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Independent Auditor's Report (free translation¹)

To the Shareholders of
S.C. Hidroelectrica S.A.

Report on the consolidated financial statements

- 1 We have audited the accompanying consolidated financial statements of S.C. Hidroelectrica S.A. ("the Company") and its subsidiaries (together "the Group"), which comprise the consolidated statement of financial position as at 31 December 2011, the consolidated income statement, the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Consolidated Financial Statements

- 2 Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as endorsed by the European Union and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

- 3 Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatements.
- 4 An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Group's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.
- 5 We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

¹ TRANSLATOR'S EXPLANATORY NOTE: The above translation of the auditors' report is provided as a free translation from Romanian which is the official and binding version.

Basis for Qualified Opinion

- 6 As described in Note 11 to the accompanying consolidated financial statements, as at 31 December 2011, the Group has ongoing long-term loans from the International Bank for Reconstruction and Development, ING Bank NV Amsterdam – Bucharest branch, ING Bank Dublin branch, Unicredit Bank Austria AG, Citibank International PLC, Banca Comerciala Romaneasca – Bucharest branch, EFG Eurobank Ergasias SA – Bancpost SA and European Bank for Reconstruction and Development. The Group did not comply with certain financial indicators stipulated in these loan agreements. The financing institutions may request, by written notification, the acceleration of repayment of these loans, after a period of time in which the Group has the opportunity to remedy the matter. Because the Group does not have an unconditional right to defer the settlement of the loans for a period of at least one year, long term liabilities of Lei 1,315,979 thousand should be presented in the consolidated statement of financial position as at 31 December 2011 as current liabilities in accordance with IAS 1 “Presentation of Financial Statements”.

Our audit report on the consolidated financial statements as at and for the year ended 31 December 2010 expressed a qualified opinion with respect to long term liabilities, in amount of Lei 368,236 thousand, which should have been presented as current liabilities as at 31 December 2010, as a result of the non-compliance with certain financial indicators, as at that date.

- 7 As described in Note 30 to the accompanying consolidated financial statements, on 20 June 2012, the Company entered into insolvency, as per provisions of Law 85/2006 (“Insolvency Law”) and at the date of this report, the reorganization plan is under development stage. The recoverable amount of the Company’s property, plant and equipment could not be estimated in accordance with IAS 36 “Impairment of Assets”, because without a final business plan established under the reorganization plan, future cash flows cannot be reasonably estimated. Accordingly, the consolidated financial statements do not include any impairment adjustments to property, plant and equipment that may have been determined had a recoverable amount estimation been prepared.
- 8 As described in Note 30 i) to the accompanying consolidated financial statements, the Company is involved in a number of trials introduced to the courts, following the insolvency procedure with the commercial partners and with the trade union Hidrosind. Some of the Company’s creditors have requested compensations, damages and penalties. Sufficient and appropriate audit evidence was not available to assess the potential financial impact of such litigations and determine whether any possible adjustments may have been necessary to be recorded in the consolidated financial statements as at, and for the year ended 31 December 2011.

Qualified Opinion

- 9 In our opinion, except for the effects of the matter referred to in paragraph 6 and the possible effects of the matters referred to in paragraphs 7 and 8, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2011, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as endorsed by the European Union.



Emphasis of Matter

10 Without further qualifying our opinion, we draw attention to:

- Note 29 to the accompanying consolidated financial statements which indicate that, on 20 June 2012, the Company entered into insolvency, with the purpose of juridical reorganization. Based on the information provided by the judicial administrator as of the date of this report, the insolvency procedure is ongoing. The Company according to the procedure is in the observation period, in the stage of finalization of the creditors' chart. These conditions may cast significant doubt on the Company's ability to continue as a going concern in the foreseeable future. The Company's ability to continue as a going concern depends on the continuous sustainability from its creditors, its shareholders and the Romanian Government's decisions. The management of the Company and the judicial administrator consider that the Company will continue as a going concern for the foreseeable future and so consider that the going concern assumption used in the preparation of the consolidated financial statements as at, and for the year ended 31 December 2011 is appropriate.
- Note 27 b) to the accompanying consolidated financial statements, which describes that the price for the energy delivered on regulated market is not determined solely by the Group, but is agreed upon with and periodically revised by the National Authority for Energy Sector Regulation.

Other Matters

11 This independent auditors' report is made solely to the Company's shareholders, as a body. Our audit work has been undertaken so that we might state to the Company's shareholders those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's shareholders as a body, for our audit work, for the report on consolidated financial statements and for the report on conformity of the Administrator's report, or for the opinion we have formed.

Report on conformity of the Administrators' Report with the Consolidated Financial Statements

In accordance with the Order of the Minister of Public Finance no 3055/2009 and related amendments, article 107 of accounting regulations in accordance with the VII-th Directive of CEE we have read the Administrators' Report attached to the consolidated financial statements as at, and for the year ended 31 December 2011. The Administrators' Report is not a part of the consolidated financial statements. In the Administrators' Report we have not identified any financial information which is not in accordance, in all material respects, with the information presented in the accompanying consolidated financial statements.

For and on behalf of KPMG Audit SRL:

Razvan Mihai

Refer to the original signed
Romanian version

registered with the Chamber of Financial
Auditors of Romania under no 2561/2008

Bucharest, 12 November 2012

registered with the Chamber of Financial
Auditors of Romania under no 9/2001