S.C. HIDROELECTRICA S.A. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

PREPARED IN ACCORDANCE WITH
INTERNATIONAL FINANCIAL REPORTING STANDARDS
AS ADOPTED BY THE EUROPEAN UNION

This is a free translation from the original Romanian binding version.

CONTENT **PAGE**

(all amounts are in RON thousand, unless specified otherwise)

	Note	December 31 2012 RON	December 31 2011 RON Restated*	January 1 2011 RON Restated*
Assets				
Non-current assets				
Property, plant and equipment	4	18,506,280	18,551,095	17,831,023
Intangible assets		4,553	6,452	1,676
Financial Instruments	30	21,634	-	22,191
Other non-current assets		7,868	3,371	8,771
Total non-current assets		**18,540,335**	**18,560,918**	**17,863,661**
Current assets				
Inventories	5	46,634	78,331	91,990
Trade receivables	6	235,440	341,922	282,567
Other current assets	7	129,787	287,776	324,799
Financial Instruments	30	55,539	-	22,928
Cash and cash equivalents	8	64,729	96,686	113,052
Total current assets		**532,129**	**804,715**	**835,336**
Total assets		**19,072,464**	**19,365,633**	**18,698,997**
Equity and liabilities				
Capital and reserves				
Issued capital	9	1,740,329	1,714,255	1,705,708
Contributions in advance to share capital	9	3,763	24,983	31,004
Revaluation reserve	9	2,783,388	2,898,015	3,761,518
Retained earnings	9	9,573,151	9,304,086	9,139,562
Equity attributable to owners of the Entity		**14,100,631**	**13,941,339**	**14,637,792**
Liabilities				
Non-current liabilities				
Borrowings	11	1,201,801	1,418,920	1,200,337
Deferred revenue	13	266,134	271,995	283,351
Deferred tax liabilities	14	466,245	436,049	522,804
Financial Instruments	30	-	248,557	-
Retirement benefit obligation	15, 17	100,146	62,291	62,291
Provisions	17	131,791	131,791	131,791
Other non-current liabilities	16	72,992	87,170	68,366
Total non-current liabilities		**2,239,109**	**2,656,773**	**2,268,940**

(all amounts are in RON thousand, unless specified otherwise)

	Note	December 31 2012	December 31 2011	January 1 2011
		RON	RON Restated*	RON Restated*
Current liabilities				
Borrowings	10	677,651	742,140	409,564
Current portion of long term loans	11	392,688	346,194	284,868
Financial Instruments	30	-	85,054	-
Trade and other payables	12	1,019,407	1,109,797	878,551
Provisions	17	99,524	22,428	39,683
Other current liabilities	16	543,454	461,908	179,599
Total current liabilities		**2,732,724**	**2,767,521**	**1,792,265**
Total liabilities		**4,971,833**	**5,424,294**	**4,061,205**
Total equity and liabilities		**19,072,464**	**19,365,633**	**18,698,997**

**) The consolidated statement of financial position as at December 31, 2011 and as at December 31, 2010 have been restated in accordance with Note 31.*

These consolidated financial statements were authorized to be issued by the management as at October 31, 2013, and signed on its behalf by:

Mihail Viorelian Stănculescu
President of the Board of Directors

Aurel Lucian Cocoş
Board of Directors Member

Mihai Teleanu
Board of Directors Member

(all amounts are expressed in RON thousand, unless specified otherwise)

	Note	Year ended December 31, 2012	As Restated* Year ended December 31, 2011*
		RON	RON
Revenues from electricity	19	2,393,729	3,010,241
Other operating income	21	57,668	61,625
Total Revenues		**2,451,397**	**3,071,866**
Operating expenses			
Purchases of electricity	20	(87,168)	(777,256)
Depreciation and amortization	4	(911,439)	(890,776)
Payroll expenses		(572,674)	(524,124)
Other operating expenses	22	(1,007,648)	(942,707)
Total operating expenses		**(2,578,929)**	**(3,134,863)**
Operating loss		**(127,532)**	**(62,997)**
Financial income	23	10,493	3,522
Financial costs	23	(44,319)	(70,637)
Income from operations with embedded derivatives	23	410,784	-
Exenses from operations with embedded derivatives	23	-	(378,730)
Financial loss / (profit)		**376,958**	**(445,845)**
(Loss)/Profit before income taxes		**249,426**	**(508,842)**
Income tax expense	14	(58,061)	72,994
(Loss)/Profit for the year		**191,365**	**(435,848)**
Other Comprehensive Income			
Revaluation of tangible assets (net of income tax)		(34,926)	-
Total comprehensive income		**156,439**	**(435,848)**
Profit / (loss) per share		0.43	(0.98)

**) The Consolidated statement of profit and loss and other comprehensive income for the year ended December 31, 2011 has been restated in accordance with Note 31.*

These consolidated financial statements were authorized to be issued by the management as at October 31, 2013.

Mihail Viorelian Stănculescu
President of the Board of Directors

Aurel Lucian Cocoş
Board of Directors Member

Mihai Teleanu
Board of Directors Member

(all amounts are in RON thousand, unless specified otherwise)

	Share capital	Contributions in advance to share capital	As Restated* Revaluation reserve	As Restated* Retained Earnings	Total
Balance at January 1, 2011	**1,705,708**	**31,004**	**3,761,518**	**9,139,562**	**14,637,792**
Loss for the financial year					
Loss for the year (Restated)*	-	-	-	(435,848)	(435,848)
Revaluation reserve	-	-	-	-	-
Deffered Tax from Revaluation reserve	-	-	-	-	-
Reclassification of revaluation reserve to retained earnings (Restated)*			(863,246)	863,246	-
Transfer of revaluation surplus from disposal of tangible assets (Restated)*	-	-	(257)	257	-
Total result for the year	**-**	**-**	**(863.503)**	**863,503**	**(435,848)**
Contributions of and distributions to Owners					
Dividends distribution	-	-	-	(263,131)	(263,131)
Other share capital increases, primarily through lands for which the Group has land deeds	8,547	(6,021)	-	-	2,526
Total transactions with Owners	**8,547**	**(6,021)**	**-**	**(263,131)**	**(260,605)**
Balance at December 31, 2011 *	**1,714,255**	**24,983**	**2,898,015**	**9,304,086**	**13,941,339**

**) The Consolidated statement of changed in equity has been restated in accordance with Note 31.*

These consolidated financial statements were authorized to be issued by the management as at October 31, 2013.

Mihail Viorelian Stănculescu
President of the Board of Directors

Aurel Lucian Cocoş
Board of Directors Member

Mihai Teleanu
Board of Directors Member

(all amounts are in RON thousand, unless specified otherwise)

	Share capital	Contributions in advance to share capital	Revaluation reserve	Retained earnings	Total
Balance at December 31, 2011 *	**1,714,255**	**24,983**	**2,898,015**	**9,304,086**	**13,941,339**
Result for the financial year					
Profit for the year	-	-	-	191,365	191,365
Other	-	-	-	(2,001)	(2,001)
Revaluation reserve	-	-	(41,579)	-	(41,579)
Deferred tax from revaluation reserve	-	-	6,653	-	6,653
Transfer of revaluation surplus from disposal of tangible assets	-	-	(79,071)	79,071	-
Total result of the year	**-**	**-**	**(114,627)**	**269,065**	**154,438**
Contributions of and distributions to Owners					
Dividends distribution	-	-	-	-	-
Other share capital increases, primarily through lands for which the Group has land deeds	26,074	(21,220)	-	-	4,854
Total transactions with Owners	**26,074**	**(21,220)**	**-**	**-**	**4,854**
Balance at 31 December, 2012	**1,740,329**	**3,763**	**2,783,388**	**9,573,151**	**14,100,631**

**) The consolidated statement of changed in equity has been restated in accordance with Note 31.*

These consolidated financial statements were authorized to be issued by the management as at October 31, 2013.

Mihail Viorelian Stănculescu
President of the Board of Directors

Aurel Lucian Cocoş
Board of Directors Member

Mihai Teleanu
Board of Directors Member

(all amounts are in RON thousand, unless specified otherwise)

	Year ended December 31, 2012	Year ended December 31, 2011
	RON	RON (Restated)
Cash flows from operating activities		
(Loss) before tax	**249,426**	**(508,842)**
Adjustments for non-cash items:		
Depreciation and amortization of non-current assets	943,557	912,929
Net movement of provisions	114,951	8,737
Allowances for doubtful receivables	40,023	5,406
Net income from reversal of allowances for receivables	(24,256)	(6)
Loss from sale of fixed assets	35,997	5,787
Reversal of accrued revenues	(6,937)	(11,373)
(Gain) / Loss from embedded derivatives	(410,784)	378,730
Unrealized forex differences	38,329	14,909
Interest income	(1,655)	(2,859)
Interest expense	43,951	58,272
	1,022,602	**861,690**
Movements in working capital		
Decrease / (increase) in trade and and other receivables	90,715	(64,165)
Decrease in other assets	70,330	37,659
Decrease / (increase) in inventories	31,697	(4,208)
(Decrease) / Increase in trade and other payables	(40,310)	300,297
Cash generated from operations	**1,175,033**	**1,131,273**
Interest paid	(110,341)	(94,247)
Income tax paid	(14,585)	(61,876)
Net cash generated by operating activities	**1,050,107**	**975,150**
Cash flows from investing activities		
Purchase of property, plant and equipment	(806,625)	(1,568,500)
Proceeds from disposal of property, plant and equipment	2,618	2,661
Interest received	1,655	2,850
Net cash used in investing activities	**(802,352)**	**(1,562,989)**
Cash flow from financing activities		
Proceeds from borrowings	147,732	880,301
Repayment of borrowings	(421,174)	(282,728)
Dividends paid	(6,269)	(26,100)
Net cash used in financing activities	**(279,711)**	**571,473**
Net (Decrease)/Increase in cash and cash equivalents	(31,957)	(16,366)
Cash and cash equivalents at beginning of the year	**96,686**	**113,052**
Cash and cash equivalents at end of the year	**64,729**	**96,686**

**) The consolidated statement of cash flow at 2011 has been restated in accordance with Note 31.*

These consolidated financial statements were authorized to be issued by the management as at October 31, 2013.

Mihail Viorelian Stănculescu
President of the Board of Directors

Aurel Lucian Cocoş
Board of Directors Member

Mihai Teleanu
Board of Directors Member

(all amounts are expressed in RON thousand, unless specified otherwise)

1. GENERAL INFORMATION

SC Hidroelectrica S.A. ("Hidroelectrica" or the "Company") was founded in 1998 by the Government decision ("GD") no. 365/1998, following the restructuring of the former National Electricity Company ("Renel"). On August 1st, 2000, following the restructuring of the former National Electricity Company ("Conel") based on the Government Decision no. 627/2000, the Company was allocated a new tax registration number, without changing its object of activity. The Group's registered address is Str. Ion Mihalache No.15-17, Sector 1, Bucharest, Romania.

Hidroelectrica's main activity is the production and sale of electricity. Hidroelectrica is 80.06% owned by the Romanian state, represented by the Ministry of Economy, Trade and Business Environment ("METBE") and in proportion of 19.94% by "Fondul Proprietatea".

In 2002, the Government decided to separate the maintenance activity from the core business – electricity production and following the GD no. 857 dated July 1st, 2002, Hidroelectrica was reorganized into 12 production and sale of electricity branches and 8 subsidiaries (separate corporate) of maintenance and repair services.

The 8 subsidiaries are:

Crt. no.	Branch	Location	Address
1	Hidroserv Bistrita	Piatra – Neamt	Str. Lt. Draghicescu nr.13
2	Hidroserv Cluj	Cluj – Napoca	Str. Taberei, nr.1
3	Hidroserv Curtea de Arges	Curtea de Arges	Str. Barajului, nr.1
4	Hidroserv Hateg	Hateg	Str. Progresului, nr.38 bis
5	Hidroserv Portile de Fier	Drobeta Turnu Severin	Str. Calea Timisoarei, nr.2
6	Hidroserv Ramnicu Valcea	Ramnicu Valcea	Calea Bucuresti, nr.269
7	Hidroserv Sebes	Sebes	Str. Alunului, nr.9
8	Hidroserv Slatina	Slatina	Str. Tudor Vladimirescu, nr.158 B

Hidroelectrica is the sole shareholder of the 8 branches registered in Romania. Hidroelectrica and the 8 subsidiaries are referred to as "the Group".

As a result of the prolonged drought manifested since April 2011, the Company established the state of force majeure starting with September 30, 2011, state that lasted until May 1st, 2012 and starting from August 10, 2012 the state of force majeure was reinstated, lasting until November 30, 2012. The procedure for activating the force majeure clause requires obtaining certificates from the Chamber of Commerce and Industry of Romania for the sales contracts concluded with its customers. During the period of activation of the clause, the Company delivers electricity in the limit of their own production, equally to all customers, without purchasing electricity from other manufacturers.

Mainly due to the prolonged drought, the results and the financial position of the Company, the Board of Directors decided in its meeting from June 15th, 2012 to submit to Bucharest Court an application to enter the general procedure of insolvency, in order to reorganize its business activity according to a reorganization plan. Once the plan will be completed, the Group should emerge from insolvency and continue its commercial activity without the judicial authority's supervision. The Bucharest Court admitted on June 20th, 2012 the application for entry in insolvency of Hidroelectrica, after which Remus Borza, coordinator of the insolvency firm Euro INSOL, was appointed trustee.

At the date of approval of these consolidated financial statements, the insolvency procedure was completed, and the Group concluded the final creditors table. Continuing Group's business activity depends on the continuing support of its creditors, shareholders and the decisions of the Romanian Government.

Given the above and taking into account the Group's strategic importance in the national energy system, the management and the trustee believe that the Group will continue to operate in the foreseeable future and, accordingly, consider appropriate the use of the going concern assumption for the preparation of the consolidated financial statements for the year ended December 31, 2012.

1. GENERAL INFORMATION (CONTINUED)

The regulatory environment

The activity in the energy sector is regulated by the National Regulation Authority in the Energy Area ("NRAEA") - established as an autonomous public institution by Government Ordinance ("GO") no. 29/1998, amended by Law no. 99/2000 - and has, among others, the following responsibilities:

- Implementation of the mandatory national regulatory system for the energy sector in order to guarantee efficiency, competition, transparency in the sector, and consumer protection;
- Issue or suspension of operating licenses for existing entities involved in the energy sector or for what will occur following the creation of a competitive environment in the electric energy markets;
- Develop the methodology for calculating tariffs criteria in the energy sector and framework contracts for the sale, purchase and supply of electricity to final consumers.

In the framework of the above described responsibilities, NRAEA issued Decision no. 93/2000 to grant "electricity supply license No. 18/2000" for Hidroelectrica. This license allows HIDROELECTRICA to operate on the wholesale electricity market, selling electricity to distribution companies and eligible consumers. The license was renewed in 2008, through NRAEA Decision no. 916/2008 and later in 2010, by Decision no. 1387/27.05.2010, the license no. 932/2010 was obtained. The Group is also authorized to provide system services based on Decision no. 851/2005 issued by NRAEA for granting "The license for system service delivery no. 333/2001 "for Hidroelectrica.

Regarding the electricity production activity, Hidroelectrica operates in the framework of "Production license no. 332/2001 "(NRAEA Decision no. 312/2010)

Tangible fixed assets

The Group's accounting records allow only for identification of historical values of tangible fixed assets after the 1994 revaluation. Accordingly, the restated cost of fixed assets acquired before June 30, 1994 was determined by reprocessing gross values, revalued according to the Government Decisions no 26/1992 and no. 500/1994 and by applying the general price index between June 30, 1994 and December 31, 2003. The restated cost of land and land improvements purchased after June 30, 1994 was determined by restating historical cost, applying the general price index between the date of acquisition and December 31, 2003.

The buildings, special constructions, equipment's and vehicles held by the Group as of December 31, 2012 are presented in the statement of financial position at fair value. Land is presented at historic cost, and for the plots of land in property before December 31, 2003 the valuation is based on the restated cost applying the general inflation index of prices between the acquisition date and December 31, 2003.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

Standards and interpretations effective in the current period

The following amendments to the existing standards issued by the International Accounting Standards Board („IASB") and adopted by the EU are effective for the current period:

- **Amendments to IFRS 7 Financial instruments – disclosures – transfers of financial assets**, adopted by the EU on November 22, 2011. The amendments stipulate additional requirements on disclosures for transactions involving transfers of financial assets to ensure greater transparency of risk exposures when a financial asset is transferred. Application of amendments had no significant effect on the disclosures of consolidated financial statements.

2 APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

Standards and interpretations issued by the IASB and adopted by the EU but not yet effective

At the date of approval of these consolidated financial statements, the following standards, revisions and interpretations were issued but not yet effective:

- **IFRS 10 Consolidated financial statements** (effective from January 1, 2014) adopted by the EU on December 11, 2012, replacing sections of IAS 27 Consolidated and Separate Financial Statements that deal with consolidated financial statements. SIC-12 Consolidation – Special Purpose Entities was withdrawn with the issuance of IFRS 10. In accordance with IFRS 10, there is only one basis for consolidation, that is control. In addition, IFRS 10 includes a new definition of control that contains three elements: (a) power over the investee entity, (b) exposure, or rights to variable results based on its participation in the investee entity, and (c) ability to use their authority over the investee entity to influence the value investor results. Extensive guidance in IFRS 10 were added to handle complex scenarios. The Group does not expect IFRS 10 to have a material effect on the financial statements.

- **IFRS 11 Joint** Arrangements (in force since January 1, 2014) adopted by the EU on December 11, 2012, replaces IAS 31 Interests in Joint Ventures. IFRS 11 covers how to classify joint commitments in which two or more parties have joint control. SIC-13 Jointly controlled entities - non-monetary contributions of the joint venture was withdrawn with the issuance of IFRS 11. In accordance with IFRS 11, Joint Ventures are classified as joint operations or joint ventures, according to the rights or obligations of the parties association. On the contrary, in accordance with IAS 31, there are three types of forms of joint ventures: jointly controlled entities, jointly controlled operations and jointly controlled assets. In addition, in accordance with IFRS 11 a partner in a joint venture must recognize an investment and to account for by the equity method, while in accordance with IAS 31 may use the equity method or proportional consolidation. The Group estimates that IFRS 11 does not have any impact on the financial statements because it is not part in any joint arrangement.

- **IFRS 12 Presentation existing interests in other entities** (effective from January 1, 2014) adopted by the EU on December 11, 2012, offers additional information regarding the significant judgments and assumptions made to determine the nature of the interest held in an entity or arrangement, subsidiary, joint arrangements and joint ventures and consolidated structured entities. The Group estimates that IFRS 12 does not have a significant impact on the consolidated financial statements.

- **IFRS 13 Fair value measurement** (effective from January 1, 2013) adopted by the EU on December 11, 2012, establishes a single source of guidance for determining fair value and disclosures about fair value determination. The standard defines fair value, establishes a regulatory framework for measuring fair value and contains provisions for disclosures of fair value measurement. Scope of IFRS 13 is wide, it applies to both financial instruments and non-financial instruments for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specific situations. In general, the requirements for the provision of information in IFRS 13 are more extensive than the current standards. For example, providing quantitative and qualitative information hierarchy based on three levels currently provided only for financial instruments according to IFRS 7 Financial Instruments: providing information in IFRS 13 will expand to cover all assets and liabilities of field application. The management anticipates that the application of the new standard may affect certain amounts reported in the financial statements and may result in a more variety of information in the financial statements

- **IAS 27 -Individual Financial Statements** (amended in 2011), in force since January 1, 2013, the EU adopted on December 11, 2012. This continues existing standard accounting requirements and disclosures of IAS 27 (2008) with regard to the individual financial statements, with some minor clarifications. Also, the existing requirements of IAS 28 (2008) and IAS 31 to individual financial statements were incorporated into IAS 27 (2011). The standard does not treat the control principle and provisions relating to consolidated financial statements, which are moved in IFRS 10 - Consolidated Financial Statements.

2 APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONTINUED)

The Group does not expect the amendments to have a significant effect on the consolidated financial statements.

- **IAS 27 -Individual Financial Statements** (amended in 2011), in force since January 1, 2013, the EU adopted on December 11, 2012. This continues existing standard accounting requirements and disclosures of IAS 27 (2008) with regard to the individual financial statements, with some minor clarifications. Also, the existing requirements of IAS 28 (2008) and IAS 31 to individual financial statements were incorporated into IAS 27 (2011). The standard does not treat the control principle and provisions relating to consolidated financial statements, which are moved in IFRS 10 - Consolidated Financial Statements. The Group does not expect the amendments to have a significant effect on the consolidated financial statements.

- **IAS 28 Investments in associates** (as amended in 2011), in force since January 1, 2013, the EU adopted on December 11, 2012. There are limited amendments made in IAS 28 (2008): a) IFRS 5 Non-current Assets Held for Sale and Discontinued Operations applies to an investment or part of an investment in an associate or joint venture that meets the criteria to be classified as held for sale. For any remaining part of the investment that has not been classified as held for sale, equity method is applied until disposal occurs. After disposal, any interest retained is accounted for using the equity method if interest kept continues to be an associate or a joint venture b) prior, IAS 28 (2008) and IAS 31 provided that the termination of significant influence or control in common, triggered remeasurement of any retained interest in all situations, even if significant influence was followed by joint control. IAS 28 (2011) now states that in such scenarios retained interest in investment should not be remeasured. The Group does not expect the amendments to have a significant impact on the financial statements.

- **Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards ("IFRS") - Severe hyperinflation and removal of fixed dates for those who first adopted IFRSs** (effective for annual periods beginning on or after January 1, 2013), adopted by the EU on December 11, 2012. The amendments provide a new exception to the application of IFRS 1 First-time Adoption of IFRS. Entities that have been exposed to severe hyperinflation may use fair value as deemed cost of their assets and liabilities in IFRS introductory financial position. Application of these changes had no effect on the Group's consolidated financial statements.

- **Amendments to IFRS 7 “Financial Instruments: Disclosures” - Offsetting Financial Assets and Financial Liabilities** (effective for annual periods beginning on or after January 1, 2013), adopted by the EU on December 13, 2012. The amendments require information that will allow users of financial statements to assess the effect or potential effect of netting arrangements, including compensation rights of financial assets and liabilities recognized. The managements consider that the application of these amendments to IFRS 7 may result in disclosures-offsetting financial assets and financial liabilities.

Amendments to IFRS 10, IFRS 11 and IFRS 12 Consolidated financial statements, Joint arrangements and Disclosure of interests in other entities: guidance for transition, not yet adopted by the EU.

The amendments clarify certain aspects of the transition when applying IFRS 10, IFRS 11 and IFRS 12 for the first time (effective from January 1, 2013).

2 APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORING STANDARDS (CONTINUED)

- Amendments to IAS 1 Presentation of Financial Statements - Presentation of items of other comprehensive income and adopted by the EU on June 5, 2012. The Group has applied the amendments before the effective date (annual periods beginning on or after July 1, 2012). The amendments introduce a new terminology for the statement of comprehensive income. In accordance with the amendments to IAS 1, "Statement of comprehensive income" is renamed "Statement of profit or loss and other comprehensive income" and "income statement" is renamed "Statement of profit or loss". Amendments to IAS 1 retain the option to present profit or loss and other comprehensive income either in a single statement or in two separate but consecutive statements. However, amendments to IAS 1 provide the elements of other comprehensive income be grouped into two categories in other comprehensive income section: (a) items that will not be reclassified to profit or loss situation and (b) elements that can be reclassified into profit or loss situation when certain specific conditions are met. It is anticipated that tax relating to items of other comprehensive income to be allocated on the same basis. Amendments have been applied retrospectively presentation of other comprehensive income items were modified to reflect these changes. Except for the above changes in the presentation of information, the application of the amendments to IAS 1 does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.

- **Amendments to IAS 12 Income Taxes - Deferred tax: recovery of underlying assets** (effective from January 1, 2013) adopted by the EU on December 11, 2012. The amendments provide an exception to the general principles of IAS 12 in that measuring assets and liabilities on deferred tax should reflect the tax consequences that would follow from the manner in which the Group expects to recover the carrying value of an asset. In particular, according to the amendments, investment properties that are measured using the fair value model in IAS 40 Investment property is considered to be recovered through the sale in order to determine deferred tax, unless the assumption is rejected in certain circumstances. Application of amendments had no effect on the amounts reported in the current and prior years because the Group has no investment property measured using the fair value model in IAS 40.

- **Amendments to IAS 19 Employee Benefits** (as amended in 2011), in force since January 1, 2013, the EU adopted on June 5, 2012. Amendments to IAS 19 change the accounting for defined benefit plans and post-employment benefits. The most important changes relate to accounting changes of the defined benefit obligations and plan assets. Amendments provide recognition changes to the defined benefit obligation and fair value of plan assets when they occur, eliminating the "corridor method" allowed under the previous version of IAS 19 and the recognition hurry past service costs. The amendments require that all gains and losses to be recognized immediately in other comprehensive income so that the net pension of assets or liabilities recognized in the consolidated financial position reflect the full value of the deficit or surplus in the plan. Amendments to IAS 19 are effective for annual periods beginning on or after January 1, 2013 and require retrospective application with some exceptions.

  The management anticipates that the amendments to IAS 19 will be adopted in the Group's consolidated financial statements for the annual period beginning on January 1, 2013 and the implementation of these amendments may have an impact on the amounts reported for the Group's defined benefit plans. However, management has not yet performed a detailed analysis of the impact of applying the amendments and therefore has not yet quantified the extent of the impact.

- **Amendments to IAS 32 Financial Instruments: Presentation - Offsetting financial assets and financial liabilities,** in force on or after January 1, 2014, adopted by the EU on December 13, 2012. Amendments address inconsistencies in current practice in applying compensation criteria of IAS 32 Financial Instruments: Presentation. The amendments clarify the meaning of "currently has a legally enforceable right to compensation" and that some gross settlement systems may be considered equivalent to net settlement. The management anticipates that the application of these amendments to IAS 32 would result in more detailed information on offsetting financial assets and financial liabilities in the future.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONTINUED)

- **IFRIC 20 stripping costs incurred in the production phase of a surface mine**, effective for annual periods beginning on or after January 1, 2013, adopted by the EU on December 11, 2012. Interpretation specifies the requirements related to the recognition of stripping costs incurred during production activity, initial and subsequent measurement of assets stripping activity. The Group does not expect the amendments to have any impact on the consolidated financial statements.

The Group elected not to adopt these standards, revisions and interpretations before their entry into force.

Standards and interpretations issued by the IASB but not yet adopted by the EU

Currently, IFRS adopted by the EU differ significantly from regulations adopted by the International Accounting Standards Board (IASB) except for the following standards, amendments to existing standards and interpretations that have not been approved for use:

- **IFRS 9 "Financial Instruments"** (effective for annual periods beginning on or after 1 January 2015),

- **Amendments to IFRS 9 "Financial Instruments" and IFRS 7 "Financial Instruments: Disclosures"** – Mandatory Effective Date and Transition Disclosures,

- **Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 12 "Disclosures of Interests in Other Entities" and IAS 27 "Separate Financial Statements"** – Investment Entities (effective for annual periods beginning on or after 1 January 2014),

- **Amendments to IAS 36 "Impairment of assets"** - Recoverable Amount Disclosures for Non-Financial Assets (effective for annual periods beginning on or after 1 January 2014),

- **Amendments to IAS 39 "Financial Instruments: Recognition and Measurement" – Novation of Derivatives and Continuation of Hedge Accounting** (effective for annual periods beginning on or after 1 January 2014),

- **IFRIC 21 "Levies"** (effective for annual periods beginning on or after 1 January 2014).

The Group anticipates that the adoption of these standards, revisions and interpretations will have no material impact on the consolidated financial statements of the Group in the period of initial application.

At the same time, hedge accounting regarding the portfolio of financial assets and liabilities, whose principles have not been adopted by the EU, is still unregulated.

3. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU").

Basis of preparation

The consolidated financial statements have been prepared on a going concern basis. These have been prepared on the historical cost basis except for certain classes of property plant and equipment that are measured at revalued amounts and except for the embedded financial instruments which are carried at fair value thorugh profit and loss. The accounting policies have been applied consistently with the ones from previous year.

Functional and presentation currency

These consolidated financial statements are presented in RON, which is the functional currency of the Group.

Use of estimates and judgments

In preparing the financial statements, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities, revenues and expenses. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. The results of these estimates and assumptions form the basis of judgments related to carrying value of assets and liabilities that cannot be obtained from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised if the revision affects both current and future periods.

Estimates have been mainly made for: revenues not invoiced at the end of the year, useful lives of the fixed assets, allowances for the impairment of receivables and inventories, calculating provisions, employee benefits, taxes, contingent liabilities, professional judgments on the application of IFRIC 12 – „Service Concession Arrangements" (for details on the assumptions and estimates see accounting policies and related notes).

The Group („operator") concluded in December 2004 a concession agreement with MECMA (as grantor), according to which it received the right to use and commercially exploit public domain assets which includes hydropower plants and the land on which they are located. Given that the majority of shares are owned by the State, the Group's management believes that this is a public company and therefore do not fall under provisions of IFRIC 12 „Service Concession Arrangements". Since there is no other specific IFRS for the concession arrangements, the Group considered whether IFRIC 12 is applicable, based on the hierarchy from IAS 8, which requires first to consider the provisions of other IFRSs which deal with other similar aspects.

In analyzing the application of IFRIC 12, the Group considered whether these features of service concession arrangements for public – private services are applicable to concession agreement concluded with MECMA, on the date on which IFRIC 12 has to be adopted.

- The Grantor controls or regulates what services the operator must provide within the infrastructure, to whom it must provide them and at what price;
- The Grantor controls – through ownership, the beneficial rights or otherwise any significant residual interest in the infrastructure at the end of the agreement;
- Contractual arrangements would include the same provisions, if the agreement had been signed with a private company.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of estimates and judgments (continued)

The Group concluded that the application of IFRIC 12 for accounting of the concession agreement will not reflect the economic substance of the transactions, as the Group will pay an annual fee in the form of royalty for use of the assets mentioned in the concession agreement worth 1/1000 of revenues obtained from the sale of electricity. The fee is significantly less than the depreciation that the Group would have recorded for these assets if the concession agreement was not signed. Therefore, IFRIC 12 is not applicable. Thus the Company has not recognised any assets under the concession agreement, but only the royalty that it pays to the government.

Useful life's of property, plant and equipment items

The Management reviews for adequacy the estimated useful lives of property, plant and equipment at the end of each annual reporting period.

Trade receivables and accrued revenue

The Management makes judgements as to its ability to collect outstanding receivables and provides allowances for the portion of receivables when collection becomes doubtful. Provisions are made based on a specific review of significant outstanding invoices.

The Management also estimates the accrual for invoices to be issued, based on the electricity supply contracts with the customers.

Accrued expenses

Accrued expenses are estimated by the Management based on the contracts in place and by comparison with prior year recorded accruals.

Deferred taxes

Deferred tax assets and liabilities are determined based on temporary differences between financial statement carrying amounts of existing assets and liabilities and their respective tax bases. The recognition of deferred tax assets is based upon whether it is more likely than not, that sufficient and suitable taxable profits will be available in the future against which the reversal of temporary differences can be deducted. While management believes that its judgements and estimations regarding deferred tax assets and liabilities are appropriate, differences in actual experience may affect the Company's future financial results.

Provisions and contingent liabilities

The Management exercises judgement in measuring and recognizing provisions and the exposures to contingent liabilities related to pending litigation or other outstanding claims subject to negotiated settlement, mediation, arbitration or government regulation, as well as other contingent liabilities. Judgement is necessary in assessing the likelihood that a pending claim will succeed, or a liability will arise, and to quantify the possible range of the financial settlement. Because of the inherent uncertainty in this evaluation process, actual losses may be different from the originally estimated provision.

Going concern

These financial statements have been prepared on a going concern basis, under the historical cost convention, except for buildings, special installations, machines and equipment's which are measured at revalued amounts and for the embedded derivative instruments which are carried at fair value through profit and loss.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Going concern (continued)

The financial position and the operating result of the Group are partially dependent on the decision taken by NRAEA on charges of sale of electricity, on tariff changes and / or decisions of the Romanian authorities that are not influenced by the Groups management decisions. Therefore, these issues diminish the influence of the Group on the operating result and the recoverability of the net tangible assets used in the production of electricity. At the same time, permanent restructurings are recorded in the energy sector which may have significant impact on the Group's future business and the predictability of future revenue these aspects diminishing its influence on the Group's consolidated operating results, and the recoverability of the net book value of tangible assets used in the production of electricity.

Basis of consolidation

A subsidiary is an entity controlled by another entity, known as the parent company, as defined by IAS 27 „Consolidated and Separate Financial Statements". In accordance with IAS 27, control is presumed to exist when the parent owns more than half of the voting power of an entity, unless it can be clearly demonstrated that such ownership does not constitute control. Control is the power to govern the financial and operating policies of an entity, with the purpose to obtain benefits from its activities.

The financial statements of the subsidiaries are incorporated in the consolidated financial statements from the date when the control was obtained up until it ceases.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

The principal accounting policies are presented below:

(a) Tangible assets

(i) Recognizing and measurement

Tangible assets are stated in the consolidated statement of financial position at their revalued amounts, less any subsequent accumulated depreciation and subsequent accumulated impairment losses, except for land improvements and tangible assets in progress, which are stated at cost less any subsequent accumulated depreciation and subsequent impairment losses. Land is stated at cost less any subsequent impairment losses.

As at December 31, 2012, the Group's tangible assets represented by buildings, special constructions, equipments and vehicles were revalued by an independent appraiser, member of ANEVAR based on the contract no 3/22.01.2013.

The fair value of tangible assets, except for land, land improvements and tangible assets in progress, estimated in accordance with IAS 16 – „Property, plant and equipment" is their market value, and when for considerations relating to assets specialisation insufficient information has been found and/or there is an inactive market, a value different from the market value was used (replacement cost).

The cost of assets internally constructed by the Group includes the following:

i. material costs and direct labor costs;
ii. any amounts that can be directly attributable to bringing the asset into working condition;
iii. costs of dismantle, removal and restoration of the area in which they were placed, when the Group is required to move the assets and restore land;
iv. Borrowing costs (capitalized).

When parts of an item of property, plant and equipment have different useful lives, they are considered as separate parts.

A provision for unused tangible assets, is recorded in the financial statements to the extent that these items are identified.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Tangible assets (continued)

(i) Recognizing and measurement (continued)

The borrowing costs directly attributable to the acquisition and installation major construction are capitalized in the cost of tangible assets in progress in accordance with IAS 23 „Borrowing costs”.

Gains or losses from the disposal of an assets (determined by comparing the proceeds from disposal with the carrying value of tangible assets) are recognized in profit or loss account. When revalued fixed assets are sold, the amounts included in the revaluation surplus are transferred to retained earnings.

The contribution of free land received from Romanian State Authorities has been recorded in other reserves at fair value of the land at the date of transfer of rights over land. When cadastral documents are obtained, the reserves will be transferred to share capital of the Group.

(ii) Subsequent expenditure on maintenance

The expenses with repairs and maintenance of fixed assets, made to restore or maintain the value of these assets are recognized in profit or loss as incurred, while expenditures for improving the technical performance of the assets are capitalized and depreciated over the remaining usefull life of that asset. Subsequent costs are included in the asset’s carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured relia bly. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

All other maintenance costs are recognized in profit or loss as they arise.

(iii) Depreciation

Tangible assets are depreciated using the straight-line method over their useful lives. The estimated useful lives used for tangible assets are as follows:

Category	**Useful live (years)**
Buildings	30 – 50
Special installations	12 – 20
Installations and equipment	3 – 20
Equipments	2 – 8
Other fixed assets	5 – 15

Land and fixed assets in progress are not depreciated. The depreciation of the fixed assets in progress commences when the assets are ready for their intended use.

The estimated useful lives, residual values and depreciation method are reviewed periodically to be ensured their consistency with the estimated period of economic benefits that will result from the use of assets.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Tangible assets (continued)

(iv) Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is evidence of the existence of any impairment. An impairment loss is recognized if the carrying amount of an asset or cash-generating unit exceeds its estimated recoverable amount.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and fair value less costs to sell. In determining value in use, the expected future cash flows are discounted to determine the present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For impairment testing, assets that cannot be tested individually are grouped in the smallest group of assets that generate cash inflows from continuing use and that are largely independent of the cash inflows from other assets or groups of assets ("cash-generating unit ").

Impairment losses are recognized in profit or loss, unless the relevant asset is carried at revalued value, in which case the impairment loss is treated as a revaluation decrease.

For all assets, impairment losses recognized in prior periods are assessed at each reporting date to determine whether there is evidence that the loss has decreased or no longer exists.

An impairment loss is reversed if there have been changes in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset’s carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment had been recognized.

(b) Public patrimony

In accordance with Law 213/1998 hydro power developments (dams) are assets that make up the public domain. The GD 365/1998 establishes the Group's real estate assets belong to public and private sectors.

In November 1998 Law no. 213/1998 was issued, which regulates public domain status. In this law is stated that ownership of public assets belongs to the state or local authorities which can rent or lease goods that are public property. In accordance with Law no. 213/1998 and Law no. 219/1998, MECMA leased to the Group on behalf of the state, hydro power plant developments (dams) and the land on which they are located. Thus, in December 2004, the concession contract no.1 with MECMA and the Group was signed for all tangible assets from the public domain in the balance as at December 31, 2003 for a period of 49 years. Payments in respect of the concession contract are treated as an operating lease and are recognized as an expense in the income statement calculated on the basis of income recorded by the Group during the period.

The main terms of the concession agreement are:

i. MECMA holds title to the assets covered by the agreement;
ii. The Group has the right to use such assets for a period of 49 years from 1 January 2005 to 31 December 2053;
iii. The annual fee payable by the Group for the use of assets is determined by MECMA and subject to changes, the Group pays an annual fee of 1/1000 of the total revenue from the sale of electricity;
iv. MECMA will take possession of the assets at the termination of expiration of the contract; the contract can be terminated unilaterally by either party;
v. The Group is obliged to use the assets in accordance with the concession agreement and with the operating license.

Fee payable by the Group under the concession contract for the period 1 January - 31 December 2012 is significantly less than the depreciation that the Group would have recorded for the assets if the contract had not existed. However, the Group has not recorded in its financial statements any amount related to the possible benefit because it cannot estimate the amount paid for the use of these assets to a third party in a transaction with an objectively determined price.

(all amounts are expressed in RON thousand, unless specified otherwise)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Intangible assets

Intangible assets acquired by the Group are presented at cost less accumulated depreciation and impairment of intangible assets. Depreciation is recognized in profit or loss on a straight line basis over the estimated useful life of intangible assets. Most intangible assets recorded by the Group are represented by dedicated software. These are depreciated over a period of 3-5 years.

(d) Currency transactions

Transactions in foreign currencies are expressed in RON by applying the spot rate from the transaction date. Monetary assets and liabilities denominated in foreign currencies at year end are expressed in RON at the spot rate as at that date. Gains and losses from foreign exchange differences, realized or unrealized, are recorded in the income statement of the year.

Exchange rates at December 31, 2012 and December 31, 2011 are as follows:

CCY	December 31, 2012	December 31, 2011
EUR	4,4287	4,3197
USD	3,3575	3,3393

Non-monetary assets and liabilities denominated in a foreign currency that are measured at fair value are translated to the functional currency at the exchange rate at the date when the fair value was determined. Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rate at the transaction date.

(e) Trade receivables and similar accounts

Trade Receivables and similar accounts include invoices issued at nominal value and estimated receivables for services provided, but billed subsequent to the period end. Trade receivables and similar accounts are recorded at amortized cost less impairment losses. Amortized cost approximates the nominal value. Ultimate losses may vary from current estimates. Due to the inherent lack of information about the customer's financial position and lack of legal mechanisms for collecting, estimates of probable losses are uncertain. However, the management performed the best estimate of losses and believes that this estimate is reasonable in these circumstances.

The nominal value of receivables to be collected in installments due over one year is updated considering the best estimate of an interest rate, to take into account the time value of money.

(f) Inventories

Inventories are stated at the lower of cost and net realisable value.

Costs of inventories are determined on a first-in-first-out basis. Inventories consist of consumables, spare parts and other materials, consisting primarily of materials for maintenance and repair of the hydro aggregates. Major spare parts which meet the definition of a tangible asset are classified as property plant and equipment. Cost comprises all costs of purchase and other costs incurred in bringing inventories in the present situation.

Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

If the Group considers it necessary, value adjustments are made for obsolete inventory or scrap.

(g) Bank deposits, cash and cash equivalents

Cash and cash equivalents comprise cash balances and deposits with an original maturity up to 3 months which are subject to an insignificant risk in fair value change. Cash in foreign currencies are revalued at the exchange rate at the end of the period. Bank overdrafts are treated as current liabilities. Bank deposits refers to those who have an initial maturity of more than 3 months.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Share capital

Ordinary shares are classified as part of equity. The Group recognizes changes in the share capital as provided by law and only after their approval by the General Meeting of Shareholders and registration at Trade Register. Additional costs directly attributable to issue of shares are recognized as a deduction from equity, net of the effects of taxation.

Contributions in advance to share capital

The contributions in advance to share capital are represented by the land for which the Group obtained the land deeds from the Romanian State, through MECMA. These are initially recognized as contributions in advance followed by an increase in share capital, previously approved and published by the Trade Register.

(i) Revaluation reserves

Property, plant and equipment, except land, land improvements and tangible assets in progress are presented in the statement of financial position at their revalued amounts, less accumulated depreciation and impairment losses. Revaluations are performed with sufficient regularity to ensure the carrying amount does not differ materially from that which would be determined using fair value at the balance sheet date.

If an asset's carrying amount is increased as a result of a revaluation, the increase is recorded directly to equity in "Revaluation reserves". The increase is recognized in profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recognized in profit or loss.

If an asset's carrying amount is decreased as a result of a revaluation, the decrease is recognized in profit or loss unless the decrease is debited directly from equity in "Revaluation reserves", to the extent of any credit balance in revaluation surplus of that asset.

The revaluation surplus included in equity in respect of an item of property, plant and equipment is transferred directly to retained earnings when the asset is derecognised.

(j) Dividends

Dividends are recognized as a liability in the period in which their distribution is approved.

(k) Trade and other payables

Trade payables and other liabilities are initially recorded at fair value and subsequently measured using the effective interest method and include the invoices issued by suppliers of goods and services rendered.

(l) Interest bearing loans

Interest bearing borrowings are recognized initially at fair value, net of transaction costs. Subsequent to initial recognition, borrowings are presented at amortized cost, any difference between cost and redemption value being recognized in the income statement over the period of a loan based on the effective interest rate.

Transaction costs and commitment fees on loans are amortized over the repayment period of the loan and are part of the effective interest rate.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of assets that take a substantial period of time to be used or sold are capitalized as part of the cost of that asset. In determining the amount of borrowing costs eligible for capitalization during a period, any investment income earned on such funds is deducted from the borrowing costs incurred. All other loan related costs are recorded as expenses in the period they are made. Financing costs consist of interest and other financial costs related to loans contracted by an entity.

If the borrowed funds are used for financing a specific project, the amount capitalized represents the actual cost of the loan drawn. Where there is short-term surplus funds of the loan contracted to finance a project, the revenue generated from temporary investment made is also capitalized and deducted from the total capitalized cost of the loan. If the funds used to finance the project are general loans, the amount capitalized is calculated using the weighted average of rates applied to relevant general borrowings of the Group during the period. The remaining financing costs are recognized in profit or loss in the period in which they are incurred.

(n) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

Provisions are determined by discounting the expected future cash flows using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. Depreciation of the update is recognized as financial expense. Where the effect of temporary value of money is material, the amount of a provision is the present value of the expenditures that are foreseen to be required to settle the obligation.

(o) Income tax

Income tax expenses comprise current tax and deferred tax.

Current tax is the tax expected to be paid or received for taxable income or loss realized in the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to the payment obligations of corporation tax for the previous years. Current tax payable also includes any tax arising from declaring dividends.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the tax base used to calculate the tax. Deferred tax is not recognized for the following temporary differences:

- the initial recognition of assets or liabilities originating in a transaction that is not a business combination and that is not affecting the accounting or fiscal profit or loss;
- differences on investments in subsidiaries or jointly controlled entities, to the extent that it is probable that they will not be repeated in the future; and
- taxable temporary differences arising from the initial recognition of goodwill.

Deferred tax receivables and liabilities are offset only if there is a legally enforceable right to offset current tax liabilities and receivables, and relate to taxes levied by the same taxation authority to the same entity or different taxable entity, but which intends to conclude a Convention on the current tax receivables and liabilities on a net basis or whose tax receivables and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable the realization of taxable profits which will be available in the future and will be used. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that a tax benefit will be realized. Effect of tax rate change on deferred tax is recognized in profit or loss, except when it relates to items recognized in other comprehensive income or directly in equity.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(p) Related parties

Companies are considered related if one party, through ownership, contractual rights, family relationship or other kind, has the opportunity to directly or indirectly control or significantly influence the other party.

(q) Revenues

Revenues from sales of goods

Revenue is recognized when the significant risks and rewards have been transferred to the buyer obtaining economic benefits is probable and the associated costs can be estimated correctly. Revenues are mainly represented by the value of electricity supplied.

Revenues from rendering of services

Service revenues are recognized in the reporting period.

Energy and electricity sales are recognized based on counters ‘readings received at the end of each month from the Electricity Market Operator in Romania ("OMEPA").

(r) Financial income and expenses

Financial income includes interest income, dividend income, changes in fair value of financial assets through profit or loss. Interest income is recognized as it accumulates in profit or loss using the effective interest method. Dividend income is recognized in profit or loss at the date when is determined the Group's right to receive dividends.

Financial expenses comprise interest expenses of loans, unwinding of the discount of provisions, changes in the fair value of financial assets recognized at fair value through profit or loss.

All borrowing costs that are not directly attributable to an acquisition, construction or production of assets on long-term, are recognized in profit or loss, using the effective interest method.

Gains and losses on exchange differences are carried on a net basis.

(s) Special purpose reserves for energy:

Special purpose reserve for energy sector

Since 1 January 2005, according to Government Emergency Ordinance ("Ordinance") no. 89/2004 approved by Law no. 529/2004, the Group will constitute monthly reserves limited by quotas of up to 6% of the revenue from electricity supply, limited by the accounting profit, deductible in determining the taxable profit. The reserves are used to finance own investments for modernization and development of energy objectives as intended by GEO. 89/2004. GEO. 89/2004 shall apply until 31 December 2006. The reserve is considered realised as the assets for which funding was used are depreciated, the depreciation calculated is taxable.

(t) Employee benefits

In accordance with Government Decision no. 1041/2003 and no. 1461/2003, the Group has an obligation to provide benefits in kind to employees who have retired. Also, in accordance with the Collective Labor Agreement, if they fulfill the legal requirements for retirement, employees are entitled to receive a monetary reward. As at 31 December 2012 the Group's management updated the current value of future obligations on these benefits in kind and cash rewards.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(t) Employee benefits (continued)

Short-term employee benefits

Short-term employee benefits include wages and social contributions. Short-term employee benefits are evaluated without being updated and expense is recognized as the related services are rendered. A liability is recognized at the amount expected to be paid under short-term plans to award cash bonuses or profit sharing if the Group has legal or constructive obligation to pay this amount for services previously provided by employees and the obligation can be estimated reliably.

In the current activity they perform, the Group makes payments to the Romanian State for social security benefits to its employees. All employees of the Group are included in the Romanian State pension plan.

(u) Subsidies

The subsidies are initially recognized in statement of financial position as deferred income when there is reasonable assurance that they will be received and the Group will comply with the conditions for the grant, if any, and recognized as income when recognizing costs (e.g. depreciation of fixed assets or consumption stocks acquired from subsidies).

(v) Contingencies

Contingent liabilities are not recognized in the financial statements. They are presented if there is the possibility of an outflow of resources representing possible economic benefits, but not probable, and / or the amount can be estimated reliably. A contingent asset is not recognized in the accompanying financial statements, but disclosed when an inflow of economic benefits is probable.

(w) Fair value

Certain accounting policies of the Group and presentation of information requirements need the determination of fair value for financial assets and liabilities such as for non-financial. The fair values were determined in order to evaluate and present the information in the financial statements using the methods described below. When applicable, further information about the assumptions used in determining fair values are disclosed specific to the asset or liability.

(i) Tangible assets

The fair value of tangible assets is based on market value. The market value of real estate is the estimated amount for which a property could be exchanged on the date of valuation in a deal made in objective conditions, after proper marketing action between two parties that are interested. The fair value of the tangible assets of the other categories (machinery and equipment, facilities, furniture and fittings) is based on the market and the cost method using quoted market prices for similar items when they are available or the replacement cost, if the case.,

(x) Financial instruments

Financial assets and financial liabilities are recognized when the Group becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in consolidated profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(x) Financial instruments (continued)

Financial assets

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' (FVTPL), 'held-to-maturity' investments, 'available-for-sale' (AFS) financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortized cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Income is recognized on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL.

Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the 'losses from operations with embedded derivatives' or ''other financial gains/(losses)''.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(x) Financial instruments (continued)

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Group has the positive intent and ability to hold to maturity. Subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method less any impairment.

Available-for-sale financial assets (AFS financial assets)

AFS financial assets are non-derivatives that are either designated as AFS or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss.

Changes in the carrying amount of AFS monetary financial assets relating to changes in foreign currency rates (see below), interest income calculated using the effective interest method and dividends on AFS equity investments are recognized in profit or loss. Other changes in the carrying amount of available-for-sale financial assets are recognized in other comprehensive income and accumulated under the heading of investments revaluation reserve. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss.

Dividends on AFS equity instruments are recognized in profit or loss when the Group's right to receive the dividends is established.

The fair value of AFS monetary financial assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate prevailing at the end of the reporting period. The foreign exchange gains and losses that are recognized in profit or loss are determined based on the amortized cost of the monetary asset. Other foreign exchange gains and losses are recognized in other comprehensive income.

AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity investments are measured at cost less any identified impairment losses at the end of each reporting period.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including trade and other receivables, bank balances and cash, etc.) are measured at amortised cost using the effective interest method, less any impairment.

Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For AFS equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(x) Financial instruments (continued)

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss in the period.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognized.

In respect of AFS equity securities, impairment losses previously recognized in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognized in other comprehensive income and accumulated under the heading of investments revaluation reserve. In respect of AFS debt securities, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(x) Financial instruments (continued)

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income and accumulated in equity is recognized in profit or loss.

On derecognition of a financial asset other than in its entirety (e.g. when the Group retains an option to repurchase part of a transferred asset or retains a residual interest that does not result in the retention of substantially all the risks and rewards of ownership and the Group retains control), the Group allocates the previous carrying amount of the financial asset between the part it continues to recognise under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognized and the sum of the consideration received for the part no longer recognized and any cumulative gain or loss allocated to it that had been recognized in other comprehensive income is recognized in profit or loss. A cumulative gain or loss that had been recognized in other comprehensive income is allocated between the part that continues to be recognized and the part that is no longer recognized on the basis of the relative fair values of those parts.

Financial liabilities and equity instruments

Classification as debt or equity

Debt and equity instruments issued by the Group are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognized at the proceeds received, net of direct issue costs.

Repurchase of the Group's own equity instruments is recognized and deducted directly in equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments.

Financial liabilities

Financial liabilities are classified as either financial liabilities ‘at FVTPL' or ‘other financial liabilities'.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(x) Financial instruments (continued)

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- it has been acquired principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or

it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any interest paid on the financial liability and is included in the 'losses from operations with embedded derivatives' or ''other financial gains/(losses)'' Fair value is determined in the manner described in note 35.

Other financial liabilities

Other financial liabilities (including borrowings) are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

The Group enters into a variety of derivative financial instruments to manage its exposure to market risk, including swaps and options to manage the commodity prices risks associated with sales of electricity.

Derivatives are initially recognized at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognized in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(x) Financial instruments (continued)

Embedded derivatives

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at FVTPL.

Hedge accounting

The Group designates certain hedging instruments as either fair value hedges or cash flow hedges.

At the inception of the hedge relationship, the Group documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk.

Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognized in profit or loss immediately, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The change in the fair value of the hedging instrument and the change in the hedged item attributable to the hedged risk are recognized in the line of the consolidated statement of comprehensive income relating to the hedged item.

Hedge accounting is discontinued when the Group revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting.

The fair value adjustment to the carrying amount of the hedged item arising from the hedged risk is amortised to profit or loss from that date.

Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in other consolidated comprehensive income and accumulated under the heading of cash flow hedging reserve. The gain or loss relating to the ineffective portion is recognized immediately in the consolidated profit or loss, and is included in the ‘financial cost, net' line item.

Amounts previously recognized in other consolidated comprehensive income and accumulated in consolidated equity are reclassified to consolidated profit or loss in the periods when the hedged item is recognized in consolidated profit or loss, in the same line of the consolidated statement of comprehensive income as the recognized hedged item.

However, when the hedged forecast transaction results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously recognized in other comprehensive income and accumulated in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability.

Hedge accounting is discontinued when the Group revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting.

Any gain or loss recognized in other consolidated comprehensive income and accumulated in equity at that time remains in equity and is recognized when the forecast transaction is ultimately recognized in the consolidated profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in consolidated equity is recognized immediately in the consolidated profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(y) Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are initially recognized as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognized immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalized in accordance with the Group's general policy on borrowing costs. Contingent rentals are recognized as expenses in the periods in which they are incurred.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

In the event that lease incentives are received to enter into operating leases, such incentives are recognized as a liability. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

(all amounts are expressed in RON thousand, unless specified otherwise)

4. PROPERTY, PLANT AND EQUIPMENT

	Land and land improvements	Buildings and special installations	Plant and machinery	Capital assets in progress	TOTAL
	000 RON	000 RON	000 RON	000 RON	000 RON
Cost					
At December 31, 2011 (Restated)*	**400,692**	**22,326,354**	**6,701,423**	**4,987,333**	**34,415,802**
Additions	7,880	1,339	2,491	955,194	966,904
Transfers	-	281,615	530,412	(812,027)	-
Disposals	(5,753)	(22,421)	(4,434)	(11,692)	(44,300)
Inputs/ (outputs) from revaluation	-	(3,557,636)	(429,349)	-	(3,986,985)
At December 31, 2012	**402,819**	**19,029,251**	**6,800,543**	**5,118,808**	**31,351,421**
Accumulated depreciation					
At December 31, 2011 (Restated)*	**4,064**	**10,450,683**	**3,746,776**	**-**	**14,201,523**
Depreciation expense	1,844	582,070	323,657	-	907,371
Eliminated on disposal of assets	(5,708)	(1,349)	(3,482)	-	(10,539)
Eliminated from revaluation	-	(3,475,530)	(437,363)	-	(3,912,893)
At December 31, 2012	**-**	**7,555,874**	**3,629,588**	**-**	**11,185,462**
Impairment allowance					
At December 31, 2011 (Restated)*	**-**	**20,561**	**1,601**	**1,641,022**	**1,663,184**
Impairment adjustments recognized in profit or loss account	-	(3,863)	358	-	**(3,505)**
At December 31, 2012	**-**	**16,698**	**1,959**	**1,641,022**	**1,659,679**
Net book value					
At December 31, 2011 (Restated)*	**396,628**	**11,855,110**	**2,953,046**	**3,346,311**	**18,551,095**
At December 31, 2012	**402,819**	**11,456,679**	**3,168,996**	**3,477,786**	**18,506,280**

*) The consolidated statement of property, plant and equipment has been restated in accordance with Note 29.

4. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Revaluation of tangible assets

The buildings, equipment and machinery owned by the Group at December 31, 2012 are presented in the statement of financial position at fair value.

Tangible assets are stated at revalued amount less accumulated depreciation and impairment in value.

Tangible assets have been revalued to fair value by independent evaluators, members ANEVAR.

Revaluation of tangible assets (buildings and equipment - "Plant and equipment" and "other machinery and equipment") was conducted by independent evaluators, corresponding to December 31, 2012. The scope of the evaluation was to bring the value of the tangible assets to the market value. The Group performed as at December 31, 2012 a revaluation for all of the tangible assets less land. The revaluation was conducted by an independent appraiser, SC ROMCONTROL S.A. Bucharest, member ANEVAR. Increases or decreases in the carrying amounts of fixed assets resulting from these revaluations were recorded in the revaluation reserve account. For assets for which the negative differences resulting from revaluation has not been covered by the previous revaluation gain, the amount was recorded as an expense in the consolidated statement of profit and loss. Also the tangible assets which were fully depreciated but which are still used in the production process have been submitted for revaluation, as required by law. The tangible assets wich were not subject to revaluation, were approved to be out of service and an allowace for impairment has been created, or under construction.

Tangible assets of the Group mainly include plants, energy pumping stations, hydro power plants, dams, dikes, sluices. On December 31, 2011, the Group manages a total of 274 hydroelectric plants and pumping stations with a total installed capacity of 6,443.3 MW.

The revaluation of buildings and equipment was based on the direct comparison method, for those tangible assets for which an active market exists as at December 31, 2012. For tangible assets for which no active market exists, the appraiser used the depreciated replacement cost.

Direct comparison method

This method is recommended for properties when there is sufficient and reliable data on sales transactions or similar offered properties in the area. Analysis of prices at which the transactions were made for the properties is followed by conducting their own adjustments to quantify the prices paid due to differences between specific characteristics of each property in part, called elements of comparison.

Cost Approach

This method assumes that the maximum value of an asset is the amount that an informed buyer is willing to pay to buy or build a new asset of an equivalent utility. When the asset is not new, the current gorss cost profit should be lowered by all forms of depreciation that can be assigned for those assets up to date.

The Value at cost of items of property, plant as at December 31, 2012, net of accumulated depreciation expense is RON 3,961,271 thousand (31 December 2011: RON 4,459,285 thousand). Out of this amount the value at cost of land net of accumulated depreciation expense is RON 402,819 (December 31, 2011 – RON 396,628), the value at cost of buildings and special constructions net of accumulated depreciation expense is RON 2,787,430 (December 31, 2011: RON 3,182,387) and the value at cost of plant and machinery is RON 771,022 (December 31, 2011: RON 396,628).

(all amounts are expressed in RON thousand, unless specified otherwise)

4. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

The main investments put in function during 2012 are:

Investment put in function during 2012	Investment value
Increase of the safety degree and modernization at CHE on Olt river, Slatina-Dunare sector: - Revamping of hydro aggregates: Ipotesti, Draganesti, Frunzaru, Rusanesti and Izbiceni	284,812
AHE Bistra Poiana Marului, Ruieni, Poiana Rusca - Completion of the Cuntu - Borlova section, of secondary adduction and capturing Sebesel Ruieni Sebes, Cuntu and Raul Mic - Fall at Raul Alb- connection workings to the distribution network of the micro-hydro power plant Raul Alb and construction works.	144,818
SHEN Portile de Fier II. Revamping and modernization at CHE Portile de Fier II **-** revamping of the hydropower Portile de Fier II	101,167
AHE of Olt river, on sector Cornetu - Avrig. CHE Robesti - Putting into operation workings of the hydro aggregate no 1, - Construction of a discharge power line from hydropower plant to the 110Kv plant in Cornetu, - Putting into operation workings of the hydro aggregate no 2, - water intake plant completion, transformers put in function, power stations completion etc.	95,352
Rehabilitation workings of the roman lock from SHEN Portile de Fier I	35,698
AHE of the river Strei, on the sector Subcetate - Simeria CHE Subcetata and CHE Plopi - construction workings, modernization of equipment and installations.	36,510
Dispatch building Hateg Buildings, equipment dispatching and administrative headquarters	19,373
Upgrading hydro no1 CHE Babeni - Modernization of generator from group no 1 and of plant's equipment.	16,496
UHE Raul Mare - Retezat -road Gura Apelor - Tronson Lapusnicu Mic - Rau Ses - Construction on the main headrace of the hydropower	11,080
CHE Ruieni - modernization works on the functional components of the hydro aggregate no 2 from CHE RUIENI	12,448
UHE Racova integral transformation into derivation plant without own storage - construction	8,195

As a result of applying IAS 23, the Group capitalized in 2012 and 2011 respectively, the costs for loans obtained for developing of assets totaling RON 84,311 thousand (December 31, 2011: RON 52,322 thousand). These borrowing costs have resulted from long-term loans contracted to finance the investments in hydropower plants projects.

Part of the tangible assets in progress is related to the projects proposed to be suspended in accordance with the national restructuring program approved on 22 February 1999 by the General Meeting of Shareholders Conel (formerly the National Electricity Company). Consequently, an adjustment for depreciation in the amount of RON 1,639,700 thousand was recorded on 31 December 2000, representing the value of hydropower construction projects in progress proposed to be suspended according to the restructuring plan described above. The Group is currently waiting for a government decision on suspension or continuation of construction of these assets, which will depend on the possibility of obtaining additional financial resources for the proper completion of the projects (in the public sector, financial institutions or the private sector).

(all amounts are expressed in RON thousand, unless specified otherwise)

5. INVENTORIES

As at December 31, 2012 and December 31, 2011, the inventories include spare parts, consumables and other stocks used in the operations of the hydroelectric plants as well as for the repairs and maintenance activity.

	December 31 2012	December 31 2011
	000 RON	000 RON
Auxiliary Materials	3,844	4,247
Spare Parts	29,227	60,397
Consumables	5,169	5,470
Others	8,394	8,217
Total	**46,634**	**78,331**

6. TRADE AND OTHER RECEIVABLES

As at December 31, 2012 and December 31, 2011, the trade and other receivables are as follows:

	December 31 2012	December 31 2011
	000 RON	000 RON
Trade receivables	252,332	349,649
Other receivables	11,322	4,720
Allowance for doubtful receivables	(28,214)	(12,447)
Total	**235,440**	**341,922**

As at December 31, 2012 and December 31, 2011, the customers (gross value) are as follows:

	December 31 2012	December 31 2011
	000 RON	000 RON
Sistemul Energetic National ("SEN")		
Electrica S.A.	19,223	12,679
Transelectrica S.A.	141,172	197,532
Eurotech	17,761	6,956
Electrocentrale Bucuresti	791	17,837
CET Brasov (under litigation)	18,725	18,725
Other Clients under litigation	9,036	4,232
Others	14,267	61,228
OPCOM	2,327	-
	223,302	**319,189**
Eligible customers	29,030	30,127
Export	-	333
Total (gross value)	**252,332**	**349,649**

The eligible customers as at December 31, 2012 relate to amounts owed mainly from Alro, SMR Bals, Elsid, Eurotech and Electrocarbon.

(all amounts are expressed in RON thousand, unless specified otherwise)

6. TRADE AND OTHER RECEIVABLES (CONTINUED)

Movement in the allowance for trade receivables is as follows:

	December 31 2012	December 31 2011
	000 RON	000 RON
Balance at the beginning of the year	**12,447**	**7,047**
Allowances for doubtful customers	40,023	5,406
Reversal of allowance for doubtful customers	(24,256)	(6)
Balance at the end of the year	**28,214**	**12,447**

7. OTHER CURRENT ASSETS

As at December 31, 2012 and December 31, 2011, other assets are as follows:

	December 31 2012	December 31 2011
	000 RON	000 RON
Advances to suppliers	116,533	193,985
VAT recoverable	-	69,509
Other current assets	13,254	24,282
Total	**129,787**	**287,776**

Included in the advances to suppliers is the amount of RON 59,186 thousand representing the advance for Andritz Hydro Ravensburg Vienna in accordance with the investment agreement no 2l / 50765 from November 9, 2001 amended by appendix no 6 from March 26, 2003, which were canceled unilateraly due to the fact that the Company went into insolvency procedure on June 20, 2012. The administrator and the management of the Group consider that this advance is fully recovered and there is no need to record an adjustment as of December 31, 2012.

8. CASH AND CASH EQUIVALENTS

As at December 31, 2012 and December 31, 2011, the cash and cash equivalents are as follows:

	December 31 2012	December 31 2011
	000 RON	000 RON
Bank accounts	62,984	94,205
Petty cash	355	572
Cash equivalents	1,390	1,909
Total cash and cash equivalents	**64,729**	**96,686**

A part of the collections resulted from the operating activity of the Group is pledged to the banks.

(all amounts are expressed in RON thousand, unless specified otherwise)

9. ISSUED CAPITAL

As at December 31, 2012 and December 31, 2011 the Company's share capital fully authorized and paid is divided into 447,564,307 ordinary shares, respectively 444,951,445 ordinary shares with a nominal value of 10 Ron/share.

As at December 31, 2012 the Group's shareholders are: the Romanian State through MECMA, which owns 358,302,529 shares, representing 80.06% from the share capital and Fondul Proprietatea, who owns 89,261,778 shares with a weight of 19,94% in the share capital.

As at December 31, 2012 the share capital presented in the consolidated financial statements in amount of 1,740,329 RON includes the effect of restatements recorded in prior years and the effects of hyperinflation under IAS 29: „Financial reporting in Hyperinflationary Economies".

Reconciliation of equity:

	December 31 2012	**December 31, 2011**
	000 RON	**000 RON**
Share capita; reported in accordance with MOF 3055/2009 as amended (nominal value)	4,475,643	4,449,515
Adjustments resulting from the adoption of IAS 29	1,028,872	1,028,872
Transfer of revaluation reserve to share capital according to statutory accounts	(3,764,186)	(3,764,132)
Share capital (restated)	**1,740,329**	**1,714,255**

The shareholders have the right to dividends and each share offer the right to vote shareholder meeting.

Contributions in advance to share capital

The contributions in advance to share capital are represented by the land for which the Group obtained the land deeds from the Romanian State, through MECMA. These are initially recognized as contributions in advance followed by an increase in share capital, previously approved and published by the Trade Register. In 2012, the Group obtained land deeds in total amount of 26.074 thousand RON.

Revaluation reserve

As at December 31, 2012 the revaluation reserve in amount of 2,783,388 thousand RON is the result of the revaluation of tangible assets at December 31, 2012, December 31, 2009 and December 31, 2006 (see Note 3).

On subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the properties, revaluation reserve is transferred directly to retained earnings.

(all amounts are expressed in RON thousand, unless specified otherwise)

9. ISSUED CAPITAL (CONTINUED)

Retained earnings

Retained earnings include profit or accumulated losses, statutory legal reserves and specific reserves for energy as presented below:

- The special destination fund for the energy sector in amount of RON 97,000 thousand (as at December 31, 2011: RON 97,000 thousand), the reserves thus set up being used for financing own investment works destined for the upgrading and development of the energy objectives stated in GO no. 89/2004. As of 1 January 2005, according to GO no. 89/2004 approved by Law no.529/2004, the Company made reserves every month within the limit of 6% of the income made from the supply of electricity, within the limit of the accounting profit, deductible in determining the accounting profit. The reserves made are used for the financing of own investment works destined for upgrading and development of the energy objectives, according to the destinations stated by GEO no. 89/2004. The provisions of GO no. 89/2004 were applicable until 31 December 2006.

- As at December 31, 2012 the legal reserves in amount of RON 56,968 (as at December 31, 2011: RON 58,616) represent legal reserve according to the statutory financial statements of the Company and cannot be distributed. The Company transfers to this reserve maximum 5% of its annual accounting profits until the cumulative balance reaches 20% of its paid up share capital.

- The accumulated profit and losses as at December 31, 2012 amount to RON 9,419,183 (as at December 31, 2011 RON 9,148,470)

The retained earnings are distributable based on the statutory financial statements.

According to Romanian Fiscal Code, 5% from the statutory profit for the year should be transferred to the legal reserve, until it reaches a value of 20% of share capital.

10. SHORT TERM BORROWINGS

As of December 31, 2012 and December 31, 2011 the short term borrowings are as follows:

	December 31 2012	December 31 2011
	000 RON	**000 RON**
BRD GSG (a)	244,093	299,372
Alpha Bank Romania (b)	79,976	79,976
ING Bank (c)	4,797	36,162
RBS Bank (d)	109,535	120,710
Libra Bank (e)	-	13,188
Citi Bank Europe PLC (f)	122,084	92,927
Transilvania Bank(g)	107,940	94,057
	668,425	**736,392**
Other short term borrowings (facility credit lines contracted by subsidiaries)	9,226	5,748
Total short term borrowings	**677,651**	**742,140**

(all amounts are expressed in RON thousand, unless specified otherwise)

10. SHORT TERM BORROWINGS (continued)

A description of the short term borrowings is presented below:

a) On September 29, 2009 the Group signed a loan agreement in amount of 300 million RON with BRD GSG – the facility is used as a credit line. The Contract has been concluded for a period of one year, with the possibility of renewal at maturity for terms of 6 or 12 months. The loan term is 31 March 2013.

b) ALPHA BANK ROMANIA from November 3, 2009 for 80 million RON – the maximum amount that may be granted during the facility for the types of credit agreed by the parties: a revolving facility of 40 million RON (irrevocable) and a revolving line in the same amount of 40 million RON (revocable). The facility may be used until January 30, 2013.

c) ING BANK from March 3, 2009, for 38 million RON. The facility is granted in the form of overdraft („overdraft") and can be used until March 15, 2013.

d) An overdraft facility from RBS BANK from December 23, 2009 for 32,000,000 EUR The drawdown can be made in RON and/or EUR. The facility is granted as an overdraft („overdraft") and can be utilised until July 31, 2013. On July 10, 2012 through Addendum no 4 to the credit facility, a credit line limit has been established at 29,740,000 EUR, the Borrower committing that starting with August 31, 2012 to make monthly repayments of 1 million EUR from the principal.

e) An overdraft facility from LIBRA BANK from June 30, 2010 for 13,5 million RON. The loan term is June 30, 2012. The overdraft facility has been fully repaid during 2012.

f) An overdraft facility from CITIBANK EUROPE PLC from April 20, 2010 for 46 million USD. The maturity term is April 20, 2013. At maturity date, the facility is automatically extended by 12 months if the Bank does not submit in advance a written notice to the Borrower of the revocation facility.

g) An overdraft facility from TRANSILVANIA BANK from October 14, 2011, for 120,000,000 RON. The drawdown is available only in RON. Through addendum no 2/24.10.2012 the validity of the credit line was extended until 12.04.2013.

11. LONG TERM BORROWINGS

As of December 31, 2012 and December 31, 2011, the long term loans are as follows:

	December 31 2012	**December 31, 2011**
	000 RON	**000 RON**
BIRD 1995 (a)	731	938
UBS AG 2004 (b)	-	23,150
BIRD 2005 (c)	222,271	240,911
Citibank PLC 2009 (d)	142,161	277,649
ING Bank Amsterdam 2009 (e)	141,718	207,346
EFG Eurobank 2010 (f)	91,980	129,591
Unicredit Austria 2010 (g)	442,267	329,724
BCR 2010 (h)	202,179	215,985
ING 2011 (i)	218,830	224,221
BRD Group Societe General (j)	124,557	107,996
BERD (k)	7,795	7,603
	1,594,489	**1,765,114**
Less current portion	(392,688)	(346,194)
Long term borrowings – less current portion	**1,201,801**	**1,418,920**

11. LONG TERM BORROWINGS (CONTINUED)

Long term loans are detailed as follows:

a) The International Bank for Reconstruction and Development ("BIRD") from August 29, 1995, for 110 million USD, of which 719,648 USD were distributed by the Group based on the reorganization protocol, as part of the total amount used by Conel until reorganization.

   On May 31, 2002 the Group entered into a separate contract for the balance of the loan – 719,648 USD. The repayment is made at the end of each semester until November, 2015. The loan is guaranteed by the Romanian Government through the Ministry of Finance.

b) UBS AG from December 14, 2004 for 29.27 million CHF – loan taken for „Portile de Fier I" project. The interest rate is equal to CHF deposits, payable on a quarterly basis. The loan is repayable in quarterly installments in the amount of 2,17 million CHF, starting with November 17, 2006 until May 17, 2013. The loan is guaranteed by the Romanian Government through the Ministry of Finance.

   Following the opening of insolvency procedure (see Note 1), UBS AG has requested early repayment of the loan granted on December 14, 2004. The loan has been fully repaid on July 18, 2012.

c) International Bank for Reconstruction and Development ("BIRD") from July 13, 2005 for 66 million EUR – loan taken for the rehabilitation of hydropower from Lotru and institutional development of the society. The loan agreement is effective from January 25, 2006, after ratification by the Parliament of Romania of the agreement between BIRD and Romanian State.

   Reimbursement shall be made on a quarterly basis starting with March 15, 2010 and ending with the last installment in September 15, 2021. The loan is guaranteed by the Romanian Government through the Ministry of Finance.

d) Citibank International PLC – agent, from July 2, 2009, for the amount of 75 million EUR – loan taken for unstructured investments. The reimbursement is made at the end of each semester starting with July 2, 2011 until July 2, 2013 (7 equal installments).

e) ING Bank NV Amsterdam from November 16, 2009 for 60 million EUR – the facility shall be used to finance the investments in developing hydro network (new and / or existing). The loan was granted for a period of 5 years. The credit facility was taken over by ING Bank NV Dublin on December 3, 2009. The loan is repayable in 15 equal quarterly installments, starting with May 13, 2011 until November 14, 2014.

f) EFG Eurobank Luxembourg from March 29, 2010 for 30 million EUR; the facility was used to finance the investment in developing hydro network (new and / or existing). The loan was granted for a period of 5 years. The loan is repaid in 13 equal installments starting with March 29, 2012 until March 29, 2015.

g) Unicredit Bank Austria – from June 30, 2010 for 117,368 thousand EUR.The facility will be used to finance the refurbishment contract for CHE Olt Inferior.

   On June 3, 2010 a novation agreement was concluded between Unicredit Bank Austria and Unicredit Tiriac Bank for an amount of 23,474 thousand EUR. The deadline for using this credit facility is May 31, 2013.

h) Banca Comerciala Romana – Bucharest Branch – dated 09 December 2010, in the amount of 50 million EURO – facility will be utilised for the financing of investments in the developing of hydro electrical plants (new or existing). Loan will be reimbursed in 23 quarterly installments beginning with 09-July-2012, with 08-Dec-2017 as the final reimbursement date.

11. LONG TERM BORROWINGS (CONTINUED)

i) ING Bank NV Dublin – dated 22 march 2011 for 60 million EUR – loan contracted for the financing of investment/maintenance of the network of hydro electrical plants. Reimbursement started on 07.06.2012, with the principal amount distributed over 17 equal quarterly installments during 07.06.2012-07.06.2016.

BRD Group Societe Generale – dated June 20, 2011 for 30 million EUR – loan taken to finance the investment / rehabilitation of hydroelectric network. Reimbursement shall be made in 16 equal quarterly installments during 05.10.2012 – 10.06.2016.

j) BERD – from July 12, 2011 for 110 million EUR as follows: loan A in amount of 70 million EUR and loan B in amount of 40 million EUR to finance the investments / rehabilitation of six units of hydropower plant Stejarul Bicaz. The reimbursement shall be made into 21 equal semestrial installments – for loan A and in 15 equal semestrial installments – for loan B.

The cost of short term borrowings, respectively medium and long-term borrowings, is indexed to market interest rate, while reflecting also the Group's rating.

According to the loan agreements, the Group has to comply with certain covenants. As at December 31, 2012 the management determined that the Group was not in compliance with such covenants. Consequently if the borrower does not fulfill the conditions required, the banks may, after written notification, request the accelerated maturity of credits drawn and not repaid, after a period of time allowed for the borrower to remedy the event. As at December 31, 2012, the long-term portion of the borrowings in amount of RON 1.102.160 thousand should have been presented as current liability, which would determine the increase of current liabilities, respectively the decrease of long-term debts with the same amount.

However, the Group Management considers that reimbursement of amounts for which requirements were not fulfilled will not be required by the credit institutions for the following reasons:

I. The Group has the capacity and intention to fulfill all the installments as per the loan contracts;

II. The Loan Agreements specify that the credit institutions are obliged to offer a reasonable amount of time to the Group to take measures necessary to fulfill indicator requirements;

III. The IBRD loan is secured by the Romanian State, and, in practice, the state guarantee has not been executed for other loans granted to the Group.

(all amounts are expressed in RON thousand, unless specified otherwise)

12. TRADE AND OTHER PAYABLES

As at December 31, 2012 and 2011, the Group's trade and other payables were as follows:

	December 31 2012 000 RON	December 31 2011 000 RON
Suppliers of energy	93,076	275,930
Suppliers of fixed assets	488,458	549,279
Industrial Water Suppliers	347,706	209,275
Repairs and Maintenance Suppliers	72,545	50,215
Other Payables	17,622	25,098
Total	**1,019,407**	**1,109,797**

The suppliers of energy are:

	December 31 2012 000 RON	December 31 2011 000 RON
Sistemul Energetic National		
CEN Turceni	49,745	66,422
Termoelectrica SA	757	5,477
CEN Craiova	-	49,198
SN Nuclearelectrica SA	28,773	34,773
Transelectrica SA	11,581	85,867
Other	2,220	25,943
	93,076	**267,680**
Other suppliers of energy	-	8,250
Total	**93,076**	**275,930**

13. DEFERRED REVENUE

As at December 31, 2012 and 2011, deferred revenue mainly consists of subsidies for investments received from MECMA, for the financing of certain investment projects.

	December 31 2012 000 RON	December 31, 2011 000 RON
Balance at the beginning of the year	**271,995**	**283,351**
Increases	-	17
Transfer to income of accrued revenues	(5,861)	(11,373)
Balance at the end of the year	**266,134**	**271,995**

(all amounts are expressed in RON thousand, unless specified otherwise)

14. INCOME TAX

The income tax expense for the period ended December 31, 2012 and 2011 consists of current and deferred tax recognized in the consolidated income statement.

	December 31 2012	December 31 2011
	000 RON	**000 RON (Restated)**
Current income tax expense	21,212	13,761
Deferred tax expense / (income)	36,849	(86,755)
Total	**58,061**	**(72,994)**

**) The consolidated statement of income tax at 2011 has been restated in accordance with Note 31.*

The current income tax of the Group for the period ended December 31, 2012 and 2011 is determined based on statutory profits, adjusted for non-deductible expenses and non-taxable income at a statutory rate of 16%.

The income tax expense for the year can be reconciled to the accounting profit as follows:

	December 31 2012	December 31 2011
	000 RON	**000 RON Restated**
Profit / (Loss) before tax	**249.426**	**(508,842)**
Income tax (credit) / expense calculated at 16%	39,908	(81,415)
Effect of not deductible expenses	31,190	15,141
Effect of revenue that is exempt from taxation	(7,755)	(5,966)
Effect of temporary differences calculated at 16%	(5,282)	(754)
Income tax expense recognized in profit or loss	**58,061**	**(72,994)**

As at December 31, 2012 and 2011, the deferred taxes related to temporary differences were as follows:

	31 decembrie 2012		31 decembrie 2011	
	Cummulated temporary differences	**Deferred tax (Asset) / Liability**	**Cummulated temporary differences**	**Deferred tax (Asset) / Liability**
Tangible assets revaluation	2,836,861	453,898	3,058,922	489,427
Embedded financial instruments	77,173	12,348	(333,611)	(53,378)
Restatement of Property Plant and Equipment	(1,465,017)	(234,403)	(1,597,164)	(255,546)
Decommissioning provisions	(131,791)	(21,086)	(131,791)	(21,086)
Other Elements	3,039	486	34,342	5,495
Provisions for current assets	(27,914)	(4,466)	(12,506)	(2,001)
Other provisions	(199,318)	(31,891)	(84,719)	(13,555)
Deferred tax not recognised	1,821,001	291,360	1,791,838	286,694
Total	**2,914,034**	**466,245**	**2,725,311**	**436,049**

(all amounts are expressed in RON thousand, unless specified otherwise)

14. INCOME TAX (CONTINUED)

	December 31 2011	Recognised in Profit or Loss	Recognised in Other Comprehensive Income	December 31 2012
	000 RON	000 RON	000 RON	000 RON
Deferred tax from:				
Revaluation of property plant and equipment	489,427	(28,876)	(6,654)	453,898
Embedded derivatives	(53,378)	65,725		12,348
TOTAL	**436,050**	**36,849**	**(6,654)**	**466,245**

Starting with May 1, 2009 in accordance with changes in the tax treatment of revaluation reserve ccording to OG no 34/2009, the revaluations made by the Group after January 1, 2004 and recorded in the statutory financial statements, are taxed while depreciation expense is deducted, i.e. at the removal / disposal of the related fixed assets. Therefore, the Group recognized a deferred tax liability for revaluation reserve directly in equity (in other comprehensive income).

15. EMPLOYEE BENEFITS

As at December 31, 2012, the Group recorded a liability regarding the employee benefits, as described in Note 3 (t), in amount of RON 100,146 thousand (December 31, 2011: RON 62,291 thousand).

The employee benefit obligations were determined by an independent firm of actuaries, PriceWaterhouseCoopers Management Consultants SRL (“PWC”), and recorded by the Group in the financial statements at 31 December 2012.

The estimation of these obligations has been made considering the following:

- Number of employees at 31 December 2012 and number of employees estimated by the Group based on the projected rates of departure from the National Institute of Statistics („INS”), other statistical data provided by INS;
- Salary base as at 31 December 2012 and base salaries estimated by the Group for the future periods;
- The inflation rate for the period January – December, 2012 (including data from December, 2012), published by the INS and the inflation rate estimated by the Group for future periods;
- Electricity price at 31 December 2012 and the estimated price of the Group for future periods.
- The interest rate obtained considering the Treasury bill issued by the Ministry of Finance, assessment of the country risk, evaluation of the EUR exchange rate issued by the European Central Bank.

(all amounts are expressed in RON thousand, unless specified otherwise)

16. OTHER DEBTS

As at December 31, 2012 and 2011, other debts were as follows:

	December 31, 2012		(Restated)* December 31, 2011	
	Current 000 RON	Long term 000 RON	Current 000 RON	Long term 000 RON
Advances received from customers	27,615	-	38,879	-
Payable towards State Budget	99,927	-	65,911	-
Dividends payable	256,498		258,631	-
Project execution bonds	67,247	72,992	41,433	87,170
Other sundy debtors	92,167	-	57,054	-
Total	**543,454**	**72,992**	**461,908**	**87,170**

*) The consolidated statement of other debts at 2011 has been restated in accordance with Note 31.

As at December 31, 2012, the debts towards State Budget consist mainly of salary expenses and value added tax. As at December 31, 2011 the debts towards State Budget mainly consist in payroll expense and income tax.

17. PROVISIONS

	December 31, 2012 000 RON	December 31, 2011 000 RON
Provisions for litigation	87,857	21,220
Provisions for restructuring	11,114	-
Provisions for dismantling of fixed assets in progress	131,791	131,791
Post employment benefits	100,146	62,291
Other provisions	553	1,208
TOTAL	**331,461**	**216,510**
Non current portion	231,937	194,082
Current portion	99,524	22,428
TOTAL	**331,461**	**216,510**

(all amounts are expressed in RON thousand, unless specified otherwise)

17. PROVISIONS (continued)

	Provisions for litigations	Provisions for restructuring	Other provisions	Provisions for dismantling of fixes assets in progress	Provisions for post employment benefits	Total
Balance as at January 1	21,220	-	1,208	131,791	62,291	**216,510**
Additional provisions recognised	66,637	11,114	-	-	37,855	**115,606**
Reversal of provisions	-	-	(655)	-	-	**(655)**
Balance as at December 31	**87,857**	**11,114**	**553**	**131,791**	**100,146**	**331,461**

Provisions in the amount of 331,461 thousand RON, represent the value of the provisions for litigations, for employee benefits according to Collective Labor Agreement, wages and compensatory salaries, and other provisions as follows:

- Based on the restructuring program approved on 22 February 1999, at 31 December 2003, the Group recorded a provision for the cost of disposal of tangible assets in progress which were proposed to be abandoned in amount of 131,791 thousand RON.

- Provision for litigation with Enel Distributie Dobrogea regarding penalties for late payment in amount of 1,533 thousand RON – pending case since 2010.

Hidroelectrica went into insolvency on June 20, 2012, reason for which there were provisions created for litigations related to claims submitted in the table of creditors rejected by the judicial administrator from the preliminary table of debts. These provisions are mainly:

- For disputes concerning expropriation of land for investment “Hydropower development on Strei river, sector Subcetate - Simeria" amounting to 30,443 thousand RON;

- For disputes concerning penalties and interest required by suppliers and admitted in the table of creditors, totaling 54,276 thousand RON:
  - provision litigation Termoelectrica – in amount of 9,336 thousand RON;
  - provision litigation Nakita– in amount of 49 thousand RON;
  - provision litigation Nuclearelectrica– in amount of 41,164 thousand RON;
  - provision litigation Apele Romane – in amount of 3,312 thousand RON;
  - provision litigation Enel Distributie Dobrogea – in amount of 407 thousand RON;

(all amounts are expressed in RON thousand, unless specified otherwise)

17. PROVISIONS (continued)

- provision for litigation (pending case) for salary claims required by employees of Sebes working point, in total amount of 1,605 thousand RON, admitted in the table of creditors under the condition;
- provision for restructuring – represented by the gross salaries and contributions for a total of 27 to be laid-off in 2013 employees during January – February 2013, that have signed the convention for receiving compensatory payments in amount of 453 thousand RON.
- provision for restructuring – represented by the gross salaried under Collective Labor Contracts and contributions, for a number of 123 to be laid-off during 2013 employees during January – February 2013, that have not signed the convention for receiving compensatory payments in amount of 10,661 thousand RON. The provision has been made under the provisions of CCM about redundancy payments to be granted in the event of layoffs.
- provision for pension and similar obligations in the amount of 100,146 thousand RON, represent the actuarial calculation for the future employee benefits under the Collective Labor Contract, calculated for the first time in 2008, updated in 2010 and in 2012.

18. NUMBER OF EMPLOYEES

As of December 31, 2012 and 2011, the Group’s number of employees were 7.466, respectively 7.739.

19. ELECTRICITY REVENUES

The Group has sold 12,824 thousand MWh during 2012 (18,270 thousand MWh in 2011). The price of electricity for the energy rendered on the regulated market is regulated by ANRE.

The revenues for the period ended December 31, 2012 and 2011 were as follows:

	December 31 2012	**December 31 2011**
	000 RON	**000 RON**
Sistemul Energetic National		
Electricity		
Electrica SA – Regulated Market	330,371	258,794
Electrica SA – Free Market	30,075	160,042
Transelectrica SA (Balancing market)	483,435	375,461
Other	65,828	19,453
System services – regulated market		
Transelectrica SA	365,123	286,834
OPCOM	62,183	33,511
	1,337,015	**1,134,095**
Eligible customers	997,784	1,745,277
Export	58,930	130,869
Total	**2,393,729**	**3,010,241**

(all amounts are expressed in RON thousand, unless specified otherwise)

20. PURCHASES OF ELECTRICITY

The purchases for the period ended December 31, 2012 and 2011 were as follows:

	December 31 2012	December 31 2011
	000 RON	000 RON
Sistemul Energetic National		
Termoelectrica SA	80,733	149,051
CEN Turceni	-	121,382
CEN Craiova	-	126,929
SN Nuclearelectrica SA	-	107,067
Transelectrica SA (balancing market)	-	145,069
Other	6,435	109,667
OPCOM	-	11,110
	87,168	**770,275**
Other suppliers of energy	-	564
Other services	-	6,417
Total	**87,168**	**777,256**

21. OTHER OPERATING INCOME

Other operating income was as follows:

	December 31 2012	December 31 2011
	000 RON	000 RON
Gain from sale of assets	2,583	2,661
Deferred revenues reversal	6,937	11,373
Income from repair and maintenance activity	27,798	27,603
Other income	20,350	19,988
Total	**57,668**	**61,625**

(all amounts are expressed in RON thousand, unless specified otherwise)

22. OTHER OPERATING EXPENSES

Other operating expenses are as follows:

	December 31 2012 000 RON	December 31 2011 000 RON (Restated)*
Transport and energy distribution	118,499	171,791
Water expenses	263,791	303,036
Raw materials and consumables	95,951	74,473
Services contracted for repairs and maintenance	47,457	163,168
Net foreign exchange differences	60.367	27.934
Provisions for current assets	15.976	6.251
Provisions for non current assets	40.403	277
Other provisions	114,951	-
Penalties for delay in payments to suppliers	67.065	29.535
Security expenses	23.698	22.779
Transportation expenses	20.678	21.783
Carrying value of disposed items	21.333	4.480
Others	117.479	117.200
Total	**1,007,648**	**942,707**

*) The consolidated statement of other operating expenses as of December, 2011 has been restated in accordance with Note 31.

23. FINANCIAL RESULT

Financial result is presented as follows:

	December 31 2012 000 RON	December 31 2011 000 RON
Interest income	1,655	2,859
Other financial income	8,838	663
Losses from operations with embedded derivatives	410,784	
Financial income	**421,277**	**3,522**
Interest expense	(43,951)	(58,272)
Other financial expenses	(368)	(12,365)
Gains from operations with embedded derivatives	-	(378,730)
Financial expense	**(44,319)**	**(449,367)**
Financial result	**376,958**	**(455,845)**

24. TAXATION

The taxation system in Romania is undergoing a continuous development phase and is subject to various interpretations and constant changes which may sometimes be retroactive. Although the actual tax due for a certain transaction can be minimal, penalties can be significant, as they can be calculated at the value of the transaction and at a minimum ratio of 0.1% per day starting with 2006, but can be significantly higher. In Romania, the fiscal year remains open for tax audit for a period of 5 years.

The management considers that the tax liabilities included in these consolidated financial statements are adequate; there is a risk that the tax authorities could interpret them in a different manner. Their impact could not be determined at this date, but management believes that will not significantly affect the financial position and financial result of the Group.

In accordance with the requirements issued by the Ministry of Public Finance, which relates to the fiscal treatment of the elements of equity that have not been subject to the calculation of the income tax as at the date of their recording in the accounts, due to their nature, should the entities members of the Group change in the future the destination of the statutory revaluation reserves (to cover losses or to distribute to the shareholders), this will lead to additional income tax liabilities.

25. OPERATIONAL ENVIRONMENT

Although Romania is a member of the European Union since 1 January 2007, the economy of Romania has the characteristics of an emerging market with a high current account deficit, a relatively underdeveloped financial market and exchange rate variations.

International financial markets are currently feeling the effects of the global financial crisis of 2008. These effects were felt on Romanian financial market in the form of a decrease in the price and liquidity of capital markets and by an increase in the average interest rate due to the global liquidity crisis. Significant losses experienced by global financial markets may affect the Group's ability to obtain new loans at terms and conditions similar to those used in previous transactions.

The financial statements do not include adjustments relating to the recovery and classification of assets or the classification of liabilities that could result if the Group is unable to continue its work because it applies the principle of going concern.

Management believes that the assumptions underlying the financial statements are entitled, given the strategic importance position held by the Group in the national energy system.

The financial status of the Group depends on future steps to be taken in terms of rate and / or the support of the Romanian Government.

Given that the activity of the Group is controlled partly by ANRE, the most important risks faced are:

• The regulatory environment is relatively new and prone to changes, which may impact the Group's performance;

• ANRE decisions on price changes may affect the Group's business, (energy price for distribution companies is not only determined by the Group, but is regulated by ANRE);

Retirement of certain assets could generate a reduction in the regulated asset base, which can lead to lower selling prices approved by ANRE, having a negative impact on the Group’s profit.

26. COMMITMENTS

Contracts for the refurbishment and modernization of hydropower plants

During 2001, the Group entered into an agreement with VA Tech Hydro (now Andritz Hydro) Ltd. in the amount of EUR 254,850 thousand for the rehabilitation and modernization of the Portile de Fier II hydroelectric (8 groups) and hydropower from Gogosu (2 units), with deadline for completion in 2014. At the beginning of 2013 works for CHE Gogosu were denounced with a value stipulated in the contract of EUR 54,500 thousand.

Thus, now the contractual price after reducing the value of works related to CHE Gogosu and after supplementation due to work commitments and various price adjustments, amounts to EUR 239,918 thousands. On 31 December 2012, the amount remaining to be executed according to the stage of the contracted works is Euro 13,496 thousand for the Portile de Fier II.

In 2004 the Group entered into an agreement with Voith Siemens Hydro Power Generation GmbH. & Co.. KG (now Voith Hydro) and VA Tech Escher Wyss GmbH (now Andritz Hydro). amounting to EUR 356.7 million for the rehabilitation and modernization of hydropower from Lower Olt (Ipotesti Draganesti Frunzaru, Rusanesti, Izbiceni - 20 groups) , the contractual deadline for completion is 2013. The total value of the work was subsequently modified. On 31 December 2012, the amount remaining to be executed according to stage of the contracted works is EUR 6 416 148 million.

In June 2006, the Group entered into a contract with Romenergo SA for rehabilitation and modernization of Romanian lock at Portile de Fier 1, with deadline for completion of the works estimated for 2013. The contract was initially worth RON 166.85 million, value subsequently modified to the amount of RON 187,58 mil. On 31 December 2012, the amount remaining to be executed according to stage of the contracted works is RON 29.769 thousands.

In the context of efficient production activity regarding clean energy from renewable sources and reducing production costs, the Judicial Administrator and Hidroelectrica launched in the year 2012,to the World Bank an invitation to analyze the opportunity to invest in 3 new projects for upgrading the hydro Vidraru Retezat and Mariselu, of particular importance for Hidroelectrica and National Power System.

2) Environmental conditionality

In 2012 monitoring and controlling actions were held regarding the significant environmental aspects. The activity took place in areas such as prevention of water pollution, land protection, removal and prevention of the effects of floods and works to improve the landscape affected by hydro technical workings.

Of the 231 hydro power objectives that require permits, at the end of 2012, they held environmental permits for 184 objectives, representing approx. 94% of the total. Validity periods are between 2013 ÷ 2021.

Checks performed by local environmental authorities have not reported deviations from compliance with legislation, no fines applied and improvement measures, proposed by the environmental clearance during controls, were included in the annual work plans

3) Employee benefits

As described in note 3 (t), the Group provides financial benefits and benefits in kind both to employees and former employees. In accordance with IAS 19 "Employee Benefits", the Group recorded a provision for employee benefits in the amount of RON 100,146 thousand at December 31, 2012 (as at December 31, 2011: RON 62,291 thousand). The amount of this allowance was determined by an independent actuary and recorded in the financial statements of the Group and is subject to periodic review.

26. COMMITMENTS (CONTINUED)

4) Penalties on debts to suppliers

The group recorded during 2012 penalties related to outstanding debt in the amount of 73,676 RON, representing mainly penalties applied and allowed to be registered in the preliminary table of claims, published in BPI after triggering general insolvency procedure.

The Group established provisions for disputes pending on late payment fees in amount of RON 54,276, according to the opinion of the Group's attorneys.

5) Other conditionality

At 31.12.2012, the Group is involved in various litigations, such as:

- Commercial litigation arising from the lack of liquidity for payment at due date of invoices issued by suppliers (both debits and delay penalties and / or interest).

- Disputes arising from expropriation for public utility, in order to achieve the investment objective " hydropower development on Strei river, Subcetate-Simeria sector", where the owners / heirs of the land affected by investment require compensation for land, and lack of use (pulling benefit);

- Disputes arising from the resolution the Group received according to the Law no.10/2001;

- Labor disputes which have as object:

- Updating with the inflation index and the legal interest of cash benefits for the period 2006-2007, paid by the Group during 2008-2009;

Issuance of certificates for ongoing activity in group I or II.

In the opinion of the Group's attorneys, the Group's administrator and management considers that the settlement of disputes mentioned above, for which no provisions were constituted on 31 December 2012, will be favorable and will not have a negative impact on the consolidated financial statements for the financial year ended at that date.

6) Disputes with Univers Union Federation and Hidrosind, Hidroelectrica's Branch

The group was involved in a labor dispute with union federation HIDROELECTRICA Hidrosind, the file in question being registered with no.38042/3/2007, before the Court of Bucharest - Section VIII labor and social security disputes.

During 2008, the Group concluded with the union federation HIDROELECTRICA – Hidrosind, a transaction involving the settlement of the above mentioned dispute. Through this transaction the Group is obliged to pay all Group employees, regardless of union membership, in stages, between 2008 - 2010, depending on financial-economic results of the Group, the difference between actual wages paid and wages due as a result of applying the index of salary scale in force on 01.10.2005 for the period 01.01.2006 - 31.12.2007.

Last payments on this issue were conducted in 2009 and recorded as an expense in the period in which they were granted.

Subsequently, the employees represented by the union federation Universe and HIDROELECTRICA Branch- Hidrosind, had claimed to the territorially competent courts the updating with inflation index of the differences wages paid, and obligation of the Group to pay statutory interest for late payment. At this point, for most employees represented by the union federation Universe were paid such compensation, following the irrevocable decision of the Court. In terms of employees represented by Branch HIDROELECTRICA- Hidrosind, disputes are ongoing. The Group's management could not reliably estimate the value of these future payments. However, in the opinion of the lawyers, the administrator and the Group's management estimate that they will not have a significant negative impact on the consolidated financial position, respectively consolidated financial performance of the company.

26. COMMITMENTS (CONTINUED)

7) Disputes concerning the buildings taken for reasons of public utility

The Group is involved in a number of legal disputes concerning real estate (mainly land) used in the current activity.

Regarding buildings falling under Law 10/2001 (abusively taken in March 6, 1945 - December 22, 1989 period), the Company which is paying compensation is SC Fondul Proprietatea SA, which was established to provide financial resources to compensate people abusively expropriated.

For disputes not covered by Law 10/2001, the Group's management regularly analyze the pending litigation, and following the consultation with its legal representatives decide the need to create provisions for the amounts involved or their presentation in the consolidated financial statements. Based on information available to the Group, the management estimates that these disputes do not have a significant negative impact on the consolidated financial statements at 31.12.2012.

8) Other litigations

The group is and could become part of other legal disputes and other public institutions' actions before various courts, resulting from the normal course of its business which involves various contractual issues, also on the value added tax, income tax and other conditionality. These processes and actions could have a significant negative impact on the Group's financial position or the results of its activity, but which can not be evaluated by management on the Group consolidated balance sheet date.

9) Onerous contracts

An onerous contract is a contract in which the costs required to fulfill the contractual obligations exceed the economic benefits to be gained from it. These costs reflect at least the net cost of exiting from the contract, which is minimum between the cost of fulfilling the contract and any compensation or penalties arising from failure to fulfill it. The Group's management is not aware of the existence of onerous contracts at the balance sheet date and had no provisions in this regard in the consolidated financial statements.

10) Insolvency

As discussed in Note 1, on 20 June 2012, the Group entered into insolvency in order to reorganize its activity.

Following the insolvency procedure, part of bilateral contracts for the sale of electricity were renegotiated and part were canceled.

On September 10th, 2012 it was submitted to the Bucharest Court the preliminary table of creditors. Compensation, damages, interests and penalties were required primarily by: Alpiq, Alro, Energy Holding and Nuclearelectrica. Some of the creditors have made appeal to the preliminary table. As discussed in Note 30, at the date of authorization of these financial statements all these complaints were resolved in favor of the Group and the consolidated list of creditors has been finalized, together with the insolvency procedure. The accepted receivables, according to consolidated list of creditors, are in amount of 3.531.038 thousand RON, and the ones accepted under certain conditions are in amount of 750.927 thousand RON.

The amount of RON 391.847 thousand representing debt requested by MECMA, and the amount of RON 144.1945 thousand, representing claims requested by ANAF, were submitted in the consolidated list of creditors under settlement condition of the criminal case no 7774/1/2011 before the High Court of Justice for committing the potential crime of undermining the national economy by some members of the Group management. These amounts represent potential damages suffered by MECMA and ANAF to the extent that the action of undermining the national economy by the board members of the Group who are defendants in the case, will be proven. Both MECMA and ANAF are civil party in the criminal case and have requested for the introduction of HIDROELECTRICA as civil responsible party. On the consolidated financial statements date, the file is disputed at the High Court and Group lawyers cannot estimate at this date the settlement due to the early stage of litigation.

26. COMMITMENTS (CONTINUED)

11) Fiscal control

As at the date of the approval of these consolidated financial statements, the Company is subject to a fiscal control which begun in August 9th, 2012 (during the insolvency procedure) and covers the period January 2006 – June 2012. The control has been partially finalized and the minutes have been released for all of the branches of the Company.

The management of the Company intends to challenge the decisions of the fiscal control, as it believes that a number of areas for which taxes have been identified have not been properly assessed by the fiscal authorities, considering the specific of the Company. Management is confident that the appeals will be accepted and the final outcome of the fiscal control will not affect significantly the consolidated financial statements.

Based on the partial results of the fiscal inspection, the potential additional amounts that the Company should pay are as follows:

- Additional income tax liability of RON 31.950 thousand
- Additional VAT liability of RON 14.422 thousand
- Other debts totaling RON 874 thousand
- Additional penalties related to the debts above of RON 51.269 thousand

Management best initial estimate in respect of related penalties amounts to RON 51.269 thousand. However, as stated above, management is confident that following the appeals, the final results of the fiscal inspection will not affect significantly the financial statements.

27. RELATED PARTY TRANSACTIONS – TRANSACTIONS WITH OTHER ENTITIES UNDER STATE OWNERSHIP

The Group is a state-owned entity. The Ministry of Economy, Trade and Business Environment ("MECMA") owns 80.0561% of the shares of the Group. The value of the Group's transactions with the Ministry of Economy and State-controlled entities, or over which the State exercises significant influence represents a significant portion of sales and purchases recorded in the 2012 financial year.

28. SALARIES GROUP MANAGEMENT

The Group has no contractual obligations to pay pensions to former directors and administrators and has not granted any loans to managers or directors during their exercise. The salaries expenses granted to directors (including those from subsidiaries) and administrators of the Group during 2012 were in amount of RON 14,442 thousand (as of December 31, 2011: RON 13,138 thousand).

29. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Legislative and regulatory changes determined the Group to adopt a proactive approach in risk assessment, which continues to develop.

As compliant with Order no. 946/2005 of the Ministry of Public Finances for the approval of the Internal Code of Control containing management/internal control standards for public entities and for the development of the managerial control system, completed and actualized, both for subsidiaries as well as for the Executive branch, decisions have been issued towards the Group in the purpose of supervision, coordination and methodological guidance of the implementation process for management/internal control standards.

The branches and the executive of the group both have developed programs for the development of the internal control/managerial system.

Strategic risks of major importance and their corresponding handling procedures have been determined as follows:

Risk of the economic environment

The process of value adjustment depending on risk that has taken place on international financial markets has affected their performance and this includes the financial-banking market in Romania, thus leading to an increasing lack of certainty regarding future economic evolution.

The Group’s commercial partners may be affected by liquidity crisis situation, impairing their capacity to fulfill current obligations. Deteriorating operating conditions of creditors may also affect the managing of cash flow previsions and financial or non-financial asset depreciation analyses. To the degree that information is available, management has reviewed estimations of future cash flows in its depreciation policy.

The identification and evaluation of influenced investments on a less liquid crediting market, the analysis of credit contract compliance and of other obligations raise new challenges.

(all amounts are expressed in RON thousand, unless specified otherwise)

29. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

The Group Management cannot estimate the events that could have an effect on the banking sector in Romania and which effect they might have on the consumer behavior of economic agents.

	December 31 2012	December 31 2011
Financial assets	**000 RON**	**000 RON**
Cash and cash equivalents	64,729	96,686
Derivative instruments at FVTPL	77,173	-
Receivables and other debts	365,227	629,698
Financial liabilities		
Derivative instruments at FVTPL	-	333,611
Amortised cost	3,907,993	4,166,129

Price risk

Currently, the price of electrical energy delivered to the regulated market is not influenced exclusively by the Group decisions, but is also convened and revised periodically by the National Authority for Regulation in the Energy market with the approval of the Competition Council, and the end consumer price is monitored by the Government and the World Bank.

The legislative environment permits for producers to sell electricity to eligible consumers on the free market through bilateral contracts. The risk of price fluctuations is not covered through derivatives.

The Counterparty Risk

The Counterparty Risk is the risk that the Group should suffer a financial loss following non-fulfillment of contract obligations towards a client or a counterparty to a financial instrument, and this risk stems mainly from commercial receivables, cash and cash equivalents.

The treatment of the Counterparty Risk is based on internal and external Group success factors. External success factors that have a systematic effect on risk reduction are: the restructuring of the energy market, the privatization of SC Electrica SA subsidiaries, liberalization of the energy market and the perfecting of the market operator. Internal success factors include the diversification of the client portfolio.

Financial assets that may facilitate the collection risk are mainly commercial receivables. The Group has a number of practices and policies in place to ensure that the sale of services occurs to clients with corresponding collection. The value of receivables, net of provisions, represents the maximum amount exposed to the collection risk.

The collection risk for these receivables is limited as the amounts are mostly due from state-owned companies.

The maximum exposure to the risk of non-collection at the reporting date was:

	December 31 2012	December 31 2011
	000 RON	**000 RON**
Trade receivables	224,118	337,202
Other current assets	129,787	287,776

(all amounts are expressed in RON thousand, unless specified otherwise)

29. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

In the table below is an analysis of the trade receivables as at December 31, 2012 and December 31, 2011:

	December 31, 2012		December 31, 2011	
	Gross value	Allowances	Gross value	Allowances
Not past due	167,359	-	295,085	-
Between 30 - 90 days	51,226	-	7,745	-
Between 90 - 180 days	257	-	535	-
Between 180 – 365 days	8,246	(2,970)	2,821	-
Over 365 days	25,244	(25,244)	43,463	(12,447)
Total	**252,332**	**(28,214)**	**349,649**	**(12,447)**

Liquidity risk

Liquidity risk (also called funding risk) is the risk that an entity has difficulties in procuring the necessary funds in order to meet commitments associated with financial instruments.

	December 31 2012	December 31 2011
	000 RON	000 RON
Assets		
Monetary current assets in RON	326,562	564,053
Monetary current assets in EUR and USD	103,394	161,698
	429,956	**725,751**
Liabilities		
Monetary current liabilities in RON	(1,849,199)	(2,045,659)
Monetary current liabilities in EUR and USD	(1,985,802)	(2,113,243)
	(3,835,001)	**(4,158,902)**
Net position in RON	**(1,522,637)**	**(1,481,606)**
Net Position in foreign currency	**(1,882,408)**	**(1,951,545)**

In addition, the liquidity risk could arise from the difficulty of selling an asset in a timely manner and to an amount close to its fair value.

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, by continuously monitoring forecast and actual cash flows, and by matching the maturity profiles of financial assets and liabilities.

As of December 31, 2012 and 2011, the Group recorded net current liabilities which indicate an increased liquidity risk.

(all amounts are expressed in RON thousand, unless specified otherwise)

29. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

The following tables detail the Group's remaining contractual maturity for financial liabilities.

	Net value	< 12 months	1 - 5 years	> 5 years
December 31, 2012				
Financial liabilities				
Trade and other payables	(1,092,399)	(1,092,399)	-	-
Other debts	(616,446)	(543,454)	(72,922)	-
Long term borrowings	(1,201,801)	-	(1,027,323)	(174,477)
Short term borrowings	(1,070,339)	(1,070,339)	-	-
Total	**(3,980,985)**	**(2,706,192)**	**(1,100,315)**	**(174,477)**
December 31, 2011				
Financial liabilities				
Trade and other payables	(1,109,797)	(1,109,797)	-	-
Other debts	(549,078)	(461,908)	(87,170)	-
Long term borrowings	(1,418,920)	-	(1,263,556)	(298.171)
Short term borrowings	(1,088,334)	(1,088,334)	-	-
Total	**(4,166,129)**	**(2,660,039)**	**(1,350,726)**	**(298.171)**

Hydrological risk

The hydrological situation – The level of production is limited both by the installed capacity as well as by the predominant hydrological situation. Unfavorable weather, representing little precipitation, affects production capacity and the ability to fulfill contractual obligations, while humid weather offers an opportunity to attempt increasing revenues from additional production. As the Group cannot change the hydrological situation, they may still mitigate it through:

- Supervision of conditions and tendencies, for the highest quality data to be used in predictions and estimations;
- A prudent approach to contractual obligations;
- Supervision of markets for additional revenues in case of surplus;
- Considering diversification strategies through alternative production sources, including the unconventional.

The Interest Rate Risk

The Group's operating cash flows are affected by changes in interest rates, mainly due to foreign currency loans contracted with foreign financing banks.

Changes that may occur exchange rates and interest rate levels, by raising them, may affect the Group's result.

If the interest rates would be higher / lower by 1% (100 basis points) and all other variables were held constant, the Group's net income would increase / decrease by RON 22,721 thousand.

(all amounts are expressed in RON thousand, unless specified otherwise)

29. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

The risk to cash determined by the interest rate is the risk that interest rates and thus, the expense with these, to fluctuate over time. The Group has significant Long Term Loans, with variable interest rates, which presents a Risk to both Price and Cash for the Group.

	December 31 2012	December 31 2011
	000 RON	000 RON
Borrowings	2,272,140	2,507,254
Cash and cash equivalents	(64,729)	(96,686)
Net Debt	**2,207,411**	**2,410,568**
Equity	14,138,661	13,941,339
Net debt to equity ration	**15.61%**	**17.29%**

The Foreign Currency Risk

The currency used on the internal market is the Romanian Leu, while external loans have financing costs in other external currencies. Thus, loans in foreign currency are subsequently expressed in Lei. Resulting differences are included in the Profit&Loss account and do not affect cash flows until debt repayment.

At the date of the current financial consolidated situations, the Group has not entered into transactions and has not purchased financial instruments to cover the foreign exchange risk.

	EUR	USD	RON	CHF	TOTAL
December 31, 2012					
Monetary assets					
Trade and other receivables	6,249	-	229,191	-	235,440
Other current assets	83,259	-	46,528	-	129,787
Cash and cash equivalents	13,785	101	50,843	-	64,729
Monetary liabilities					
Trade and other payables	159,691	-	1,403,170	-	1,562,861
Borrowings on short and long term	1,703,298	122,813	446,029	-	2,272,140
Net exposure	**(1,759,696)**	**(122,712)**	**(1,522,637)**	**-**	**(3,405,045)**

(all amounts are expressed in RON thousand, unless specified otherwise)

29. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

	EUR	USD	RON	CHF	TOTAL
December 31, 2011					
Monetary assets					
Trade and other receivables	-	-	341,922	-	341,922
Other current assets	150,999	-	136,777	-	287,776
Cash and cash equivalents	-	-	96,686	-	96,686
Monetary liabilities					
Trade and other payables	141,980	23	1,429,702	-	1,571,705
Borrowings on short and long term	1,861,736	93,865	528,500	23,153	2,507,254
Net exposure	**(1,852,717)**	**(93,888)**	**(1,382,817)**	**(23,153)**	**(3.352.575)**

The following exchange rates were applied during the year:

	Average exchange rate		Exchange rate as at	
	December 31 2012	**December 31 2011**	**December 31 2012**	**December 31 2011**
Lei / EUR	4.4560	4.2379	4.4287	4.3197
Lei / USD	3.4682	3.0484	3.3575	3.3393
Lei / CHF	3.6984	3.4408	3.6681	3.5528

Sensitivity analysis:

For a 10% strengthens of the RON against the relevant currency (EUR/USD/CHF) as of 31 December 2012 and 31 December 2011, would have increased profit by the amounts shown below. This analysis assumes that all other variables remain constant.

	Increase in profit December 31, 2012	Increase in profit December 31, 2011
EUR	175,970	185,272
USD	12,271	9,389
CHF	-	2,315

A 10% depreciation against the relevant currency (EUR/USD/CHEF) as of 31 December 2012 and 31 December 2011, would be a similar effect but with an opposite impact compared with the amounts shown above, assuming that all the other variables remain constant.

	Decrease profit December 31, 2012	Decrease profit December 31, 2011
EUR	(175,970)	(185,272)
USD	(12,271)	(9,389)
CHF	-	(2,315)

29. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Legislative Risks

Fiscal Controls are frequent in Romania, consisting of detailed verifications of contributors' accounting registers. These controls often occur months of years from the establishment of payment obligations. The penalisation regime has a positive character. Thus, depending on the result of such controls, companies may owe additional taxes or fines. Also, fiscal legislation is modified frequently, with authorities often expressing inconsistency in legislation interpretation. However, Group Leadership feels that adequate reserves have been made for all significant fiscal obligations.

Congruent to regulation emitted by the Ministry of Public Finances, which regulates the fiscal regime for elements of the Owner's Equity which have not been subjected to the calculation of profit tax at the date of their recording in accounting, due to their nature, if the Group shall change the destination of revaluation reserves in the future (through covering of losses or distribution to shareholders), this would lead to additional payables through the tax on profits.

The net value of financial instruments

Financial instruments owned until maturity are included in the balance sheet at cost or recoverable value. The real value is the value at which the financial instrument may be exchanged in normal transactions, other than those determined through liquidation or forced sale. Real values are obtained from quoted market prices or cash flow models.

At December 31, 2012, cash and equivalents, receivables and payables and other short term debt (including amounts owed to credit institutions) approaches their real value due to their short maturity.

30. EMBEDDED FINANCIAL INSTRUMENTS

In 2010, the Group has entered into a long-term electricity supply contract valid until January 2018. The contract sets forth the quantities of electricity to be supplied each year that represent expected volumes to be sold by the Group. The agreed pricing contains an LME-linked price adjustment. Management has analyzed the contract and concluded that the price adjustment is not clearly and closely related to the host contract and therefore represents an embedded derivative which should be separated from the host contract and accounted for at fair value through profit and loss.

The embedded derivative is recorded at fair value through profit and loss.

In 2012, the Group renegotiated the energy supply contract, and the mechanism for setting the price was changed.

For 2012, the prices as per addendum to the energy supply contract are fixed and there are no related embedded derivatives to be recorded separatly.

From 2013 to 2018, the agreed price includes an adjustment of the price correlated with the price of alluminum (different from the initial one), a minimum level, a maximum level and an element that cancels the minimum level if certain market conditions are cumulatively met (in respect of both the aluminum and energy market). As a result, the embedded derivatives that are separated from the main contract consist in the following four parts:

- a set of 61 monthly forward contracts for sale of aluminum, whose theoretical values are determined based on the aluminum quantities specified in the contract; the theoretical values of the forward contracts are determined based on the energy quanties specified in the contract, which represent the best estimate of the management as at the commencement date and, therefore, as at the renegotiation date, in respect of the energy quantities to be purchased;
- a set of 61 aluminium call option contracts, corresponding to the maximum price of energy stated in the contract;
- a set of 61 aluminium put option contracts, corresponding to the minimum price of energy stated in the contract;
- a set of 61 monthly aluminium put options contracts under which the base is an index of the energy price.

(all amounts are expressed in RON thousand, unless specified otherwise)

30. EMBEDDED FINANCIAL INSTRUMENTS (CONTINUED)

The table below presents a distribution of the derivatives as at December 31, 2012, December 31, 2011and December 31, 2010:

December 31, 2012	**Assets**	**Liabilities**
Embedded derivatives – short term	21,634	-
Embedded derivatives – long term	55,539	-
Total	**77,173**	**-**

December 31, 2011	**Assets**	**Liabilities**
Embedded derivatives – short term	-	85,054
Embedded derivatives – long term	-	248,557
Total	**-**	**333,611**

December 31, 2010	**Assets**	**Liabilities**
Embedded derivatives – short term	22,928	-
Embedded derivatives – long term	22,191	-
Total	**45,119**	**-**

Starting with January 1, 2010, the Group adopted the amendment to IFRS 7 for disclosure by level of the fair value measurement hierarchy

The fair values of financial assets and financial liabilities are determined as follows.

- The fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices (includes listed redeemable notes, bills of exchange, debentures and perpetual notes).
- The fair values of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.

The fair values of derivative instruments are calculated using quoted prices. Where such prices are not available, the fair value of financial instruments is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. The fair value of LME forward swap over-the-counter derivatives is determined using LME aluminum quotes for each of the settlement dates provided by dealers.

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

(all amounts are expressed in RON thousand, unless specified otherwise)

30. EMBEDDED FINANCIAL INSTRUMENTS (CONTINUED)

Financial assets at FVTPL

	December 31, 2012			
	Level 1	**Level 2**	**Level 3**	**Total**
Embedded derivatives	-	77,173	-	77,173
Total	**-**	**77,173**	**-**	**77,173**

Financial liabilities at FVTPL

	December 31, 2011			
	Level 1	**Level 2**	**Level 3**	**Total**
Embedded derivatives	-	333,611	-	333,611
Total	**-**	**333,611**	**-**	**333,611**

Financial assets at FVTPL

	December 31, 2010			
	Level 1	**Level 2**	**Level 3**	**Total**
Embedded derivatives	-	45,119	-	45,119
Total	**-**	**45,119**	**-**	**45,119**

There were no transfers between Level 1 and 2 in the years ended December 31, 2012, December 31, 2011 and December 31, 2010, respectively.

(all amounts are expressed in RON thousand, unless specified otherwise)

31. COMPARATIVES

During 2012, the Group has corrected some fundamental errors recorded in 2012 which affected the result of the years 2011 and 2010, as presented below:

	December 31 2010 (Previously reported)	December 31 2010 (Corrections)	January 1 2011 (Restated)
	RON	RON	RON
Statement of financial position			
Assets			
Non-current assets			
Financial Instruments	-	22,191	22,191
Total *Non-current assets*	**-**	**22,191**	**22,191**
Current Assets			
Financial Instruments	**-**	22,928	22,928
Total current assets	**-**	**22,928**	**22,928**
Equity and liabilities			
Equity			
Retained earnings	9,101,662	37,900	9,139,562
Total equity	**9,101,662**	**(37,900)**	**9,139,562**
Non Current Liabilities			
Deferred tax liabilities	515,585	7,219	522,804
Total Non Current Liabilities	**515,585**	**7,219**	**522,804**
Total liabilities	**515,585**	**7,219**	**522,804**
Total equity and liabilities	**9,617,247**	**45,119**	**9,662,366**

(all amounts are expressed in RON thousand, unless specified otherwise)

31. COMPARATIVES (CONTINUED)

	December 31 2011 (Previously reported)	December 31 2011 (Corrections)	December 31 2011 (Restated)
	RON	RON	RON
Statement of financial position			
Assets			
Non-current assets			
Property Plant and Equipments	18,578,064	(26,969)	18,551,095
Total *Non-current assets*	**18,578,064**	**(26,969)**	**18,551,095**
Equity and liabilities			
Equity			
Revaluation reserves	3,761,261	(863,246)	2,898,015
Retained earnings	8,754,919	549,167	9,304,086
Total equity	**12,516,180**	**(314,079)**	**12,202,101**
Non current liabilities			
Deferred tax liabilities	489,427	(53,278)	436,049
Financial Instruments	-	248,557	248,557
Total non-current liabilities	**489,427**	**195,179**	**684,686**
Current liabilities			
Other current liabilities	477,459	6,877	484,336
Financial Instruments	-	85,054	85,054
Total current liabilities	**477,459**	**91,931**	**569,390**
Total liabilities	**966,886**	**287,110**	**1,253,996**
Total equity and liabilities	**13,483,066**	**(26,969)**	**13,456,097**

(all amounts are expressed in RON thousand, unless specified otherwise)

31. COMPARATIVES (CONTINUED)

	January 1 2011 (Previously reported)	January 1 2011 (Corrections)	December 31 2010 (Restated)
	RON	RON	RON
Consolidated Statement of Profit and Loss and Other Comprehensive Income			
Operating expenses			
Other operating expenses	(860,409)	(82,298)	(942,707)
Total operating expense	**(860,409)**	**(82,298)**	**(942,707)**
Operational result	**(860,409)**	**(82,298)**	**(942,707)**
Financial Income	132,295	(128,773)	3,522
Financial Expenses	(227,344)	156,707	(70,637)
Expenses related to financial instruments	-	(378,730)	(378,730)
Financial result	**(95,049)**	**(350,796)**	**(445,845)**
Income tax	(8,121)	81,115	72,994
Net (loss)/profit	**(868,843)**	**(351,979)**	**(1,220,822)**
Loss per share	(0.19)	-	(0.98)

(all amounts are expressed in RON thousand, unless specified otherwise)

31. COMPARATIVES (CONTINUED)

During 2012 there have been recorded income and expenses related to prior year for correction of the result of 2011. The errors encountered and recorded in the retained earnings are mainly the followings:

Explanations	Unfavorable result from the correction of prior accounting errors		Favorable result from the correction of prior accounting errors
Penalties for late payments invoiced by CE TURCENI, accepted at statement of affairs	9,337		-
Penalties for late payments invoiced by FORMENERG, accepted at statement of affairs	219		-
interest on late payment of invoices issued by ENEL Distributie Banat, accepted at statement of affairs	194		-
Interest on late payment of invoices issued by National Adm. Romanian Waters, accepted at statement of affairs	2,829		-
Interest on late payment of invoices issued by Enel Distributie Dobrogea, accepted at statement of affairs	778		-
Penalties for 2011 year, for dividends related to 2010 owed to OPSPO, accepted at statement of affairs	3,737		-
Write off of the previous years land improvements	4,617		-
Correction income tax related to 2011, as a result of registration of accounting errors in account 1174 in 2012.	-		20,518
Update provision for litigation concerning the land expropriations for improvement on hydropower plant on river Strei, sector Subcetate Simeria, made in 2010	10,302		-
Depreciation adjustment related to 2011, for fixed assets which are non –functional since their entry to patrimony, due to incompliance with technical parameters.	22,352		-
Recognition of the embedded derivatives in accordance with the provisions of IAS 39 for the contract with ALRO (see note 30)	378,730		-
Deferred tax recognised in connection with the embedded derivatives	**-**		60,597
TOTAL	**433,094**		**81,115**

During the period, the Group has changed the presentation of foreign exchange differences. Until December 31, 2011, they were presented in the financial result. During 2012, with retrospective effect in 2011, the Group has changed the presentation to reflect the nature of expenses and income from foreign exchange differences, these being on a net basis within the operating result.

During the period, the Group has applied the provisions of IAS 39 "Financial Instruments" for the recognition of embedded derivatives contained in the energy supply contracts. Instruments thus defined were recognized as hedging instruments through profit and loss, along with the related deferred tax impact.

32. SUBSEQUENT EVENTS

Relationship with financing banks

Through periodical meetings with financing banks, the following have been presented:

- Measures taken by the judicial administrator to further reduce operational costs;
- The state of analyses performed on the current investment portfolio and the intention to further promote financing investment titles with a special importance to Hidroelectrica with priority, with the limited financial resources that the Group can allow in upcoming periods.
- Positive modifications in financial results of year 2013, resulting from ANRE decision no.3312/19.12.2012 that established the quantity on the regulated market as 3.9 TWh, 1.6 TWh less than 2012, with the medium delivery price up from 125lei/MWh from 71lei/MWh, medium established price in 2012.

The credit line with a nominal value of 80 mil. RON, contracted from Alpha Bank has been extended until 31.03.2014.

On 11.04.2013, Hidroelectrica SA and Banca Transilvania have convened upon extending the availability of funds provided by the bank, as the line of credit amounting 120 mil. RON by 12 months.

The line of credit amounting to 300 mil. RON, contracted from BRD GSG has been extended until 30.09.2013.

In June and July 2013 were signed tree contracts with RBS Bank, as follows:
- one security mortgage contract which assigns receivables derived from certain contracts of sale of electricity to the bank
- one amendment to the credit line which introduces the transfers subject to the mortgage movable agreement;
- one amendment to the credit agreement that extends its validity by one year: August 1, 2013 - 31 july 2014.

Sale of fixed assets:

As per EGM decision no. 42/11.06.2013, the company approved the sale of five packages of small hydropowerplants, and in July 15, 2013 were organized open auctions for tree packages of small hydropowerplants with a carrying amount of KRON 19,898. The total value of these sales was KRON 46,851.

Closure of insolvency procedure:

On June 26, 2013, the Bucharest Court approved the final report prepared by the judicial administrator Euro Insolv SPRL and ordered closure of insolvency proceedings.

There were also concluded seven conventions with the following lenders:

- Administratia Nationala Apele Romane,
- Complexul Energetic Oltenia,
- Energomontaj,
- Fondul Proprietatea,
- Hidroconstructia,
- MEMCA prin OPSPI,
- Nuclearelectrica,

in total value of RON 43,455 thousand, which will be paid in installments over a period between 6-24 months. Also, according to the BD Resolution no. 27/1.11.12, the closure of insolvency procedure amended the status of Hidroelectrica and the Company is managed in two-tier system.

32. SUBSEQUENT EVENTS (CONTINUED)

Layoffs of the employees

In 2013 there were dismissed as a result of the reorganization plan of the Company, a total number of 453 employees.

Merger of subsidiaries

In 2013 the Company's subsidiaries have been a subject of a merger by amalgamation process, after which the company was founded Hidroelectrica-Serv, the only subsidiary of the Company.

The consolidated financial statements were approved by management of the Company, on October 31, 2013, and signed on its behalf by:

Mihail Viorelian Stănculescu
President of the Board of Directors

Aurel Lucian Cocoş
Board of Directors Member

Mihai Teleanu
Board of Directors Member