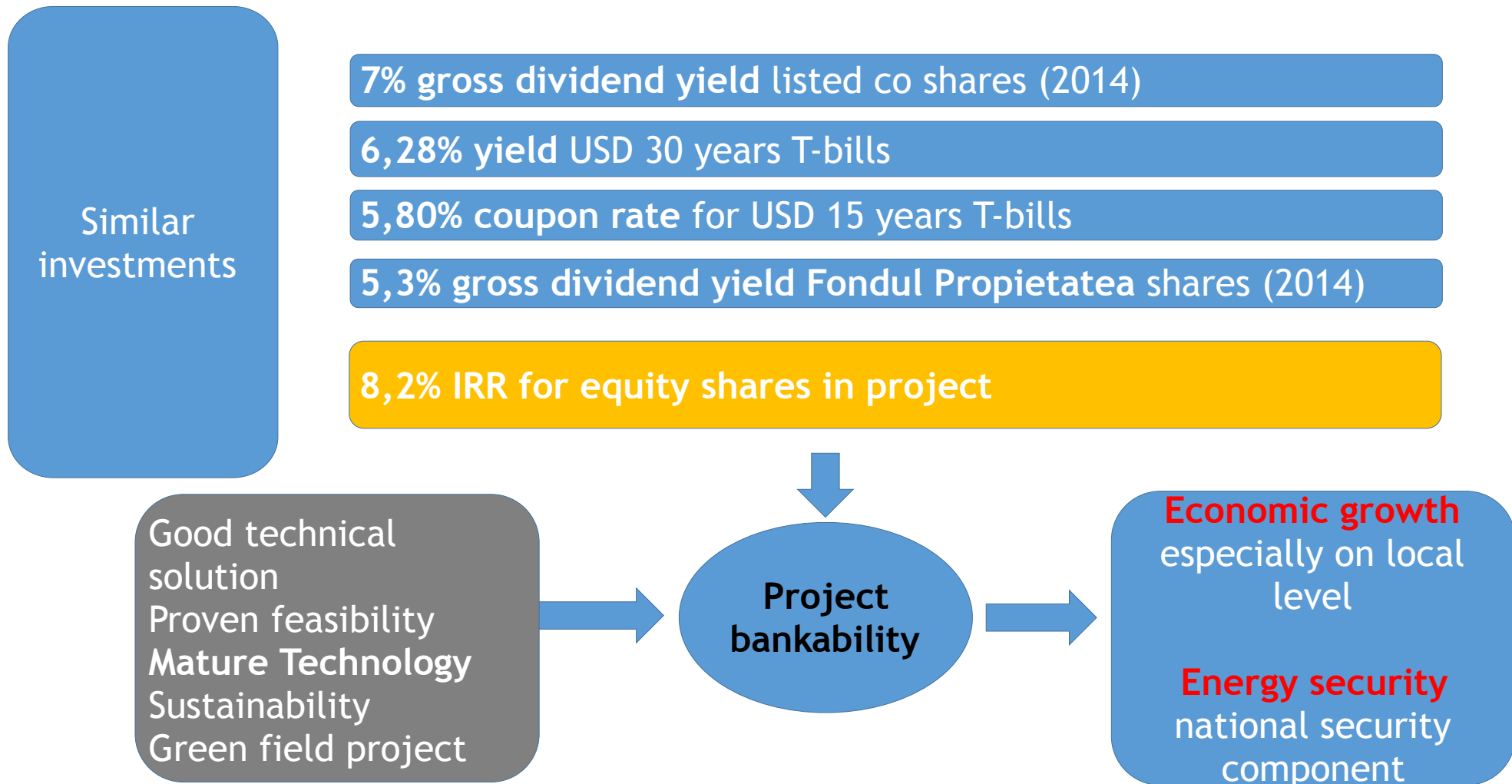


## Project merit:

- Developer, technology
- Size of investment
- Location
- Time to market
- Financing and financial performance
- Grid connection matters
- Regulatory impact on the returns of the project (UK NPP)
- Government and EU approvals



# MACROECONOMIC INVESTMENT APPROACH



Source: Public info

# NATIONAL POWER SYSTEM

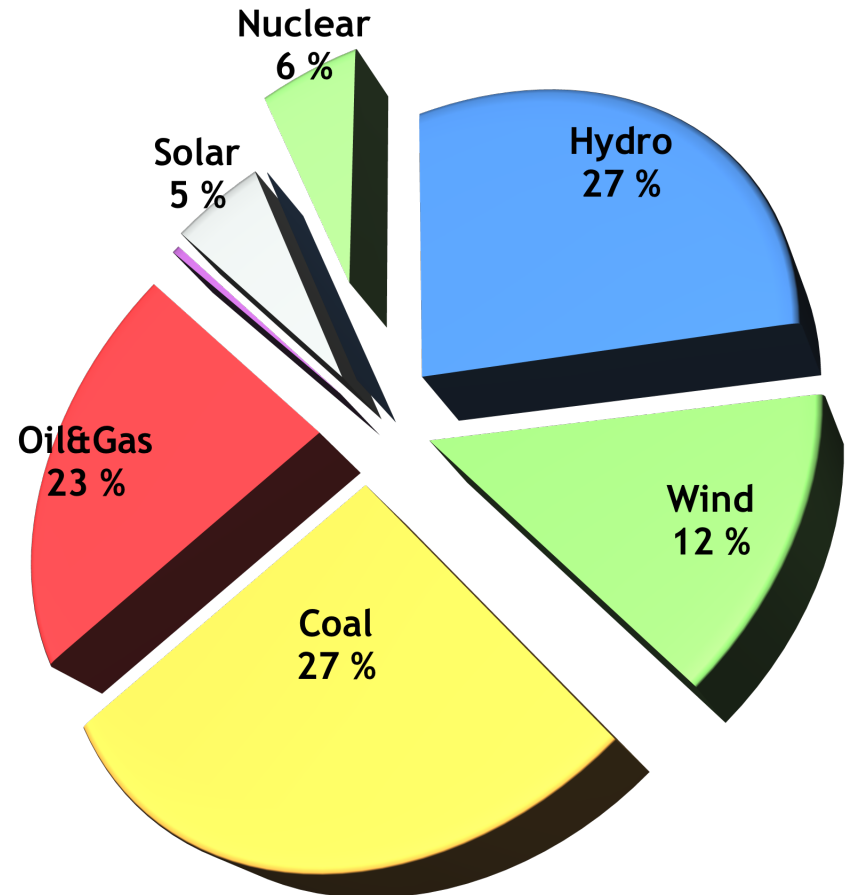
## total installed capacity april 2014 - 24GW

### Resources

- ▶ Coal
- ▶ Nuclear
- ▶ Hydro
- ▶ Gas
- ▶ Wind & Solar

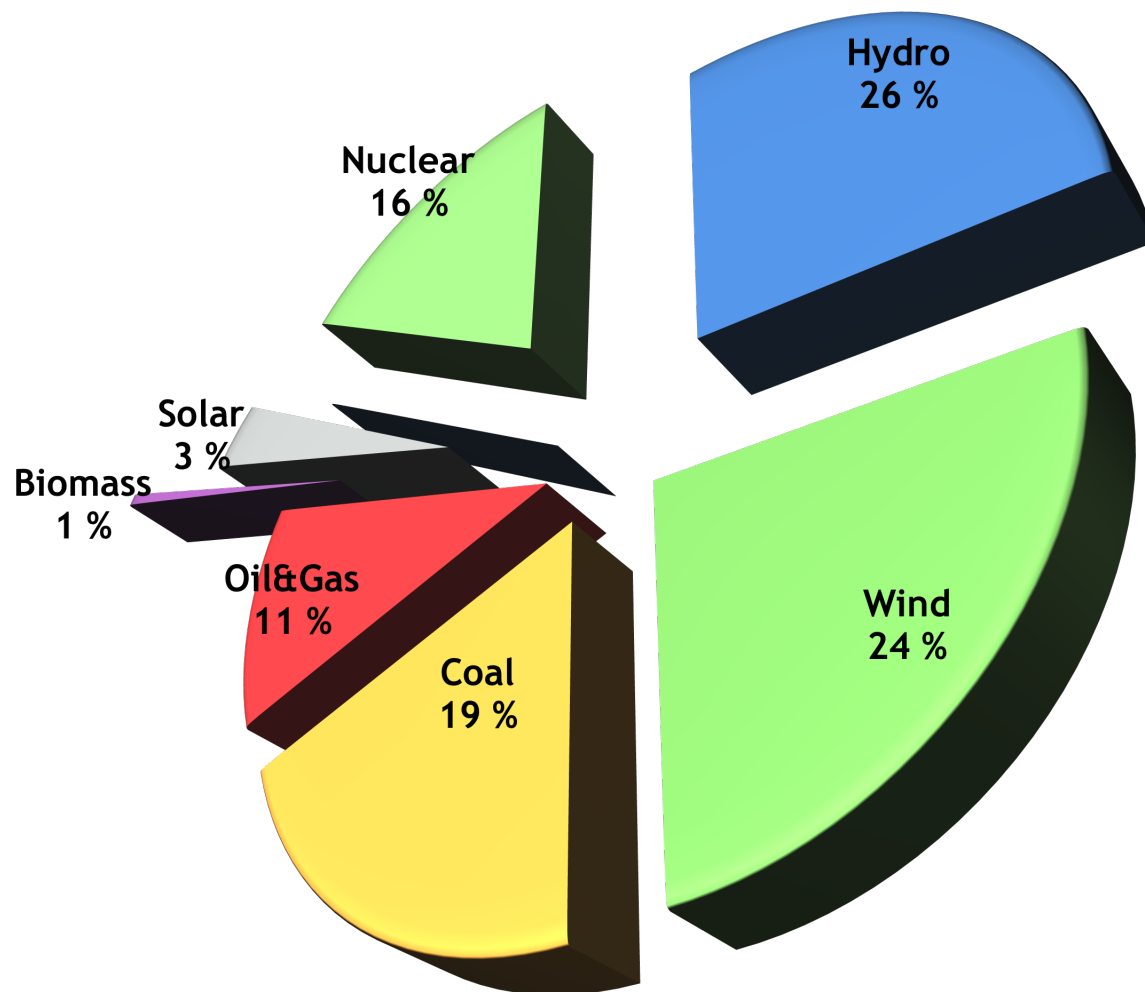
### Challenges

- ▶ Network capacity,
- ▶ increased share of RES
- ▶ Interconnections
- ▶ Energy price
- ▶ Phasing out of existing plants

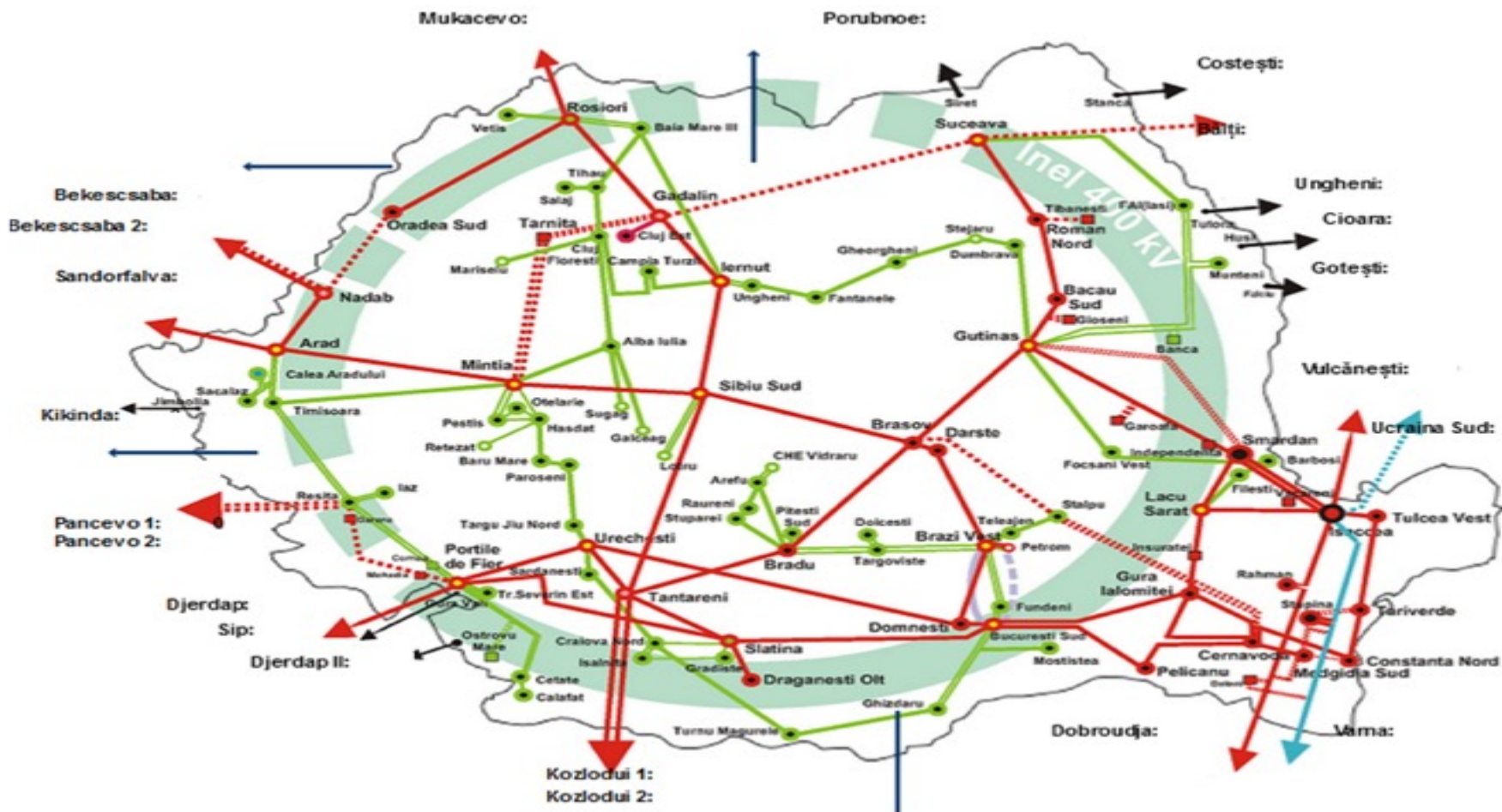


# NATIONAL POWER SYSTEM

## Total power generation 2016 Feb



# National Power Grid - CONNECTION



\* Source: TRANSELECTRICA S.A.

# ENERGY POLICIES AND STRATEGY

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## European energy policy

**Security of energy supply:** Diversification of energy sources, supply countries and routes; Grid Stability; Adequate energy infrastructures

**Sustainability :** Reduction of emissions; Reduction of energy consumption; Development of alternative energy sources

**Competitiveness :** Affordable and competitive prices; Improved energy efficiency; Promotion of new technologies, growth and jobs

## National energy strategy

- ✓ Keeping a diversified and well balanced energy mix
- ✓ Increasing energy security by new generation units and using the local potential for new energy sources
- ✓ Developing nuclear energy, essential to achieving decarbonisation targets;
- ✓ Using the potential of energy efficiency
- ✓ Encouraging investments and building an attractive and predictable environment for investors
- ✓ Prudent and sustainable development of renewable energy, in a cost-effective manner
- ✓ Keeping coal as an important energy resource for ensuring our energy security
- ✓ Sustaining clear regulations for vulnerable consumers in the context of the energy price increases
- ✓ Taking advantage of the national geographical and energy potential
- ✓ Consolidating the management of the state companies from the energy sector

# DRIVERS OF INVESTMENTS

## European energy policy OBJECTIVES

**Policy**

**Bankability**

**Environment**

➤ Main objective of the WFD is to prevent deterioration of the water bodies status

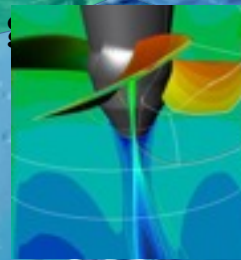
**Usage of existing facilities for Hydro Power**

**Energy**

➤ Reduction of CO<sub>2</sub> emissions  
➤ Directive 2009/28/EC renewable source encouragement

**Sustainability**

**Security**



## Financing considerations - Stakeholders



### Classical:

- Project specifics and country and regional macro objectives
- Investment climate - financing, cost of capital
- People / team
- Emissions considerations

### New:

- Complexity of market regulation - national and EU
- Environmental matters
- Existing infrastructure development projects
- Technological advances at higher pace
- Political and geo strategic conditions



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