S.P.E.E.H. HIDROELECTRICA S.A. under judiciary administration AND SUBSIDIARIES

CONSOLIDATED FINANCIAL SITUATION FOR THE YEAR ENDED ON 31 DECEMBER 2013

PREPARED ACCORDING TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ADOPTED BY EUROPEAN UNION

SUMMARY **PAGE**

(All amounts are in thousand RON, if not otherwise mentioned)

	Note	31 December 2013 RON	31 December 2012 RON (Restated)*	1 January 2012 RON (Restated)*
Assets				
Non-Current assets				
Tangible assets	4	17,759,936	18,475,998	18,520,813
Intangible assets		1,842	4,553	6,452
Derivative financial instruments	30	72,511	21,634	-
Other assets		9,687	7,868	3,371
Total non-current assets		**17,843,976**	**18,510,053**	**18,530,636**
Current assets				
Stocks	5	46,022	46,634	78,331
Accounts receivable	6	266,572	235,440	341,922
Other current assets	7	67,753	129,787	287,776
Derivatives	30	36,878	55,539	-
Cash and cash equivalents	8	80,436	64,729	96,686
Total current assets		**497,661**	**532,129**	**804,715**
Total assets		**18,341,637**	**19,042,182**	**19,335,351**
Equity and liabilities				
Equity				
Share capital	9	1,740,329	1,740,329	1,714,255
Contributions to capital advance	9	4,439	3,763	24,983
Inventories' revaluation	9	2,681,346	2,783,388	2,898,015
Retained earnings	9	10,423,693	9,519,690	9,273,804
Total equity		**14,849,807**	**14,047,170**	**13,911,057**
Liabilities				
Non-current liabilities				
Loans	11	798,747	1,201,801	1,418,920
Deferred revenue	13	261,582	266,134	271,995
Deferred tax liabilities	14	433,151	466,245	436,049
Derivative financial instruments	30		-	248,557
Employees' benefit obligations	15, 17	78,882	123,325	62,291
Provisions	17	131,791	131,791	131,791
Suppliers and related accounts	12	113,781	-	-
Other non-current liabilities	16	126,350	72,992	87,170
Total non-current liabilities		**1,944,284**	**2,262,288**	**2,656,773**

(All amounts are in thousand RON, if not otherwise mentioned)

	Note	31 December 2013	31 December 2012	1 January 2012
		RON	RON (Restated)*	RON (Restated)*
Current liabilities				
Short-term loans	10	213,799	677,651	742,140
Current portion of long-term loans	11	397,753	392,688	346,194
Derivative financial instruments	30	-	-	85,054
Suppliers and related accounts	12	551,849	1,019,407	1,109,797
Provisions	17	94,091	99,524	22,428
Other current liabilities	16	290,054	543,454	461,908
Total current liabilities		**1,547,546**	**2,732,724**	**2,767,521**
Total liabilities		**3,491,830**	**4,995,012**	**5,424,294**
Total Total equity and liabilities		**18,341,637**	**19,042,182**	**19,335,351**

**) Consolidated statement of financial position in 2011 and 2012 has been restated in accordance with Note 31.*

The financial statements were approved by Company's management, on 20 May 2014 and signed on its behalf by:

Mihail Viorelian Stănculescu
General Manager

Gabriela Mihailescu
Financiar Manager

(All amounts are in thousand RON, if not otherwise mentioned)

	Note	Year ended on 31 December 2013	Year ended on 31 December 2012
		RON	RON
Sales of electricity	19	3,074,065	2,393,729
Other operating income	21	79,616	57,668
Total Income		**3,153,681**	**2,451,397**
Operating expenses			
Electricity purchased	20	(26,741)	(87,168)
Depreciation and amortization	4	(996,365)	(911,439)
Salaries and other emoluments		(474,806)	(572,674)
Other operating expenses	22	(711,861)	(1,030,827)
Total Operating expenses		**(2,209,773)**	**(2,602,108)**
Profit / (Loss) from operating		**943,908**	**(150,711)**
Financial income	23	4,323	10,493
Financial expenses	23	(64,126)	(44,319)
Revenue from embedded derivatives	23	32,216	410,784
Expenditure related to incorporated derivative instruments	23	-	-
Financial Profit /(Loss)		**(27,587)**	**376,958**
Profit / (Loss) before tax		**916,321**	**226,247**
Tax on income	14	(149,553)	(58,061)
Profit / (Loss) net		**766,768**	**168,186**
Other comprehensive global income			
Re-measurement of post-employment obligations		34,008	-
Loss on revaluation tangible assets, net deferred tax		-	(34,926)
Total profit / (loss) global per year		**800,776**	**168,186**
Profit / (Loss) per share		1,71	0,38

**) Consolidated statement of comprehensive income in 2012 was restated in accordance with Note 31.*

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General Manager

Gabriela Mihailescu
Financiar Manager

(All amounts are in thousand RON, if not otherwise mentioned)

	Share capital	Contributions to capital advance	Inventories re-evaluation	Retained earnings	Total
Balance on 31 December 2011 (Restated*)	**1,714,255**	**24,983**	**2,898,015**	**9,304,086**	**13,941,339**
Global loss of year					
Profit for the year	-	-	-	168,186	191,365
Others	-	-	-	(2,001)	(2,001)
Loss on revaluation of tangible assets	-	-	(41,579)	-	(41,579)
Deferred tax on revaluation reserve	-	-	6,653	-	6,653
Transfer surplus of outputs relating to revaluation of tangible assets	-	-	(79,071)	79,071	-
Total Loss Global Year	**-**	**-**	**(114,627)**	**245,886**	**154,438**
Contributions of and distributions to owners					
Declared dividends	-	-	-	-	-
Other capital growth mainly by lands on which the Group had obtained the land titles	26,074	(21,220)	-	-	4,854
Total transactions with owners	**26,074**	**(21,220)**	**-**	**-**	**4,854**
Balance on 31 December 2012 (Restated)*	**1,740,329**	**3,763**	**2,783,388**	**9,519,690**	**14,047,170**

**) Consolidated statement of comprehensive income in 2012 was restated in accordance with Note 31.*

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General Manager

Gabriela Mihailescu
Financiar Manager

(All amounts are in thousand RON, if not otherwise mentioned)

	Share capital	Contributions to capital advance	Inventories re-evaluation	Retained earnings	Total
Balance on 31 December 2011	**1,740,329**	**3,763**	**2,783,388**	**9,519,690**	**14,047,170**
Global loss of year					
Profit for the year	-	-	-	766,768	**766,768**
Other items on the overall outcome					
- Re-measurement of post-employment benefits	-	-	-	34,008	**34,008**
Others	-	12	-	1,185	**1,185**
Transfer of revaluation surplus relating to tangible assets outputs	**-**	**-**	(102,042)	102,042	**-**
Total Global Profit of the Year	**-**	**12**	**(102,042)**	**904,003**	**801,972**
Contributions of and distributions to owners					
Declared dividends	-	-	-	-	-
Other capital increase, mainly through the land on which the Group had obtained land titles	-	664	-	-	**664**
Total transactions with owners	**-**	**664**	**-**	**-**	**664**
Balance on 31 December 2013	**1,740,329**	**4,439**	**2,681,346**	**10,423,693**	**14,849,807**

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(All amounts are in thousand RON, if not otherwise mentioned)

	Year ended on 31 December 2013 RON	Year ended on 31 December 2012 RON (Restated)*
Cash flows from operating activities operation		
Profit / (Loss) before tax on profit	**916,321**	**226,247**
Adjustments for monetary items :		
Operating expenses on depreciation and amortization of assets	990,088	943,557
Net movement in provisions	(26,697)	138,130
Expenditure related to adjustments for clients depreciation	1,694	40,023
Income from reversal of adjustments for clients depreciation	-	(24,256)
Loss on sale of fixed assets	2,812	35,997
Resuming incomes registered in advance	(4,552)	(6,937)
(Profit) / Loss from derivatives	(32,216)	(410,784)
Unrealized losses on variation of exchange rates, corresponding to revaluation of loans	14,357	38,329
Interest income	(1,727)	(1,655)
Interest expense	63,877	43,951
	1,923,957	**1,022,602**
Changes in working capital		
Decrease / (increase) claims		
Commercial and similar accounts	(32,826)	90,715
Decrease in other assets	60,215	70,330
Decrease / (increase) inventories	612	31,697
(Decrease) / increase in trade payables and related accounts	(449,796)	(40,310)
Cash generated from operating activities	**1,502,162**	**1,175,033**
Interest paid	(62,049)	(110,341)
Income tax paid	(147,915)	(14,585)
Net cash from operating activities	**1,292,199**	**1,050,107**
Cash flow used in investment		
Acquisition of tangible assets	(343,504)	(806,625)
Proceeds from sale of fixed assets	39,231	2,618
Interest received	1,727	1,655

(All amounts are in thousand RON, if not otherwise mentioned)

	Year ended on 31 December 2013 RON	Year ended on 31 December 2012 RON
Net cash used in investments	**(302,546)**	**(802,352)**
Cash flow from funding activities		
Drawdown of loans	-	147,732
Repayments of loans	(876,198)	(421,174)
Dividends paid	(97,748)	(6,269)
Net cash from funding activities	**(973,946)**	**(279,711)**
Net (Decrease) / increase of cash and cash equivalents	15,706	(31,957)
Cash and cash equivalents at beginning of the year	**64,729**	**96,686**
Cash and cash equivalents at end of year	**80,435**	**64,729**

**) Consolidated statement of cash flows in 2012 was restated in accordance with Note 31.*

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General Manager

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Financiar Manager

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1. GENERAL INFORMATION

SPEEH Hidroelectrica S.A. under judiciary administration ("Hidroelectrica" or the "Company") was founded in 1998 by Government Decision ("GD") no. 365/1998, following the restructuring of the former Directorate of National Electricity ("Renel"). On August 1, 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 fiscal registration number, without changing the object of activity. Group's registered office is 15-17 Ion Mihalache Street, sector 1, Bucharest, Romania.
Hidroelectrica's main activity represent the production and sale of electricity. Hidroelectrica is owned 80.06% by the Romanian State, represented by the Ministry of Economy, Trade and Business Environment ("METBE") and in the proportion of 19.94% by Fondul Proprietatea.
In 2002, the Government decided to separate maintenance activity and pursuant to GD no. 857 dated July 1, 2002, Hidroelectrica was reorganized into 12 branches of production and sale of electricity and 8 branches (independent companies) for maintenance and repair services. The EGM Resolution No. 40 dated 29.05.2013, the number of branch offices was reduced to seven, and starting 05.08.2013, the 8 Hidroserv branches merged into a single company called Hidroelectrica-Serv S.A.

The eight existing subsidiaries at 31 December 2012 were:

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

Hidroelectrica is the sole shareholder of the 8 subsidiaries registered in Romania. Hidroelectrica and the 8 subsidiaries, namely a subsidiary, starting 05.08.2013, are referred to as "the Group".

As a result of prolonged drought manifested since April 2011, the Group established the state of force majeure on 30.09.2011, state that lasted until 01.05.2012. Starting 10.08.2012 was reinstated the status of force majeure situation which lasted until 30.11.2012. The procedure for activating force majeure clause requires to obtain certificates from the Romanian Chamber of Commerce and Industry for contracts of sale with customers. During activation of clause, the Group delivers electricity within the limit of own production, equally to all customers, without purchasing electricity from other producers.
Mainly due to prolonged drought, Company's results and financial position, Board of Directors decided in its meeting held on June 15, 2012, to submit to Bucharest Court an application for entering in general procedure of insolvency, for business' reorganization according to a reorganization plan, on which completion the company should finish out insolvency proceedings and continue the commercial activities, without the supervision of the court. Bucharest Court admitted on June 20, 2012 Hidroelectrica's application for entry into insolvency, after which Remus Borza was appointed judiciary administrator, as coordinator of the insolvency company, Euro Insol. The company completed the table of creditors on June 26, 2013 and exited the insolvency at the same time. Due to the Court's of Appeal acceptance of certain creditors' appeals, Company has restarted to be under special administration on February 24, 2014 and is the subject of a number of litigations with energy distributors.

At the date of approval these financial statements, the insolvency procedure was completed, the Company finalizing the table of claims. Continuation of the Group's activity depends on the support of its creditors, shareholders and the Romanian Government's decisions.

Considering the above and taking into account the Group's strategic importance in the national energy system, the management and the judiciary administrator believes that the Group will continue its business in the foreseeable future and, accordingly, considers appropriate to prepare the consolidated financial statements for the year ended 31 December 2013.

1. GENERAL INFORMATION (continuation)

The legislative environment

Activity in the energy sector is regulated by the National Regulatory Authority for Energy ("NRAE") - 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:

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

Based on the responsibilities described above, NAER issued Decision no. 93/2000 to grant Hidroelectrica the "electricity supply license No. 18/2000". This license allows Hidroelectrica to operate a wholesale market for electricity, selling electricity to distribution companies and eligible customers. The license was renewed in 2008, by NAER Decision no. 916/2008 and later in 2010 by Decision no. 1387 / 27.05.2010 was obtained license no. 932/2010. Group is also authorized to provide ancillary services based on Decision no. 851/2005 issued by NAER granting "License for supplying ancillary services no. 333/2001 "Hidroelectrica".

Regarding electricity generation activity, Hidroelectrica operates under "Power Generating License no. 332/2001 "(NAER Decision no. 312/2010)

Tangible assets

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

Buildings, constructions, machinery and vehicles owned by the Group on 31 December 2013 are presented in the statement of financial position at fair value. Land is shown at historic cost and those that dates back to 31 December 2003 on the application of restatement of the general index price between the date of acquisition and 31 December 2003.

2. APPLICATION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS NEW AND REVISED

Standards and interpretations effective in the current period

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

- **Amendments to IFRS 13 Fair Value Measurement -** adopted by the European Union on 11 December 2012 (which comes into force for annual periods beginning on January 1, 2013)

- **Amendments to IFRS 1 First-time Adoption of IFRS -** Severe hyperinflation and removal of fixed assets for those who first adopted IFRS, standard adopted by the European Union on 11 December 2012 (which comes into force for annual periods beginning from January 1, 2013)

- **Amendments to IFRS 1 First-time Adoption of IFRS -** government loans adopted by the European Union on March 4, 2013 (which comes into force for annual periods beginning on January 1, 2013)

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

- **Amendments to IFRS 7 Financial Instruments: Presentation -** offsetting financial assets and financial liabilities, the standard adopted by the European Union on 13 December 2012 (which comes into force for annual periods beginning on January 1, 2013)

- **Amendments to IAS 1 Presentation of Financial Statements -** Presentation of items of Global result for the year, standard adopted by the European Union on 5 June 2012 (which comes into force for annual periods beginning on January 1, 2013)

- **Amendments to IAS 12 Income Taxes - Deferred tax:** Recoverability of deferred tax assets adopted by the European Union on 5 June 2012 (which comes into force for annual periods beginning on January 1, 2013)

- **Amendments to IAS 19 Employee Benefits -** improvements in accounting for post employment benefits, the standard adopted by the European Union on 5 June 2012 (which comes into force for annual periods beginning on January 1, 2013)

- **Amendments to various standards "Improvements to IFRS (cycle 2009-2011)"** resulting from the annual improvement project of IFRS (IFRS1, IAS1, IAS 16, IAS32, IAS34) essential to removing inconsistencies and clarifying wording adopted by the European Union on March 27, 2013 (which comes into force for annual periods beginning on January 1, 2013)

- **IFRIC 20 Decommissioning costs in the production phase of a surface mine** adopted by the European Union on 11 December 2013 (which comes into force for annual periods beginning on January 1, 2013)

The adoption of these amendments to existing standards did not result in any change to the Group's accounting policies.

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

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

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

- **IFRS 10 Consolidated Financial Statements -** standard adopted by the European Union on 11 December 2012 (which comes into force for annual periods beginning on January 1, 2014)

- **IFRS 11 Joint agreements -** standard adopted by the European Union on 11 December 2012 (which comes into force for annual periods beginning on January 1, 2014)

- **IFRS 12 Presentation of interests held in other entities -** standard adopted by the European Union on 11 December 2012 (which comes into force for annual periods beginning on January 1, 2014)

- **IAS 27 (revised in 2011) Individual financial statements -** standard adopted by the European Union on 11 December 2012 (which comes into force for annual periods beginning on January 1, 2014)

- **IAS 28 (revised 2011) Investments in associates and joint arrangements** - standard adopted by the European Union on 11 December 2012 (which comes into force for annual periods beginning on January 1, 2014)

- **Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 11 "Joint Arrangements" and IFRS 12 Presentation of interests held in other entities** - Guidelines for transition, adopted by the European Union on 4 April 2013 (coming into force in periods annual starting from January 1, 2014)

- **Amendments to IAS 32 Financial Instruments Presentation** - Offsetting Financial Assets and Financial Liabilities, adopted by the European Union on 13 December 2012 (which comes into force for annual periods beginning on January 1, 2014)

- **Amendments to IAS 36 Impairment of Assets** - Presentation of recoverable value of non-financial assets, the standard adopted by the European Union on 19 December 2013 (which comes into force for annual periods beginning on January 1, 2014)

- **Amendments to IAS 39 "Financial Instruments: Recognition and Measurement"** - Novation of derivative instruments and hedging accounting standard adopted by the European Union on 19 December 2013 (which comes into force for annual periods beginning on 1 January 2014)

The Group has decided not to adopt these standards, revisions and interpretations before entering into force.

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

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

Currently, IFRS adopted by the EU did not 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 with further amendments** (effective date has not been determined)
- **IFRS 14 Regulation of deferred accounts** (which come into force for annual periods beginning on January 1, 2016)
- **Amendments to IAS 19 Employee's benefits** - define benefit plans: Employee contributions (which come into force for annual periods beginning on July 1, 2014)
- **Amendments to various standards' Improvements to IFRS (cycle 2010-2012)** resulting from the annual improvement IFRS standards' projects (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38) mainly in order to reduce inconsistencies and clarifying forms (which come into force with annual periods beginning on July 1, 2014)
- **IFRIC 21 Fees** (which takes effect with the annual periods starting from 1 January 2014)
- **IFRS 9 Financial Instruments** (which come into force with annual periods beginning on January 1, 2014)

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

Meanwhile, hedge accounting on financial assets and liabilities, whose principles were not adopted by the EU, is still unregulated.

3. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

These financial statements have been prepared in accordance with the recognition and measurement principles of International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU”).

Basis of assessment

The consolidated financial statements are based on the use of the going concern assumption. They are prepared under the historical cost, except for buildings, special installations, machinery and equipment which are measured on the basis of revaluation method and excluding embedded derivatives which are measured at fair value through profit and loss account. The accounting policies have been consistently applied to the previous year.

Functional and presentation currency

The accompanying financial statements are presented in Romanian Lei ("RON" or "LEI"). Romanian *leu* is the currency of the Group.

Use of estimates and professional judgment

Preparation of financial statements in conformity with IFRS requires the management to make estimates, judgments and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. Estimates and assumptions associated with these estimates are based on historical experience and other factors considered reasonable in the context of these estimates. The results of these estimates and assumptions form the basis for judgments about the assets and liabilities amounts that cannot be obtained from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed regularly. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects not only that period but also future periods.

Professional judgments and estimates made by management refers mainly to: estimates of revenue not invoiced at the end of the year, the useful lives of the assets, estimating impairment of receivables and inventories, calculating provisions, employees’ benefits, taxes and fees, contingent liabilities, professional judgments on the application of IFRIC 12 "Service concession Arrangements" (for details on the assumptions and estimates see accounting policies and notes).

Group (grantee) concluded in December 2004, a concession agreement with MECBE (as grantor), receiving the right to use and commercially exploit public domain assets which include mainly hydro power plants (dams) and lands on which they are located. Given that the majority of shares are owned by the State, the Group's management believes that it is a public company and therefore do not fall under the provisions of IFRIC 12 "Service Concession Arrangements". Since there is no other specific IFRS standard for service concession arrangements, the Group considered IFRIC 12 to apply, however, based on the hierarchy mentioned in IAS 8 which requires considering first the provisions of other IFRS treating similar issues.

In analyzing the application of IFRIC 12, the Group considered whether these characteristics of service concession agreements for public-private are applicable to concession contract signed with MECBE, on the date of IFRIC 12 should be adopted:

- the grantor controls or regulates type of services the operator must provide with the infrastructure, to whom it must provide and at what price;
- the grantor controls - through ownership right, beneficial entitlement 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 (continuation)

The Group concluded that the application of IFRIC 12 provisions for accounting the concession contract will not reflect the economic substance of the transaction, as the Group pays an annual royaltiy fee for the use of the assets mentioned in the concession contract worth 1/1000 of income from the sale of electricity. The fee is significantly less than the depreciation that the Group would have recorded with these assets if the concession had not been signed. Therefore, IFRIC 12 is not applicable. The Group has not recognized the lease related assets in the consolidated statement of financial position, but throughout the duration of the contract recognizes the income statement annual fee, payable to the Government.

The lifetime of tangible assets

Management reviews the adequacy of the tangible assets' useful lifetime at the end of each reporting period.

Receivables and invoices to be billed

Management estimates that, at the end of each reporting period, the probability of collecting receivables and adjustments of value are considered to be unrecoverable. Adjustments are made based on specific analysis of invoices in the balance.

The management estimates the amount of invoices to be billed based on electricity sale contracts.

Invoices not received

Bills not received is estimated by management based on contracts with suppliers and by analyzing their comparative prior periods.

Deferred tax

Deferred tax assets and liabilities are determined based on temporary differences between the accounting amounts and value of assets and liabilities in the financial statements and their tax value. Recognition of deferred income tax assets is done within the limits that a probable taxable benefit on which could be charged the deductible temporary differences, should be available.

Provisions and contingent liabilities

Management estimates and use judgment in the process of measurement and recognition provisions, in determining exposure to contingent debts for which the Group is involved in litigation or other disputes which are subject to negotiation, arbitration or regulations. Professional judgment is used to determine the probability that a particular dispute to be lost and a duty to defend and to establish the amount of that debt. Due to the uncertainty involved in this evaluation process, total actual liabilities may be different than originally estimated provision.

The going concern assumption

These financial statements have been prepared under the going concern basis, under the historical cost convention, except for buildings, special facilities, tools and equipment which are valued using the revaluation and except for derivatives that are recorded at fair value through profit and loss account. However, the consolidated financial position and consolidated operating result of the Group are partly dependent on the decisions taken by NAER regarding charges of selling electricity on tariff changes and / or decisions of the Romanian authorities, which are not only influenced by Group management decisions. Also, the energy sector undergoes permanent restructuring, which could have a significant impact on the Group, its future activity, and the predictability of Group's future earnings, these aspects diminishing its influence on the Group's consolidated operating results as well as the recoverability of the accounting net tangible assets amount used for power generation.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 when, in exceptional circumstances, 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 in order to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control starts until the date control ends.

Intra-group balances and transactions and any unrealized profits or losses resulting from intra-group transactions are eliminated in preparing the consolidated financial statements.

The main accounting policies are set out below:

(a) Tangible assets

(i) Recognition and measurement

Tangible assets are stated at revalued amounts less accumulated depreciation and impairment losses, except for land, land improvements and tangible assets in progress, which are stated at cost less accumulated depreciation and impairment losses. Land are registered at cost, less recognized impairment losses.

On 31.12.2012 the Group's tangible assets represented by construction and movables were revalued by an independent valuer, ANEVAR member under contract no. 3 / 22.01.2013. The fair value of tangible assets, except land, land improvements and tangible assets in progress, estimated in accordance with International Accounting Standard 16 "Tangible assets" represent the market value, for reasons related to the specialized assets when found insufficient market information and / or the existence of an inactive market, a different value from the market value (net cost-replacement / reproduction).

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

i. direct cost of materials and personnel expenses,
ii. other costs directly attributable to bringing the assets to the state for use
iii. costs of dismantling, removal and restoration of the area in which they were placed, when the Group is required to move the asset and restore the land,
iv. capitalized borrowing costs.

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

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

Borrowing costs directly attributable to the acquisition and upgrading of facilities and other major construction are capitalized in the cost of tangible assets in progress in accordance with IAS 23 "Borrowing Costs”.

Gains or losses from the output of a fixed asset (determined by comparing the proceeds from disposal with the carrying amount of property and equipment) are recognized in profit or loss account. When revalued fixed assets are sold, amounts included in the revaluation surplus are transferred to retained earnings.

Lands received gratuitously from state authorities were registered in other reserves chapter at fair value at the date of transferring the rights over lands. When cadastral documents are obtained, the reserves will be transferred to Group’s share capital.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Tangible assets (continuation)

(ii) Subsequent expenditure on maintenance

Expenditure on repairs and maintenance of fixed assets, made to restore or to maintain the value of these assets, are recognized in profit or loss account on their performance, while expenditures to improve technical performance are capitalized and amortized over remaining amortization period of that asset.

Subsequent costs are included in the asset's accounting 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 asset can be measured reliably. The accounting amount of the replaced part is derecognized. All other repairs and scheduled maintenance are recognized in the income statement in the period they are incurred.

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

(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 life (years)
Buildings	30 – 50
Special equipments	12 – 20
Machinery and equipment	3 – 20
Measuring and control devices	2 – 8
Other fixed assets	5 – 15

Land and fixed assets in progress do not depreciate. Assets in progress is not depreciated until commissioning.

Useful lives, residual values and depreciation method are reviewed periodically to ensure consistency as their estimated period in which economic benefits will result from the use of assets.

(iv) Impairment of non-financial assets

Company's accounting amounts of the 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 impairment. An impairment loss is recognized if the accounting amount of an asset or cash-generating unit exceeds its estimated recoverable amount.

The recoverable amount of an asset or cash-generating unit represents the greater of its value in use and fair value less selling costs. In determining value in use, 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 verifying impairment, assets that cannot be tested individually are grouped in the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets ("cash-generating unit").

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Tangible assets (continuation)

Impairment losses are recognized in profit or loss account, except where the asset to which it relates has been revalued, in which case the impairment loss is treated as a reserve revaluation decrease.

For all impairment assets, 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 the Law no. 213/1998 hydroelectric developments (dams) are goods that compile the public domain. GD no. 365/1998 states Group's immovable property belonging to public and private property.

In November 1998, Law no. 213/1998 was issued that regulates public domain status. This law mentions that ownership of public property belongs to the State or local authorities that may rent or lease the goods that are public property. In accordance with Law no. 213/1998 and Law no. 219/1998, MECBE leased on behalf the Group the State hydroelectric developments (dams) and the land on which they are located. Thus, in December 2004, was signed the concession contract no. 1 to MECBE and Group for all tangible public domain as at 31 December 2003 for a period of 49 years. Payments under the lease agreement are recognized as an expense in profit or loss account calculated on the basis of revenue recorded by the Group during the period.

The main terms of the concession agreement are as follows:

i. MECBE holds ownership title on the assets subject to the contract;
ii. The Group has the right to use these assets for a period of 49 years from 1 January 2005 until 31 December 2053;
iii. The annual fee paid by the Group for the use of these assets is determined by MECBE and is subject to change; Group pays an annual fee of 1/1000 of total revenues from sale of electricity;
iv. MECBE will take possession of assets at the termination or expiration of the contract; contract may be terminated by either party unilaterally;
v. Group has the obligation to use the assets in accordance with the concession agreement and operating license.

Fees paid by the Group under the concession contract for the period 1 January - 31 December 2013 are significantly less than the depreciation that would be recorded by the Group for the assets if the contract had not existed. However, the Group has not recorded in the financial statements any amount on this benefit because it cannot estimate the amount paid for the use of these assets to a third party in a transaction with objectively determined price.

(c) Intangible assets

Intangible assets acquired by the Group are stated at cost less accumulated amortization and impairment of intangible assets. Depreciation is recognized in the income statement on a straight line basis during the estimated useful live of intangible assets. Most intangible assets recorded by the group are represented by dedicated software. These are amortized linearly over a period of 3 – 5 years.

(All amounts are in thousands RON, if not otherwise mentioned)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Transactions in foreign currency

Transactions in foreign currencies are expressed in RON by applying the exchange rate from the transaction date. Monetary assets and liabilities denominated in foreign currencies at year's end are denominated in RON at the exchange rate on that date. Gains and losses from exchange rate differences, realized or unrealized, are recorded in the profit and loss statement of the respective year.

Exchange rates at 31 December 2013 and 31 December 2012 are as follows:

Currency	31 December 2013	31 December 2012
EUR	4.4847	4.4287
USD	3.2251	3.3575

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

(e) Clients and related accounts

Clients and related accounts include invoices issued at nominal value and estimated claims for rendered services, but invoiced in the period subsequent to the period's end. Clients and similar accounts are recorded at amortized cost less impairment losses. Amortized cost approximates nominal value. Ultimate losses may vary from current estimates. Due to the inherent lack of information about the financial position of customers and lack of legal mechanisms for collection, estimates of probable losses are uncertain. However, the management did the best estimate of the loss and that this estimate is reasonable in given circumstances.

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

(f) Inventories

Inventories are stated at the lower of cost and net realizable value.
Inventories are recorded at cost, based on FIFO valuation method. Inventories consist of consumables, spare parts and other materials, consisting mainly of materials for maintenance and repair of hydropower units. Major parts that meet the definition of tangible assets are classified as tangible assets. The cost of inventories comprises all costs of purchase and other costs incurred in bringing inventories in place and current situation.

Net realizable value represents the estimated selling price less estimated costs of completion and selling expenses.

If the Group considers 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 bank deposits with an original maturity of up to three months which are subject to an insignificant risk of fair value. Cash in foreign currencies are revalued at the exchange rate at the end of period.

Bank overdrafts are treated as current liabilities.

Bank deposits refer to those that have an original maturity of over three months.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Share capital

Ordinary shares are classified as part of equity. The Group recognizes amendments in the share capital in accordance with the legislation in force and only after being approved 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.

Advance contributions to share capital

Share capital contributions in advance represent the land titles taken from the Romanian State, through MECBE. They are initially recognized as contributions in advance followed by a capital increase, previously approved and published by the Trade Register.

(i) Revaluation reserves

Tangible assets, except land, land improvements and tangible assets in progress are presented in the financial statement at revalued amount, 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 the carrying amount of an asset is increased as a result of a revaluation, the increase is recorded directly in equity in "Revaluation reserves" chapter. 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 the carrying amount of an asset is impaired as a result of a revaluation, the decrease is recognized in profit or loss unless the decrease is debited directly to equity in "Revaluation reserves" to the extent that a credit balance exists in revaluation surplus for the asset.

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

(j) Dividends

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

(k) Supplier and similar accounts

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

(l) Interest-bearing loans

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

Transaction costs and commitment fees related to loans are amortized over the loan’s repayment period and 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 an asset, requiring a substantial period of time to be used or sold, are capitalized as part of the asset cost. 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 aimed for funding a specific project, the amount capitalized represents the actual cost of the loan drawn. Where there is a surplus of funds in the short term value of the loan contracted to finance a project, the revenue generated from the temporary investment made is also capitalized and deducted from the total capitalized cost of the loan. If the funds used to finance a project represents general loans, the amount capitalized is calculated using the weighted average of the rates applied to relevant general borrowings of the company during the period. The remaining financing costs are presented in profit or loss account in the period in which they are incurred.

(n) Provisions

A provision is recognized if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows using a pre-tax rate that reflects current market assessments of time value of money and the risks specific to the liability. Depreciation is recognized as an expense updating accounts. Where the effect of temporary value of money is material, the amount of a provision is the present value of the expected expenditures required to settle the obligation.

(o) Income Taxes

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 payment obligations income tax for the previous years. Current tax payable also includes any tax receivable arising from the declaration of dividends.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities used for financial reporting purposes and the base tax 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 affects profit or loss accounting or tax;
- differences on investments in subsidiaries and 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Income Taxes (continuation)

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 tax authority, the same entity or different taxable entities, but which intends to conclude a Convention on current tax receivables and liabilities on a net basis or whose tax assets and liabilities will be simultaneously realized.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that taxable profits 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 account, except when it relates to items previously recognized directly in equity.

(p) Affiliated parties

Companies are considered related if one party, through ownership, contractual rights, or family relationships or of other nature, is able to directly or indirectly control or significantly influence the other side.

(q) Revenues

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 correctly estimated. Income is mainly represented by value of the supplied electricity.

Revenue from services

Service revenues are recognized in the reference period.

Energy and electricity sales are recognized based on the readings of counters received at the end of each month from the Romanian Electricity Market Operator („REMO”).

(r) Revenues and financial expenses

Financial revenue comprises 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 account using the effective interest method. Dividend income is recognized in profit or loss account on the date that establishes Group's right to receive dividends.

Financial expenses comprise interest expenses of loans, amortization updated provisions, changes in fair value of financial assets recognized at fair value through profit or loss account.

All borrowing costs that are directly attributable to an acquisition, construction or production of qualifying assets are recognized in profit or loss account using the effective interest method.

Gains and losses from foreign exchange differences are reported on a net basis.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(s) Reserve with special purpose in energy sector

Starting January 1, 2005, according to Government Emergency Ordinance ("GEO") no. 89/2004 approved by Law no. 529/2004, the Group will establish monthly reserves in limited quotas of up to 6% of the revenue from electricity supply, in limited accounting profit and deductible in determining taxable profit. The reserves are used to fund investment works for the modernization and development of energy objectives as intended by GEO no. 89/2004. GEO no. 89/2004 provisions shall apply until 31 December 2006 Reserve is considered done and as depreciation of property for which funding was used, is calculated the fiscal tax depreciation.

(t) Employees' benefits

In accordance with Government Decision no. 1041/2003 and no. 1461/2003, the Group is required to provide benefits in the nature to employees who have retired. Also, in accordance with the Collective Labor Agreement, in the fulfillment of the statutory retirement, employees are entitled to receive a monetary reward. On 31 December 2012 the Group's management updated the current value of future liabilities of these in kind benefits and cash rewards.

Employees' short-term benefits

Short-term benefits for employee include salaries and social security contributions. Short-term benefits are measured 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 grant 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 reliably estimated.

In the current performed activity, the Group makes payments to the Romanian state for the benefit of its employees related to social insurance. All employees of the Group are included in the Romanian State's pension plan.

(u) Subventions

The subventions are accounted for in the financial statement initially as deferred income when there is reasonable assurance that they will be received and the Group will comply with the conditions relating to the grant, if any, and recognized as revenue when recognizing costs (e.g. depreciation fixed means of subventions or use of inventories purchased from subvention).

(v) Contingencies

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

(w) Determination of fair values

The Group's certain accounting policies and information requirements need the determination of financial and nonfinancial assets and liabilities fair value. The fair values were determined in order to evaluate and / or present information in the methods described below. When applicable, further information about the assumptions used in determining fair values are presented in the asset or liability's specific notes.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(w) Determination of fair values (continued)

(i) Tangible assets

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

(x) Financial Instruments

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

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

Financial assets

Financial assets are classified into the following categories: financial assets "at fair value through profit or loss' (FVTPL), investments "held to maturity", financial assets "available for sale" (AFS) 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 purchase or sale of financial assets are recognized and derecognized on the trade date. Purchase or sale is purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or market convention.

The effective interest method

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

Revenue is recognized on the effective interest rate for financial instruments other than those assets classified as financial assets at fair value through profit or loss.

Financial assets at fair value through profit or loss

Financial assets are classified as financial assets at fair value through profit or loss when the financial asset is either held for trading or is designated by management as a financial asset at fair value through profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(x) Financial Instruments (continuation)

A financial asset is classified as held for trading if:

- has been acquired mainly with the selling purpose in the near future; 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 collection; 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 a financial asset at fair value through profit or loss upon initial recognition if:

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

Financial assets at fair value through profit or loss are stated at fair value, with any gain or loss arising from revaluation being recognized in profit or loss. Net recognized gain or loss in profit or loss account include all dividends or earned interest on financial assets and is included in the category 'losses embedded derivatives' and 'Other income / (expenses) financial'.

Investments held to maturity

Investments held to maturity are non-derivative financial assets with fixed or variable payments and fixed maturity dates that the Group has intention and ability to hold until maturity. After initial recognition, investments held to maturity are measured at amortized cost, using the effective interest method less impairment.

Financial assets available for sale (AFS financial assets)

Financial assets available for sale are non-derivatives that are either designated as available for sale 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 financial assets available for sale arising from fluctuations in exchange rates, interest income calculated by the effective interest method and dividends are recognized in profit or loss. Other changes in the carrying amount of financial assets available for sale are recognized in other comprehensive income and accumulated in investment revaluation reserve title. When an investment is sold or is found the depreciation, thus the cumulative gain or previous loss in the investments revaluation reserve is reclassified to profit or loss.

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

The fair value of monetary financial assets available for sale, denominated in foreign currency is determined in respective foreign currency and converted into functional currency at the spot rate at the end of the reporting period. Exchange gains and losses are recognized in profit or loss is determined based on the amortized cost of the monetary asset. Other exchange gains and losses are recognized in other comprehensive income.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(x) Financial Instruments (continuation)

Equity instruments representing financial assets available for sale 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, although should be settled by delivery of such equity instruments 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 receivables and otherwise, bank and cash balances, etc.) are measured at amortized 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 fair value through profit or loss, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered 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 equity investments available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered objective evidence of impairment.

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

- significant financial difficulty of the issuer or debtor; or
- a breach of contract and failure to pay interest or principal; or
- creditor, for economic or legal reasons related to debtor’s financial difficulties, grants to the debtor a concession that the creditor would not otherwise take it into account;
- becomes probable that the debtor will enter bankruptcy or other financial reorganization; or
- disappearance of an active market for the financial asset due to financial difficulties.

For certain categories of financial assets (such as trade receivables), assets that are assessed as individually are, in addition, assessed for impairment collectively. 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 over the average credit period, as well as noticeable changes in national or local economic conditions that correlate with financial obligations failure on receivables.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(x) Financial Instruments (continued)

The carrying amount of the financial asset is diminished by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is decreased by the use of an allowance account for impairment. Next recoveries of prior year cancelled amounts are credited to the allowance account for impairment. Changes in the carrying amount of an impairment loss are recognized in profit or loss.

When an available for sale financial asset is considered impaired, the cumulative gain or loss previously recognized in other comprehensive income is reclassified to profit or loss in the respective period.

In terms of financial assets measured at amortized cost, if, in the next period the impairment loss decreases and the decrease can be related if 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 instrument at the date the reversed impairment does not exceed the amortized cost incurred if the impairment would have not been recognized.

In terms of shares available for sale, impairment losses previously recognized in profit or loss are not reversed through profit or loss. Any increase in fair value of an impairment loss will be recognized in other comprehensive income and is accumulated in the investment revaluation reserve title. As for debt securities available for sale, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be related objectively to an event occurring after the impairment loss was recognized.

Derecognition of financial assets

Group recognized a financial asset only when the contractual rights on the cash flows of the assets expire or when the financial asset is transferred and substantially, all the risks and rewards of the ownership of the asset to another entity. If the Group neither transfers nor substantially retains all the risks and rewards of the ownership and continues to control the transferred asset, the Group recognizes the right and duty associated with held asset values that would have to pay. If the Group does not retains substantially all the risks and rewards of the ownership of a transferred financial asset, than Group continues to recognize the financial asset and also recognizes a loan guaranteed for revenues received.

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

On derecognition of a financial asset other than in full. (Example: when the Group does not retain an option to repurchase a share which is part of a transferred asset or retains a residual interest that does not result in the substantial retention of all the risks and rewards of ownership and the Group does not retain control), the Group allocates the previous carrying amount of the financial asset between the part that continues to recognize under continuing involvement, and the part that does not recognize the corresponding fair values of those parts on the date of 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 that was 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 based on the fair value corresponding to the parts.

Financial liabilities and equity instruments

Classification as debt or equity

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(x) Financial Instruments (continued)

Capital instruments

A capital instrument is any contract that proves a residual interest in the assets of an entity after deducting all of its liabilities. Capital instruments issued by the Group are recognized in received revenues, net of direct issue costs.

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

Financial liabilities

Financial liabilities are classified either as financial liabilities at fair value through profit or loss or as other financial liabilities.

Financial liabilities at fair value through profit or loss

Financial liabilities are classified at fair value through profit or loss when the financial liability is either held for trading or designated at fair value through profit or loss.

A financial liability is classified as held for trading if:

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

A financial liability other than a financial liability held for trading may be designated as at fair value through profit or loss at initial recognition if:

- the 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, whose performance is managed and evaluated on a fair value basis, in accordance with documented risk management or investment strategy, and if the grouping is provided internally on that basis; or
- is part of a contract containing one or more embedded derivatives, and IAS 39 Financial Instruments: Recognition and Measurement that allows the entire combined contract (asset or liability) to be designated as at fair value through profit or loss.

Financial liabilities at fair value through profit or loss are measured at fair value with any gain or loss arising from re-measurement recognized in profit or loss. Net gain or loss recognized in profit or loss includes any interest paid in respect to the financial liability and is included in "Loss on embedded derivatives" and "Other income / (expenses) Financial" in profit or loss. Fair value is determined in the manner described in Note 35.

Other financial liabilities

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(x) Financial Instruments (continued)

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

Derecognition of financial liabilities

Group derecognizes financial liabilities when, and only when the Group's obligations are discharged or canceled or expires. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

Derivatives

The group becomes part of a series of derivatives to manage its exposure to market risk, including risk management contracts related to electricity price.

Derivatives are initially recognized at fair value at the date of conclusion of contracts and are subsequently re-measured at their fair value at the end of each reporting period. Gain or loss is recognized immediately in profit or loss unless the derivative is designated and acts as a hedging instrument, in which time the recognition in profit or loss depends on the nature of the hedge relationship.

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 host contracts and the host contracts are not measured at fair value through profit or loss.

Accounting for hedging

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

At the beginning of hedging relationship, the Group proves by documents the relationship between hedging instrument and hedged item, along with risk management objectives and its strategy for closing the various hedging transactions. In addition, at the beginning and on an ongoing basis, the Group justify by documents if the hedging instrument is highly effective in offsetting changes at fair values or cash flows of the hedged item attributable to the hedged risk.

Operations associated with fair value hedging

Changes in fair value of derivatives that are designated and falls into the category of fair value hedges are recognized immediately in profit or loss, together with other changes in the fair value of the asset or liability or covered which can be attributed to the hedged risk. Change in fair value of the hedging instrument and the hedged item change can be attributed to the hedged risk are recognized in the consolidated statement of comprehensive income line corresponding to hedged item.

Hedge accounting is discontinued when the Group revokes the hedging relationship, when the hedging instrument expires or is sold, or when no longer fit in hedge accounting.

Fair value adjustments to the carrying amount of the hedged item arising from the hedged risk is amortized from the respective date in the profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(x) Financial Instruments (continued)

Hedging operations for treasury flows

The effectiveness of the fair value of derivatives that are designated and falls as treasury flow is recognized in other comprehensive income and accumulated consolidated hedging reserve related treasury flows. Gain or loss on ineffective part is recognized immediately in the consolidated profit or loss and is included in the items on the “loss of embedded derivatives” and “Other revenue / (expenses) Financial”.

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

However, when the forecast transaction results in the recognition of coverage of a non-financial asset or 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 non-financial assets or financial liability.

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

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

(x) Leasing

Leasing contracts are classified as finance leases whenever the terms of the lease substantially transfers all the risks and rewards of ownership to the user. 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 contract or, if it is lower, at the current value of the minimum lease payments. Corresponding obligation to owners is included in the consolidated statement of financial position as liabilities associated to financial leasing.

Lease payments are apportioned between finance charges and reduction of the associated lease obligation so as to achieve a constant rate of interest related to the debt balance. Financial expenses are recognized immediately in profit or loss, unless they are directly attributable to eligible 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 occur.

Operating lease payments are recognized in expense chapter during the lease term, except where exists another basis of calculation which is more representative for the range in which the economic benefits are consumed from the leased asset. Contingent rentals arising under operating leases are recognized as expense in the period in which they occur.

If lease incentives are received to enter into operating leases, such incentives are recognized as a liability. Aggregate benefit of incentives is recognized as a linear decrease in rental expenses, except where another systematic basis is more representative for the range in which the economic benefits are registered from the leased asset.

(All amounts are in thousands RON, if not otherwise mentioned)

4. TANGIBLE ASSETS

	Land and land improvements	Buildings and installations	Machinery and equipment	Tangible assets in progress	TOTAL
	000 RON	000 RON	000 RON	000 RON	000 RON
Cost					
Balance on 31 December 2012 (Restated)*	**402,819**	**19,029,251**	**6,800,543**	**5,088,526**	**31,321,139**
Additions	725	64,169	144	279,143	344,180
Transfers	4	177,397	4,274	(181,675)	-
Outputs	(10,583)	(8,258)	(2)	(55,039)	(104,164)
Balance on 31 December 2013	**392,965**	**19,262,559**	**6,804,958**	**5,130,955**	**31,591,437**
Accumulated depreciation					
Balance on 31 December 2012	**-**	**7,555,874**	**3,629,588**	**-**	**11,185,462**
Depreciation expense	32	989,062	4,688	-	**993,782**
Depreciation on disposals	-	(1,017)	-		**(1,017)**
Balance on 31 December 2013	**32**	**8,543,919**	**3,634,276**	**-**	**12,178,227**
Value adjustments					
Balance on 31 December 2012	**-**	**16,698**	**1,959**	**1,641,022**	**1,659,679**
Value adjustments	-	(1,220)	(275)	(4,911)	
Balance on 31 December 2013	**-**	**15,478**	**1,684**		
The carrying amount					
Balance on 31 December 2012	**402,819**	**11,456,679**	**3,168,996**	**3,447,504**	**18,475,998**
Balance on 31 December 2013	**392,933**	**10,703,163**	**3,168,998**	**3,494,844**	**17,759,936**

(All amounts are in thousands RON, if not otherwise mentioned)

4. TANGIBLE ASSETS (continued)

	Land and land improvements	Buildings and installations	Machinery and equipment	Tangible assets in progress	TOTAL
	000 RON	**000 RON**	**000 RON**	**000 RON**	**000 RON**
Cost					
Balance on 31 December 2011 (Restated)*	**400,692**	**22,326,354**	**6,701,423**	**4,957,051**	**34,385,520**
Additions	7,880	1,339	2,491	955,194	966,904
Transfers	-	281,615	530,412	(812,027)	-
Outputs	(5,753)	(22,421)	(4,434)	(11,692)	(44,300)
Impact of revaluation	-	(3,557,636)	(429,349)	-	(3,986,985)
Balance on 31 December 2012	**402,819**	**19,029,251**	**6,800,543**	**5,088,526**	**31,351,421**
Accumulated depreciation					
Balance on 31 December 2011 (Restated)*	**4,064**	**10,450,683**	**3,746,776**	**-**	**14,201,523**
Depreciation expense	1,844	582,070	323,657	-	907,371
Depreciation on disposals	(5,708)	(1,349)	(3,482)	-	(10,539)
Impact of revaluation	-	(3,475,530)	(437,363)	-	(3,912,893)
Balance on 31 December 2012	**-**	**7,555,874**	**3,629,588**	**-**	**11,185,462**
Value adjustments					
Balance on 31 December 2011 (Restated)*	**-**	**20,561**	**1,601**	**1,641,022**	**1,663,184**
Value adjustments	-	(3,863)	358	-	**(3,505)**
Balance on 31 December 2012	**-**	**16,698**	**1,959**	**1,641,022**	**1,659,679**
The carrying amount					
Balance on 31 December 2011*	**396,628**	**11,855,110**	**2,953,046**	**3,316,029**	**18,520,813**
Balance on 31 December 2012*	**402,819**	**11,456,679**	**3,168,996**	**3,477,786**	**18,506,280**

** Consolidated tangible assets in 2012 was restated in accordance with Note 29.*

4. TANGIBLE ASSETS (continued)

Revaluation of tangible assets

Buildings, buildings, machinery and vehicles owned by the Company on 31 December 2013 are presented in the statement of financial position at fair value.

Tangible assets are stated at revalued amount less accumulated depreciation and impairments of value.

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

Revaluation of tangible assets (buildings and equipment - "Plants and equipment" and "other machinery and equipment") was conducted by independent evaluators, according to the date of 31 December 2012, as required by law. Evaluation pursues the market value of tangible assets. The company performed on 31 December 2012 revaluation of all fixed assets less land, according to legislation in force. The review was conducted by an independent evaluator, SC ROMCONTROL S. A. Bucharest, ANEVAR member. Increases or decreases in the carrying amounts of fixed assets resulting from these revaluations were recorded in the revaluation reserve account. Assets for which negative difference resulting from revaluation has not been covered in previous revaluation reserves were recorded as expense in the profit and loss statement. Were submitted for review the tangible assets whose value was wholly recovered by depreciation, as required by law, these fixed assets being used in the production process. No revaluation was approved for out of service tangible assets which were considered an adjustment for depreciation and fixed assets in progress.

Revaluation of buildings and equipment was based on direct comparison method using tangible assets for which an active market exists on 31 December 2012. Tangible assets for which no active market exists, the evaluator has used net-replacement cost method.

Direct comparison method

This method is recommended for properties when there is sufficient and reliable data on transactions or similar properties selling offers in the area. Analysis of prices at which the transactions were made or required or offered prices for comparable properties is followed by conducting price corrections to quantify the differences between prices paid, required or provided, due to differences between the specific characteristics of each property in part, called element of comparison.

Cost approach

This method assumes that the maximum value of an asset is the amount that an informed buyer is required to buy or build a new asset of equivalent utility. When the asset is not new, all forms of impairment that may be assigned should be deducted from the current cost profit, until evaluation.

The value of the cost of items of property and equipment on 31 December 2013, net of depreciation expense and accumulated depreciation is RON 3,210,688 thousand (31 December 2012: RON 3,961,271 thousand). From this value at cost net of accumulated depreciation of land is RON 382,223 thousand (31 December 2012: RON 402,819 thousand), the cost of buildings and special constructions net of accumulated depreciation and accumulated depreciation is RON 2,204,409 thousand (31 December 2012: RON 2,787,430 thousand) and the cost of equipment and machinery is RON 583,364 thousand (31 December 2012: RON 771,022 thousand).

4. TANGIBLE ASSETS (continued)

As a result of applying IAS 23, in 2012 the Group capitalized borrowing costs for assets in amount of RON 84,311 thousand. These costs related loans resulted from long-term loans contracted to finance the investment in hydropower projects.

In accordance with IAS 23.20, the Group suspended the capitalization of costs related loans to extended periods when development activity is interrupted. Since June 26, 2012 when the Company became insolvent, development work in progress of fixed assets decreased considerably and since 2013 a large part of these projects has been postponed until Company termination of insolvency.

Some of ongoing tangible assets belong to the projects proposed under national restructuring program approved in February 22, 1999 by the Conel's General Meeting of Shareholders (formerly the National Electricity Company). Consequently, an adjustment for impairment amounting to RON 1,639,700 thousand was recorded on 31 December 2000, representing the execution of hydropower construction projects proposed to be suspended under the restructuring plan mentioned above. We are currently waiting for a government decision on the cessation or continuation of construction of these assets, a process that depends on the possibility of obtaining additional financial resources for proper completion of project financing (from public sector, financial institutions and private sector).

(All amounts are in thousands RON, if not otherwise mentioned)

5. INVENTORIES

On 31 December 2013 and 31 December 2012, inventories include spare parts, consumables and other stocks used in hydropower plants' operation as well as their maintenance and repair work.

	31 December 2013	31 December 2012
	000 RON	000 RON
Additional materials	4,653	3,844
Spare parts	28,662	29,227
Consumables	4,506	5,169
Other inventories	8,201	8,394
Total	**46,022**	**46,634**

6. CLIENTS AND SIMILAR ACCOUNTS

On 31 December 2013 and 31 December 2012, clients and accounts are treated as follows:

	31 December 2013	31 December 2012
	000 RON	000 RON
Clients	283,008	252,332
Other receivables	10,084	11,322
Adjustments for doubtful	(26,520)	(28,214)
Total	**266,572**	**235,440**

On 31 December 2013 and 31 December 2012, clients (gross value) are as follows:

	31 December 2013	31 December 2012
	000 RON	000 RON
National Energetic System ("NES")		
Electrica	10,316	19,223
Transelectrica S.A.	186,635	141,172
Eurotech	-	17,761
Electrocentrale Bucuresti	-	791
E-On	15,922	-
Enel	14,206	-
CET Brasov (under litigation)	18,725	18,725
Other doubtful or disputed clients	7,329	9,036
others	26,283	14,267
OPCOM	535	2,327
	279,951	**223,302**
Eligible consumers	3,057	29,030
Export	-	-
Total (gross value)	**283,008**	**252,332**

Included as Eligible consumers on 31 December 2012 are amounts relating to contracts with Alro, SMR Bals, Elsid, Eurotech and Electrocarbon.

(All amounts are in thousands RON, if not otherwise mentioned)

6. CLIENTS AND SIMILAR ACCOUNTS (continued)

Evolution for clients adjustments are presented as follows:

	31 December 2013	31 December 2012
	000 RON	000 RON
Balance on January 1st	**28,214**	**12,447**
Impairment expenses customers	79	40,023
Income from reversal of adjustments for depreciation clients	(1,173)	(24,256)
Balance on December 31st	**26,520**	**28,214**

7. OTHER CURRENT ASSETS

On 31 December 2013 and 31 December 2012, other current assets are as follows::

	31 December 2013	31 December 2012
	000 RON	000 RON
Advance to suppliers	39,673	116,533
VAT to recover	7,059	-
Other assets	21,021	13,254
Total	**67,753**	**129,787**

On 31.12.2013 the Company is involved in litigation with Andritz Hydor GMBH (Germany) and Andritz Hydro GmbH (Austria) in contradiction with SPEEH Hidroelectrica SA under judiciary reorganization. The litigation seeks annulment of repayment amounts paid by SPEEH Hidroelectrica under judiciary reorganization, amounting to EUR 13,625 thousand, representing advance payments in May and June 2003 for Phase III of Iron Gates II project, under contract 2I / 50675 / 09.11.2001, as amended by the addenda 3 and 4 signed by the parties on 05.12.2002 and 26.03.2003. According to the reorganization plan approved by the judiciary administrator, these amounts were offset with current Company's liabilities to Andritz Hydro. The judiciary administrator and the Company's management believes that these advances are recoverable and no correction is required in the financial statements for the year ended 31 December 2013.

8. CASH AND CASH EQUIVALENTS

On 31 December 2013 and 31 December 2012, cash and cash equivalents are as follows:

	31 December 2013	31 December 2012
	000 RON	000 RON
Bank accounts	79,383	62,984
Cash	225	355
Cash equivalents	828	1,390
Total cash and cash equivalents	**80,436**	**64,729**

A portion of the proceeds from the Group's ordinary activities consist of guarantees for contracted loans (see notes 10 and 11).

(All amounts are in thousands RON, if not otherwise mentioned)

9. EQUITY

On 31 December 2013 and 31 December 2012, Company’s authorized and fully paid share capital is divided into 447,630,660 namely 447,564,307 ordinary shares with a nominal value of 10 Ron / share. On 31 December 2013 the Group's shareholders are: the Romanian State through MECBE holding 358,368,882 shares, representing 80.06% of the equity and *Fondul Proprietatea* which holds 89,261,778 shares with a quota of 19.94% in share capital.

On 31 December 2013 the share capital presented in the consolidated financial statements in the amount of RON 1,740,329 thousand include the effects of restatements recorded in previous years, including the effects of applying IAS 29 "Financial Reporting in Hyperinflationary Economies". Reconciliation of capital is as follows:

	31 December 2013	**31 December 2012**
	000 RON	**000 RON**
Statutory capital (nominal value)	4,475,643	4,475,643
Differences related to restatement under IAS 29	1,028,872	1,028,872
Resumption of revaluation reserve transferred to capital as statutory accounts	(3,764,186)	(3,764,186)
Share capital (restated)	**1,740,329**	**1,740,329**

Shareholders are entitled to dividends and each share entitled to vote at shareholders’ meetings.

Advance contributions to share capital

Advance share capital contribution is represented by the land titles obtained from the Romanian State, through MECBE. They are initially recognized as contributions in advance followed by a capital increase, previously approved and published by the Trade Register.

Revaluation reserve

The revaluation reserve amounted to RON 2,681,346 thousand on 31 December 2013 arising from the revaluation of tangible assets on 31 December 2012, 31 December 2009 and 31 December 2006 (see Note 3). The revaluation reserve is transferred to retained earnings as corresponding tangible output.

Retained earnings

Retained earnings include accumulated profit or loss, legal reserve and statutory reserve with special purpose for energy sector as detailed below:

- Reserve with special purpose for energy sector amounting to RON 97,000 thousand (31 December 2012: RON 97,000 thousand) is established under Government Emergency Ordinance ("GEO") no. 89/2004 approved by Law no. 529/2004, the Group established monthly reserves in limited quotas up to 6% of the revenue from electricity supply, limited accounting profit deductible, determining taxable profit. The reserves are used to fund investment works for the modernization and development of energy objectives as intended by GEO no. 89/2004 GEO. 89/2004 and shall apply until 31 December 2006. Reserve is considered done and with depreciation of property for which funding was used, tax depreciation is calculated.
- The legal reserve amounting to RON 101,977 thousand (31 December 2012: RON 56,968 thousand), representing reserves in accordance with tax laws in Romania, 5% of registered statutory profit for the year should be transferred to the legal reserve, until it reaches a value of 20% of share capital.
- Retained earnings on December 31, 2013 is RON 10,224,716 (December 31, 2012: RON 9,419,183 thousand). Distributable retained earnings is based on the statutory financial statements.

(All amounts are in thousands RON, if not otherwise mentioned)

10. SHORT-TERM LOANS

On 31 December 2013 and 31 December 2012, short-term loans situations are as follows:

	31 December 2013	31 December 2012
	000 RON	000 RON
BRD GSG (a)	52,745	244,093
Alpha Bank Romania (b)	-	79,976
ING Bank (c)	-	4,797
RBS Bank (d)	56,979	109,535
Libra Bank (e)	-	-
Citi Bank Europe PLC (e)	91,092	122,084
Banca Transilvania (f)	-	107,940
	200,816	**668,425**
Other short-term borrowings (credit lines contracted by branches)	12,983	9,226
Total short term loans	**213,799**	**677,651**

Short-term loans are detailed as follows:

a) BRD GSG dated September 29, 2009, for RON 300 million - the facility is used as a credit line. The agreement was concluded for a period of one year, renewable at maturity for terms of 6 or 12 months. The validity established at this time is March 31, 2014.

b) ALPHA BANK ROMANIA dated November 3, 2009, for RON 80 million - the maximum amount that may be paid during the facility, the types of credit agreed by the parties: irrevocable credit line in amount of RON 40 million credit line and revocable credit line in amount of RON 40 million, both revolving credit facilities. Facility may be used until January 30, 2014.

c) ING BANK, dated March 3, 2009, for RON 38 million. Facility granted by providing credit product as overdraft ("overdraft") and can be used until 15 March 2013. On 31 December 2013 the facility was refunded.

d) RBS BANK - dated 23 December 2009 for EUR 32 million. The loan is available for drawdown in RON and / or EUR. Facility granted by providing credit product as overdraft ("overdraft") and can be used until 31 July 2013. On 30.07.2013 by Addendum no. 6 to short-term credit line, credit line limit was set at EUR 18,740,000, the Borrower committing that starting 31.08.2013 to make monthly repayments of EUR 1 million from principal, so the threshold of credit line to permanently reduce by 1 million EUR per month.

e) CITIBANK EUROPE PLC dated 20 April 2010, for USD 46 million. Facility granted as overdraft that can be used until 20 April 2014. At maturity, the facility is automatically extended by 12 months if the bank does not send prior written notice to the Borrower regarding revocation of facility.

f) Banca Transilvania - dated 14.10.2011, for RON 120 million. The loan is available to be used in lei. Facility is granted as overdraft. By Addendum no. 2 / 24.10.2012 the validity of the credit line was extended until 11.04.2014.

(All amounts are in thousand RON, if not otherwise mentioned)

11. LONG-TERM LOANS

On 31 December 2013 and 31 December 2012, long-term loans are as follows:

	31 December 2013	**31 December 2012**
	000 RON	**000 RON**
IBRD 1995 (a)	489	731
UBS AG 2004 (b)	-	-
IBRD 2005 (c)	200,048	222,271
Citibank PLC 2009 (d)	47,762	142,161
ING Bank Amsterdam 2009 (e)	71,755	141,718
EFG Eurobank 2010 (f)	51,746	91,980
Unicredit Austria 2010 (g)	400,287	442,267
BCR 2010 (h)	165,739	202,179
ING 2011 (i)	158,283	218,830
BRD Group Societe General (j)	92,497	124,557
EBRD (k)	7,894	7,795
	1,196,500	**1,594,489**
Less current portion - capital rates	(397,753)	(392,688)
Long term loans – less current portion	**798,747**	**1,201,801**

11. LONG TERM LOANS (continued)

Long-term loans are detailed as follows:

a) International Bank for Reconstruction and Development ("IBRD") dated August 29, 1995, for USD 110 million, of which USD 719,648 has been assigned to the Company based on the reorganization protocol, as part of the total amount used by Conel up to reorganization. On 31 May 2002 the Company entered into a separate agreement for the loan's balance in the amount of USD 719,648. Reimbursement shall be made in increasing installments until November 2015. Loan is guaranteed by the Romanian Government through the Ministry of Public Finance.

b) International Bank for Reconstruction and Development ("IBRD") dated July 13, 2005, for EURO 66 million - loan taken for the rehabilitation of hydropower plant on Lotru and institutional development. Loan agreement entered into force on 25 January 2006, after ratification by the Romanian Parliament of the guarantee agreement signed between IBRD and the Romanian State. Reimbursement shall be made quarterly starting March 15, 2010 and ending with the last installment in September 15, 2021.

c) Citibank International PLC - Agent, dated July 2, 2009, for EURO 75 million - unstructured investment loan. Quarterly reimbursement starting on 02.07.2011 in seven approximately equal rates up to 02.07.2014.

d) ING Bank NV Amsterdam - dated November 16, 2009, for 60 million EURO - the facility will be used to finance investments in developing hydro units network (new and / or existing). The loan was contracted for a period of five years.
Credit facility was taken over by ING Bank NV Dublin on 3 December 2009. Loan is repayable in 15 equal quarterly installments, starting 13.05.2011 until 14.11.2014.

d) EFG Eurobank Luxembourg - dated March 29, 2010, for EUR 30 million, the facility was used to finance investments in developing hydro units' network (new and / or existing). The loan was contracted for a period of five years.

The loan is repayable in 13 equal quarterly installments starting on March 29, 2012, the repayment deadline 29 March 2015.

e) Unicredit Bank Austria - dated June 30, 2010, for EUR 117,368 thousand - the facility will be used to finance the refurbishment contract for HEP Lower Olt.

On 03.06.2010 novation agreement was concluded between UniCredit Bank Austria and UniCredit Tiriac Bank for the amount of EUR 23,474 thousand.

The maximum use of the facility is June 30, 2014.

f) Romanian Commercial Bank - Bucharest Branch - dated 09 December 2010 for EUR 50 million - the facility will be used to finance investments in developing hydro units' network (new and / or existing). The loan will be repaid in 23 equal quarterly installments starting on 09.07.2012, deadline repayment is 08.12.2017.

11. LONG-TERM LOANS (continued)

g) ING Bank NV Dublin - dated March 22, 2011 for 60 million EUR - loan taken to finance the investment / rehabilitation of hydroelectric plants network. Reimbursement started on 07.06.2012, the principal is amortized in 17 equal quarterly installments during the period 07.06.2012-07.06.2016.

h) BRD Groupe Societe Generale - dated June 10, 2011 for 30 million EUR - loan taken to finance the investment / rehabilitation of hydroelectric plants' network. Reimbursement shall be made in 16 equal quarterly installments during 05.10.2012-10.06.2016.

i) EBRD - dated July 12, 2011 for EURO 110 million as follows: loan A in amount of EURO 70 million and loan B in amount of EURO 40 million to finance the investment / rehabilitation of six units of Stejaru Bicaz hydropower plant. Reimbursement will be made in 21 equal quarterly installments for the loan A and in 15 equal semi-annual installments for loan B. The loan is guaranteed by the Romanian Government through the Ministry of Economy, Trade and Business Environment.

The cost of short-term financial debt or financial debt on medium and long term of the company is indexed to market interest rates, while also reflecting the company's credit rating.

Under the terms of the loan agreements mentioned, in case of default of assumed obligations, banks may, following written notice, request loan withdrawn and outstanding acceleration of maturity, after a period of time the borrower has the opportunity to remedy the occurred event.

The group has received exemption from creditor banks on 31 December 2013 regarding failure of financial indicators mentioned above, and not reclassified long-term portion of long term bank loans for which there is no event of default of financial ratios, so as described above, totaling RON 500,108 thousand. However, the management believes will not be required to repay amounts for which the obligations undertaken in the loan agreements were not met due to the following reasons:

I. The Group has the ability and intent to make all repayments under the loan agreements;

II. Loan agreements provide that the credit institutions are required to offer a reasonable period of time in which the Group can take the necessary steps to accomplish financial indicators;

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

(All amounts are in thousands RON, if not otherwise mentioned)

12. SUPPLIERS AND SIMILAR ACCOUNTS

On 31 December 2013 and 31 December 2012, suppliers and accounts situations are treated as follows:

	31 December 2013 000 RON	31 December 2012 000 RON
Suppliers of energy	91,704	93,076
Suppliers of fixed assets	232,393	488,458
Suppliers of water	279,964	347,706
Suppliers of repairmen works	34,578	72,545
Other suppliers	26,991	17,622
Total	**665,630**	**1,019,407**

	31 December 2013 000 RON	31 December 2012 000 RON
Long-term suppliers	113,781	-
Short-term suppliers	551,849	1,019,407
Total	**665,630**	**1,019,407**

Suppliers of energy are:

	31 December 2013 000 RON	31 December 2012 000 RON
National Energy System		
CEN Turceni	24,875	49,745
Termoelectrica SA	-	757
CEN Craiova	-	-
SN Nuclearelectrica SA	52,408	28,773
Transelectrica SA	14,421	11,581
Others	-	2,220
Total	**91,704**	**93,076**

13. DEFERRED INCOME

On 31 December 2013 and 31 December 2012, deferred revenues are mainly represented by investment subsidies received from MECBE to finance some investment projects:

	31 December 2013 000 RON	31 December 2012 000 RON
Balance on January 1	**266,134**	**271,995**
Increases	-	-
Resumption of deferred income	(4,552)	(5,861)
Balance on December 31	**261,582**	**266,134**

(All amounts are in thousands RON, if not otherwise mentioned)

14. INCOME TAX

Income tax expenditure for the period ended 31 December 2013 and ended 31 December 2012 consists of current tax and deferred tax as follows:

	31 December 2013	31 December 2012
	000 RON	**000 RON**
Current income tax expense	182,647	21,212
Expense / (income) from deferred tax	(33,094)	36,849
Total	**149,553**	**58,061**

Current income tax of the Group for the period ended 31 December 2013 and 31 December 2012 is determined based on statutory profits, adjusted for non-deductible expenses and non-taxable income at a statutory rate of 16%.

Numerical reconciliation between tax expense and the product of accounting result and income tax rate is as follows:

	31 December 2013	31 December 2012
	000 RON	**000 RON (Retratat)***
Profit / (Loss) before tax on profit	**896,869**	**226,247**
Income tax at statutory rate of 16%	143,499	36,300
Effect of non-deductible expenses	26,128	34,898
The effect of non-taxable income	(13,270)	(7,755)
Effect of permanent differences not recognized at a rate of 16%	(6,804)	(5,282)
Income Taxes	**149,553**	**58,061**

(All amounts are in thousands RON, if not otherwise mentioned)

15. INCOME TAX

On 31 December 2013 and 31 December 2012, deferred taxes related to temporary differences in the data are as follows:

	31 December 2013		31 December 2012	
	Cumulative temporary differences	**Deferred tax (asset) / liability**	**Cumulative temporary differences**	**Deferred tax (asset) / liability**
Deferred tax arising from revaluation reserve	2,597,805	415,649	2,836,861	453,898
Deferred tax from financial instruments	109,389	17,502	77,173	12,348
Tangible assets	(1,665,741)	(266,519)	(1,465,017)	(234,403)
Provisions for decommissioning	(131,791)	(21,086)	(131,791)	(21,086)
Other elements	-	-	3,039	486
Provisions for current assets	(30,992)	(4,959)	(27,914)	(4,466)
Other provisions	(169,584)	(27,133)	(199,318)	(31,891)
Unrecognized deferred tax asset	1,998,108	319,697	1,821,001	291,360
Total	**2,707,194**	**433,151**	**2,914,034**	**466,245**

(All amounts are in thousands RON, if not otherwise mentioned)

14. INCOME TAX (continued)

	31 December 2012	Recognized in profit and loss	Recognized in the global result	31 December 2013
	000 RON	000 RON	000 RON	000 RON
Deferred tax arising from:				
Revaluation reserve	453,898	(38,249)	-	415,649
Financial instruments	12,348	5,155	-	17,502
TOTAL	**466,245**	**(33,094)**		**433,151**

Starting May 1, 2009 in accordance with changes in the tax treatment of revaluation reserves under Government Emergency Ordinance No. 34/2009, amending the Fiscal Code, revaluations made by the Company after January 1, 2004 and recorded in the statutory financial statements, are tax together with tax depreciation deduction or the time of discharging these assets. The Company recognized a deferred tax liability for the revaluation reserve directly in equity.

15. EMPLOYEES' BENEFITS LIABILITY

On 31 December 2013, the Group has recorded a liability on employee benefits, as described in Note 3 (t), in the amount of RON 78,882 thousand (31 December 2012: RON 123,325 thousand).

Employee benefit obligations were determined by an independent actuarial company, PriceWaterhouseCoopers Management Consultants Limited ("PWC"), and recorded by the Group in the financial statements at 31 December 2013.

Estimating these obligations was made considering the following:

- Number of employees on 31 December 2013 and the number of employees annually estimated by the Group, based on leavings in the group and statistical data on population mortality from the National Institute of Statistics ("NIS"), other statistical data provided by NIS.
- Basic salary on 31 December 2013 and estimated base salaries for future periods;
- The inflation rate for the period January - December 2013 (including data from December 2013) published by the NIS and the inflation rate estimated by the Group for future periods;
- The price of electricity at 31 December 2013 and the price estimated by the Group for future periods
- Interest rate obtained considering treasury bills issued by the Ministry of Finance, country risk assessment, the evolution of the EURO issued by the European Central Bank.

(All amounts are in thousands RON, if not otherwise mentioned)

16. OTHER LIABILITIES

At 31 December 2013 and 31 December 2012, other payables are as follows:

	31 December 2013		31 December 2012	
	Current 000 RON	Long-term 000 RON	Current 000 RON	Long-term 000 RON
Advances from clients	8,220	-	27,615	-
Debts to the State	77,412	-	99,927	-
Dividends to pay	103,076	51,538	256,498	-
Performance guarantees	55,833	62,622	67,247	72,992
Other various creditors	45,513	12,190	92,167	-
Total	**290,054**	**126,350**	**543,454**	**72,992**

(All amounts are in thousands RON, if not otherwise mentioned)

17. PROVISIONS

	31 December 2013	31 December 2012
	000 RON	000 RON (Restated)*
Provisions for litigation	43,704	87,857
Provisions for restructuring	46,878	11,114
Provisions for costs disposal of tangible assets ongoing	131,791	131,791
Provisions for employees' benefits	78,882	123,325
Other provisions	3,509	553
TOTAL	**304,764**	**354,640**
Long-term provisions	210,673	255,116
Short-term provisions	94,091	99,524
TOTAL	**304,764**	**354,640**

*) Consolidated provisions Note was restated on 31 December 2012 in accordance with Note 31

(All amounts are in thousands RON, if not otherwise mentioned)

17. PROVISIONS (continued)

	Provisions for litigation	Provisions for restructuring	Other provisions	Provisions for costs of disposal of tangible assets in progress	Provisions for employees' benefits	Total
Balance on January 1	**87,857**	**11,114**	**553**	**131,791**	**123,325**	**354,640**
Provisions charge	-	35,764	2,956		10,435	49,155
Revenue from reversal of recognized provisions in the profit and loss statement of the year	(44,153)	-	-	-	-	(65,417)
Revenues from reversal of provisions recognized in comprehensive income of the year	-	-	-	-	(34,008)	(34,008)
Balance at 31 December	**87,857**	**11,114**	**553**	**131,791**	**123,325**	**354,640**

Provisions in amount of RON 304,764 thousand, representing the litigation provision for employee future benefits payable under the CLA, salary compensation and severance payments and other provisions as follows:

- Based on the restructuring program approved on 22 February 1999, on 31 December 2003, the Group recorded a provision for the cost of disposal of ongoing tangible assets proposed to be abandoned in the amount of RON 131,791 thousand.
- Provision for litigation with Enel Distribution Dobrogea on penalties for late payment, in amount of RON **1,533** thousand, pending case since 2010.

Hidroelectrica SA is under insolvency proceedings since 20.06.2012, for which were established provisions for litigation related to claims submitted in the preliminary table of debts or claims rejected by the judiciary administrator from the preliminary table of claims. These provisions are mainly:

- disputes regarding penalties and interest required by suppliers and not admitted in the preliminary table of claims in amount of RON 54,276 thousand:
  - Provision dispute TERMOELECTRICA - in amount of RON 9,336 thousand;
  - Provision dispute Apele Romane (Romanian Waters) - in amount of RON 3,312 thousand;
  - Other provisions - in amount of RON 415,000 thousand;

17. PROVISIONS (continued)

- provision for pending case regarding salary claims of employees for Sebes Subsidiary, in amount of RON 1,605 thousand, admitted in the preliminary table of claims under condition;

- provision for restructuring - representing gross salaries owed under the CLA and due unit contributions in amount of RON 46,878 thousand. The provision was constituted according to CLA about redundancy payments to be granted in the event of layoffs.

- provision for pensions and similar obligations in amount of RON 78,882 thousand, representing actuarial calculations concerning future benefits to be granted to employees in accordance with the Collective Labor Agreement.

18. NUMBER OF EMPLOYEES

Number of employees on 31 December 2013 and 31 December 2012 was 6.868 respectively 7.739.

(All amounts are in thousands RON, if not otherwise mentioned)

19. ELECTRICITY SOLD

The group has sold about 15,025 thousand MWh during 2013 (12,824 thousand MWh in 2012). The price of electricity for energy delivered on the regulated market is regulated by ANRE.

Sales for the years ended 31 December 2013 and 31 December 2012 are as follows:

	U.M.	31 December 2013	31 December 2012
1. Total electricity delivered	MWh	15,025,168	12,824,287
(A+B+C) of which :	lei	2,667,161	1,927,717
A. Electricity delivered on Regulated	MWh	3,974,814	4,104,075
Market , of which:	lei	496,850	293,997
Provision for captive consumers and	MWh	3,974,814	4,104,075
Distribution operators (Electrica)	lei	496,850	293,997
B. Electricity delivered on Competition	MWh	3,823,225	6,847,131
Market, of which:	lei	674,287	1,056,714
Eligible and licensed supplier	MWh	3,823,225	6,490,220
	lei	674,287	997,784
C. Electricity supplied to other markets	MWh	7,227,129	1,873,081
Of which:	lei	1,496,023	577,005
Next Day Market	MWh	2,525,234	335,745
	lei	434,673	62,183
Centralized Market for Bilateral Contracts	MWh	3,331,567	86,299
	lei	698,363	22,224
Transelectrica (Balanced Market)	MWh	1,359,945	1,365,356
	lei	357,511	456,352
PRE Members	MWh	(41)	6,842
	lei	47	28,396
Direct consumer	MWh	1,036	1,726
	lei	5,421	7,851
Buyers of SHPP	MWh	64	-
	lei	8	-
2. Ancillary services, transport, market management of which:	lei	340,779	401,505
Delivered to Transelectrica SA (secondary control frequency / power, reserve power, providing reactive power and voltage control)	lei	269,026	307,475
Ancillary services, transport and market administration on competitive market	lei	31,036	57,648
Transport billed for electricity sold on the regulated market	lei	40,717	36,382
3. Green certificates	lei	57,679	44,860
4. Emission Reduction Units	lei	7,608	19,646
5. Others	lei	838	-
TOTAL OPERATING REVENUE (1+2+3+4+5)	**lei**	**3,074,065**	**2,393,729**

(All amounts are in thousands RON, if not otherwise mentioned)

20. ELECTRICITY PURCHASED

Acquisitions for the years ended on 31 December 2013 and 31 December 2012 are as follows:

	31 December 2013	31 December 2012
	000 RON	**000 RON**
The National Energy System		
Termoelectrica SA	-	80,733
CEN Turceni	-	-
CEN Craiova	-	-
SN Nuclearelectrica SA	-	-
Transelectrica SA (Balancing Market)	16,970	-
Others	4,918	6,435
OPCOM	4,853	-
Total	**26,741**	**87,168**

21. OTHER OPERATING INCOME

Other operating revenues are as follows:

	31 December 2013	31 December 2012
	000 RON	**000 RON**
Earnings from sale of assets	39,231	2,583
Resumption of deferred income	7,142	6,937
Revenues from repair services	23,917	27,798
Other revenues	9,326	20,350
Total	**79,616**	**57,668**

(All amounts are in thousands RON, if not otherwise mentioned)

22. OTHER OPERATING EXPENSES

Other operating expenses are as follows:

	31 December 2013 000 RON	31 December 2012 000 RON (Restated)*
Transport and distribution of energy	151,714	118,499
Industrial water related expenses	319,909	263,791
Materials and supplies	44,581	95,951
Services contracted for repairs and maintenance	6,254	47,457
Net foreign exchange differences	18,710	60,367
Expenses related to provisions in current assets	3,468	15,976
Provisions related to fixed asset expenses	6,232	40,403
Other provisions	(11,931)	138,130
Expenditure related to penalties	50,447	67,065
Expenditure related to security services	20,890	23,698
Transport related expenditures	12,146	20,678
Expenditure related to disposal of fixed assets	18,032	21,333
others	71,409	117,479
Total	**711,861**	**1,030,827**

*) Consolidated statement of other operating expenses in 2012 were restated according to Note 31.

23. FINANCIAL RESULT

The financial result is as follows:

	31 December 2013 000 RON	31 December 2012 000 RON
Revenues from interest	1,727	1,655
Other financial revenues	2,596	8,838
Revenues from incorporated derivatives	32,216	410,784
Financial revenues	**36,539**	**421,277**
Expenses with interest	(63,877)	(43,951)
Other financial expenses	(249)	(368)
Expenses from incorporated derivatives	-	-
Financial expenses	**(64,126)**	**(44,319)**
Profit / (Loss) financial	**(27,587)**	**376,958**

24. TAX LEGISLATION

The Romanian legislative fiscal frame is going through a phase of continuous development and is subject to interpretations and frequent changes, which can sometimes be retroactive. Although the actual tax due on a transaction may be minimal, the interest may be significant, because they can be calculated from the transaction amount and a percentage of 0.06% per day, but can be significantly higher. Starting January 1, 2006 the penalty is 0.1% per day, with July 1, 2010 - 0.05% and 0.04% from 01 October 2010. In Romania, the fiscal year remains open for 5 years for fiscal review.

Management believes that it has properly recorded all tax obligations to the Financial Statements; there is a risk that the tax authorities adopt different positions in relation to interpretation of these issues. Their impact has not been determined to date but management believes will not significantly affect Company's financial position and operations results.

In accordance with the provisions established by the Ministry of Finance aimed at taxing capital items which are not subject to income tax calculated on due date because of their nature, whether the Company will change in the future destination of revaluation reserves (by covering losses or distributions to shareholders) this will result in additional income tax expense.

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.

Currently international financial markets experience the effects of the global financial crisis of 2008. These effects were felt by Romanian financial market in the form of a decrease in prices and liquidity of capital markets and through an increase in the average interest rate due to global crisis liquidity. Significant losses experienced by global financial markets may affect the Company's ability to obtain new loans at terms and conditions similar to those used in the earlier transactions.

The financial statements do not include adjustments relating to the recovery and classification of assets or the classification of obligations that could result if the Company is unable to continue the work as continuing to apply the business.

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

Company's financial status 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 Company is controlled partly by NAER, the most important risks faced are:

- The regulatory environment is relatively new and subject to changes which may impact Company's performance;

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

Decommissioning of certain assets could generate a reduction in the regulated asset base, which can lead to lower selling prices approved by NAER, having a direct negative impact on Company's profit.

26. COMMITMENTS AND CONDITIONALITY

Contracts for the rehabilitation and modernization of hydropower plants

During 2001, the Company entered into an agreement with VA Tech Hydro (currently Andritz Hydro) Ltd. in amount of EURO 254,850 thousand for the rehabilitation and modernization of the HPP Iron Gates 2 (8 groups) and HPP Gogosu (two groups), with deadline in 2014. At the beginning of 2013 for HPP Gogosu works were denounced with a contract value of EURO 54,500 thousand.

The present contract price, after reducing the value of related works to HPP Gogosu and after supplementation of works and due to price adjustment, is in amount of EURO 239,918 thousand EURO. Until 31.12.2013 refurbishment works were completed in 7 groups of the Iron Gates 2 hydroelectric power plant to increase installed power by 7 x 4,4MW = 30.8 MW and refurbishment work have began on the 8th group.

On 06.06.2013, the Judiciary Administrator decided termination of the agreement for refurbishment of HPP Iron Gates II No. 2I / 50765 / 21.12.2001, and the remaining works to be executed will be Hidroelectrica's responsibility.

In 2004 the Company entered into an agreement with Voith Siemens Hydro Power Generation GmbH. & Co. KG (currently Voith Hydro) and Tech Escher Wyss Gmbh (currently Andritz Hydro) for the amount of EURO 356.7 million for the rehabilitation and modernization of hydropower plants on the Lower Olt (Ipotesti, Drăgănesti, Frunzaru, Rusanesti, Izbiceni - 20 groups), contractual deadline for completion is 2013. Total value of the work was subsequently modified. On 31 December 2012, the remaining amount to be executed according to the state of contracted works is EURO 6,416,148 million.

In June 2006, the Company entered into a contract with Romenergo SA for rehabilitation and modernization of the Romanian Lock Iron Gates 1, the deadline for completion of the works was initially estimated for 2013. Initial contract was in amount of RON 166,85 million, value later modified to the amount of RON 187,58 million. On 31 December 2012, the remaining amount to be executed according to the state of the contracted works is RON 29,769 thousand.

In the context of efficient production activity of clean renewable energy and reducing production costs, the Judiciary Administrator has launched in 2012, an invitation to the World Bank to analyze the opportunity to invest in 3 new hydropower plants refurbishment projects in Vidraru, Retezat and Mariselu, of particular importance for Hidroelectrica and National Power System.

1) Environmental conditionality

In 2013, actions were carried out for monitoring and control the significant environmental aspects. Mainly, works were conducted in areas such as prevention of water pollution, land protection, removing the effects of floods and their prevention and works to improve the landscape affected by hydraulic works.

Of the 24 hydropower objectives that require authorization, by the end of 2013, a number of 202 owned environmental permits representing approx. 83% of the total. Expiry dates are between 2013 ÷ 2021.

Inspections from the local environmental protection authorities have reported deviations from compliance with legislation, fines were not applied and improvement measures proposed by the Environmental clearance were included in the annual plans of work.

2) Employees' benefits

As described in note 3 (t), the Group provides financial benefits and in kind benefits both for employees and former employees. In accordance with IAS 19 "Employees' Benefits", the Group recorded a provision for employees' benefits in amount of RON 78,882 thousand on 31 December 2013 (31 December 2012: RON 123,325 thousand). The amount of this allowance was determined by an independent actuary and recorded in the Group's financial statements and is subject to periodic reviews.

26. COMMITMENTS AND CONDITIONALITY (continued)

3) Penalties on debts to suppliers

The group recorded during 2013 outstanding penalties in the amount of RON 43,472 thousand, mainly representing penalties applied and allowed while registration in Table of claims.

4) Other conditionality

31.12.2013 The Company is involved in numerous pending litigations as:

- Disputes arising from publishing "Preliminary table of claims ";
- Commercial disputes arising from the lack of liquidity for payment on due dates invoices issued by suppliers (of both debtors and delay penalties, and / or interest);
- Resolving disputes regarding the notification received by the Company on Law No. 10/2001;
- Labor disputes which have as object:
    - Updating the inflation index and the legal interest of money rights for the period 2006-2007, paid by the Company during 2008-2009;
    - Issuance of certificates for activity performed in work group I or II.

Based on the Group lawyers' opinion, Administrator and the Group's management considers that the settlement of disputes mentioned above, for which no provisions were constituted on 31 December 2013, will be favorable to the Group and will not have a negative impact on the consolidated financial statements for the year.

5) Litigation with Univers Trade Union Federation and Hidroelectrica Hidrosind Branch

The Group was involved in a labor dispute with Hidroelectrica Hidrosind Union Federation, the file in question is registered with no. 38042/3/2007, before the Court of Bucharest - Section VIII Conflicts of Labor and Social Insurance.

During 2008, the Group completed with Hidroelectrica Hidrosind Union Federation a transaction involving the settling of the dispute which is the subject of this case. Through this transaction the Group is obliged to pay all Group's employees, regardless of union membership, in installments, during 2008 - 2010, depending on the Group's economic - financial results, the difference between actual salaries paid and salaries 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.

The last payment on this issue were made during 2009 and recorded as an expense in the period in which were granted.

Subsequently, the employees represented by the Univers Union Federation and Hidroelectrica Hidrosind Branch submitted applications to the territorially competent courts for updating inflation index differences for salaries paid, and ordered the Company to pay legal interest for late payment. At this point, for most employees represented by the Univers Union Federation such compensation was paid, following irrevocable judgment of the court. In terms of employees represented by Hidroelectrica Hidrosind Branch disputes are ongoing. The Group's management could not reliably estimate the future value of these payments. However, based on the lawyers' opinion, the manager and the Group's management considers that they will not have a significant negative impact on the consolidated financial position or performance of the Company's consolidated financial statements.

26. COMMITMENTS AND CONDITIONALITY (continued)

6) Litigation on buildings taken for the public interest

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

In terms of properties that fall under the Law 10/2001 (abusively taken between 6 March 1945 - 22 December 1989), the entity required to pay compensation is *Fondul Proprietatea*, which was established to provide financial resources necessary for compensation of abusively expropriated persons.

For disputes not covered by Law 10/2001, the Group's management regularly analyzes the ongoing litigation, and in consultation with its legal representatives decides the creation of provisions for amounts involved or their presentation in the consolidated financial statements. Based on information available to the Group, management estimates that these disputes will not have a negative impact on the consolidated financial statements on 31.12.2012.

7) Other litigations

The Group is and could become part and other legal disputes or other actions of public institutions before various courts, arising from the normal course of its business and involving various contractual issues as well as on VAT, 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 cannot be assessed by the Group's management on the consolidated balance sheet.

8) Onerous contracts

An onerous contract is a contract under which compulsory costs of meeting the contractual obligations exceed the economic benefits to be gained from it. These binding costs reflect at least net cost of contract termination, which is less than the cost of fulfilling the contract and any compensation or penalties arising from failure to fulfill. 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 consolidated financial statements.

9) Insolvency

As discussed in Note 1, on 20 June 2012, the Group entered into insolvency in order for reorganization.

Following the opening of insolvency proceedings, part of bilateral contracts for the sale of electricity was renegotiated and some were canceled.

In September 10, 2012 the preliminary table of claims was registered at the Bucharest Tribunal. Compensation, damages and penalties were required mainly by: Alpiq, Alro, Energy Holding and Nuclearelectrica. Part of the lenders made appeal to the preliminary table.

Amount of RON 391,847 thousand representing METBE’s claim, respectively the amount of RON 144,195 thousand, representing debt required by NAFA, was entered into the final table of claims under criminal case settlement condition no. 7774/1/2011 before the High Court of Justice on potential committing the crime of undermining the national economy by some members of the company’s management. These amounts represent potential damage suffered by METBE and NAFA and to the extent that it will be determined as crime of undermining the national economy, company’s management members will be considered defendants in the case. Both METBE and NAFA are civil party in the criminal case and have called for Hidroelectrica SA judiciary reorganization, as civilly responsible party. On 31 March 2014 the sentence was issued by Romanian High Court of Cassation and Justice, under which the court ordered the company management members, who were investigated in the process, to pay RON 339,916 thousand to METBE and RON 129,722 thousand to NAFA and Hidroelectrica was not among the parties present to the process. The decision is not final and can be appealed.

26. COMMITMENTS AND CONDITIONALITY (continued)

10) Tax review

During 09.08.2012- 12.05.2013, Hidroelectrica SA under judiciary reorganization had undergone a general tax audit, the period under review ranging between 01.01.2006 and 30.06.2012. On 23.01.2014 the National Agency for Fiscal Administration announced tax audit report and the decision imposing the additional tax payment obligations, in amount of RON 232,519,889.

Since the Company believes that the decision to tax impose is unfair, filed an appeal against the decision no. F-MC 851/21.01.2014 on 19.02.2014 at the General Directorate for Solving Complaints within NAFA.

Fiscal Procedure Code, by the Articles no. 2051 and no. 2072, gives the possibility of suspending the enforcement of the decision to impose the value of the disputed amounts, under the taxpayer submitting to the tax authorities a letter of guarantee from the disputed tax liabilities.

In this respect, a letter of guarantee in amount of RON 232.52 million was contracted from BRD Groupe Societe Generale, which was issued in favor of NAFA. Bank Guarantee Letter No. 14229 is valid six months, and will expire on 18.08.2014.

Since the tax decision relates to amounts prior to the opening proceedings Company's lawyers opinion is that provisions of Law 85/2006 on insolvency should apply for the present case, providing that the proprietor of the claims, prior to opening the procedure that do not file for the claim, is declined for any right with respect to such claims.

11) Disputes concerning the insolvency

On 31.12.2013 the Company is involved in a series of disputes with energy distributors both in the insolvency procedure and the action for damages brought by them. Based on the Company's lawyers' opinion such disputes will not have a material impact on the Company, as the Court of Appeal has not denied any measure of the judiciary administrator nor found that energy distributors would be entitled to be enrolled in table.

1. the total amount of actions for damages brought by energy distributors is RON 1,661,677 thousand.
2. the total amount requested by energy distributors in the insolvency is RON 1,510,135 thousand

11) Disputes concerning Andritz Hydro

On 31.12.2013 the Company is involved in litigation with the Andritz Hydor GMBH (Germany) and Andritz Hydro GmbH (Austria) in contradiction with SPEEH Hidroelectrica SA under judiciary reorganization. The litigation seeks annulment of repayment the amounts paid by SPEEH Hidroelectrica SA under judiciary reorganization in amount of EURO 13,625 thousand, representing advance payments in May and June 2003 for Phase III of Iron Gates II project, under contract no. 2I / 50675 / 09.11.2001, as amended by the addenda 3 and 4 signed by the parties on 05.12.2002 and 26.03.2003.

27. RELATED PARTIES - TRANSACTIONS WITH OTHER STATE-OWNED COMPANIES

The Group is a state owned entity. Ministry of Economy, Trade and Business Environment ("METBE") owns 80.0561% shares in the Group. The value of the Group's transactions with Ministry of Economy and with State-controlled entities, or over which the State exercises significant influence represent a significant part of the sales and purchases recorded in the financial year 2013.

28. REMUNERATION FOR GROUP'S MANAGEMENT

The Group has no contractual obligations to pay pensions to former directors and administrators and has not granted any loan to managers and administrators during exercise. Salary expenditures granted to Group's directors and managers during 2012 are in amount of RON 8,721 thousand (31 December 2012: 14,442 thousand).

29. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Legislative and regulatory changes have prompted the company to address the issue of risk management in a proactive manner that continues to be developed.

In accordance with the Ministry of Finance Order no. 946/2005 for the approval of the Internal Control Code including management standards / internal control of public entities and to develop management control system, complete and updated, both in the Group's executive offices and branches and issued decisions for appointing committees for monitoring, coordination and methodological guidance to the implementation of management standards / internal control.

Both the group's executive and branch have developed programs of measures for the development of internal control / management.

Strategic risks of major importance and manner of management and mitigation were identified, as follows:

Economic environment risk

The adjustment of risk values held on international financial markets in recent years has affected their performance, including financial - banking markets in Romania, leading to a growing uncertainty about future economic developments.

Group trading partners may be affected by the lower liquidity situation which could affect the ability to meet its current liabilities. Deteriorating operating conditions may affect creditors and managing cash flow forecasts and assessment of the impairment of financial and non-financial assets. To the extent that information is available, management has reflected revised estimates of expected future cash flows in its impairment.

Identifying and evaluating investments influenced by a less liquid market, credit analysis for respecting contracts and other contractual obligations raise challenges in their turn.

(All amounts are in thousands RON, if not otherwise mentioned)

29. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Management is unable to predict events that could have an effect on the banking sector in Romania and then what effect might have on the propensity of economic agents to use.

	31 December 2013	31 December2012
Financial assets	**000 RON**	**000 RON**
Cash and cash equivalents	80,436	64,729
Derivatives at fair value through profit and loss	109,389	77,173
Trade receivables and other receivables	334,325	365,227
Financial liabilities		
Derivatives at fair value through profit and loss	-	-
Financial liabilities at amortized cost	2,429,711	3,907,993

Price risk

Currently the price of electricity delivered on the regulated market is determined solely by the Group, it is agreed and reviewed periodically by the National Regulatory Authority for Energy with Competition Office's approval, and the price of electricity to final consumers is monitored by the Government and the World Bank.

The current legislative framework enables producers to sell electricity to eligible customers on the open market by concluding bilateral agreements. Possible risk of price fluctuations is not covered by derivatives.

Counterparty risk

Counterparty risk is the risk that the Group should incur a financial loss due to non-fulfillment of contractual obligations by a customer or counterparty to a financial instrument, and the risk results mainly from trade receivables, cash and cash equivalents.

The treatment of counterparty risk is based on Group's internal and external success factors. Successful external factors – with effect on systematically reducing risk are: restructuring energy market, privatization of subsidiaries belonging to SC Electrica SA, the liberalization of the energy market and improve the activity of the market. Internal factors of success in the treatment of counterparty risk include customers' portfolio diversification.

Financial assets that may be subject to group's collection risk are mainly trade receivables. The Group has implemented a series of policies to ensure that sales of services are made to customers with an appropriate collection. The value of receivables, net of allowance, represents the maximum amount at risk for collection.

The risk of revenue from such claims is limited, as these amounts are mainly due to state-owned companies.

The maximum exposure to risk at the reporting date was:

	31 December 2013	31 December 2012
	000 RON	**000 RON**
Clients	266,572	224,118
Other current assets	67,753	129,787

(All amounts are in thousands RON, if not otherwise mentioned)

29. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Situation of receivables at the reporting date was:

	31 December 2013		31 December 2012	
	Gross value	**Value adjustment**	**Gross value**	**Value adjustment**
Till maturity	223,335	-	167,359	-
Maturity of 30 - 90 days	28,461	-	51,226	-
Maturity of 90 - 180 days	-	-	257	-
Maturity of 180 - 365 days	14,927	(151)	8,246	(2,970)
More than one year	26,369	(26,369)	25,244	(25,244)
Total	**293,092**	**(26,520)**	**252,332**	**(28,214)**

(All amounts are in thousands RON, if not otherwise mentioned)

29. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Liquidity risk

Liquidity risk (also called funding risk) is the risk that an entity should encounter difficulties in procuring the necessary funds for meeting commitments related to financial instruments. Liquidity risk may result from an inability to quickly sell a financial asset at an amount close to its fair value.

	31 December 2013	31 December 2012
	000 RON	**000 RON**
Assets		
Monetary assets in RON	394,973	326,562
Monetary assets in foreign currency	19,788	103,394
	414,761	**429,956**
Liabilities		
Monetary assets in RON	(1,135,795)	(1,849,199)
Monetary assets in foreign currency	(1,356,538)	(1,985,802)
	(2,492,333)	**(3,835,001)**
Net monetary position in RON	**(740,822)**	**(1,522,637)**
Net monetary position in foreign currency	**(1,336,750)**	**(1,882,408)**

Prudent liquidity risk management implies maintaining sufficient cash and available credit lines, by continuous monitoring of estimated and real treasury flow and by correlating financial assets and liabilities. On 31 December 2013 and 31 December 2012, the Group recorded a net current liability which requires mandatory implementation of a prudent liquidity risk management.

(All amounts are in thousands RON, if not otherwise mentioned)

29. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

The table below shows the contractual maturity of financial liabilities:

	Net value	< 12 month	1 - 5 years	> 5 years
31 December 2013				
Financial liabilities				
Suppliers and related accounts	(665,630)	(551,849)	(113,781)	-
Other liabilities	(416,404)	(290,054)	(126,350)	
Long-term loans	(798,747)	-	(695,530)	(103,217)
Short-term loans	(611,552)	(611,552)	-	-
Total	**(2,492,333)**	**(1,453,455)**	**(935,661)**	**(103,217)**
31 December 2012				
Financial liabilities				
Suppliers and related accounts	(1,092,399)	(1,092,399)	-	-
Other liabilities	(616,446)	(543,454)	(72,992)	-
Long-term loans	(1,201,801)	-	(1,027,323)	(174,477)
Short-term loans	(1,070,339)	(1,070,339)	-	-
Total	**(3,980,985)**	**(2,706,192)**	**(1,100,315)**	**(174,477)**

Hydrological risk

Hydrological situation - production level is limited both to installed capacity and the prevailing hydrological situation. Weather conditions in terms of low rainfall affect the ability to produce and fulfill contractual obligations, while wet weather provides an opportunity to try an increase in revenues from additional production. If the Group cannot change the hydrological situation it can mitigate risks by:

- monitor conditions and trends, in order to get the best data, to be used in projections and estimates;
- a prudent approach to contractual obligations;
- monitoring markets for maximum revenue from sales outside the contract, in case of a surplus;
- considering diversification strategies through alternative production sources, including unconventional sources.

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 in exchange rates and interest rate levels and in terms of growth can affect the Group.

(All amounts are in thousands RON, if not otherwise mentioned)

29. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

If interest rates would be higher / lower by 1% (100 basis points) and all other variables were held constant, the Group's net profit would decrease / increase by RON 14,103 thousand.

Currency risk determined by the interest rate is the risk of interest and therefore the related expense will fluctuate over time. The Group has significant long-term loans with variable interest rates, which may expose the Group to both price risk and at the cash.

	31 December 2013	31 December 2012
	000 RON	000 RON
Long-term and short-term loans	1,410,299	2,272,140
Cash and cash equivalents	(80,436)	(64,729)
Net debt	**1,329,863**	**2,207,411**
Equity	14,849,807	14,100,631
Net debt relative to equity	8.96%	15,65%

Currency risk

Currency used in the domestic market is the Romanian *leu* and for foreign loans financing is denominated in various foreign currencies. As a result, foreign currency loans are subsequently expressed in lei. Differences in results are included in the income statement and does not affect cash flow until the debt‘s liquidation.

At the date of these consolidated financial statements the Group has not entered into transactions and has acquired foreign financial instruments hedging.

	EURO	USD	RON	CHF	TOTAL
31 December 2013					
Monetary assets					
Clients and related accounts	-	-	266,572	-	266,572
Other current assets	-	-	67,753	-	67,753
Cash and cash equivalents	19,788	-	60,648	-	80,436
Monetary liabilities					
Trade payables and other liabilities	11,963		1,070,071		1,082,034
Short and long term loans	1,252,994	91,581	65,724		1,410,299
Net exposure	**(1,245,169)**	**(91,581)**	**(740,822)**	**-**	**(2,077,572)**

(All amounts are in thousands RON, if not otherwise mentioned)

29. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

	EURO	USD	RON	CHF	TOTAL
31 December 2012					
Monetary assets					
Clients and related accounts	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 payables and other liabilities	159,691	-	1,403,170	-	1,562,861
Short and long term loans	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 in thousands RON, if not otherwise mentioned)

29. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

The following exchange rates were applied during the year:

	Exchange Average			Exchange rate on		
	2013	**2012**	**2011**	**2013**	**2012**	**2011**
RON / EURO	4,4847	4,4560	4,2379	4,4190	4,4287	4,3197
RON / USD	3,3279	3,4682	3,0484	3,2551	3,3575	3,3393
RON / CHF	3,5900	3,6984	3,4408	3,6546	3,6681	3,5528

The sensitivity analysis:

A 10% appreciation of the RON against these foreign currencies at 31 December 2013 and 31 December 2012 would have increased profit by the amounts shown below. This analysis assumes that all other variables remain constant.

	Profit increase 31 December 2013	**Profit increase 31 December 2012**
EURO	124,517	175,970
USD	9,158	12,271
CHF	-	-

A 10% depreciation of the RON against these foreign currencies at 31 December 2013 and 31 December 2012 would have a similar but opposite effect on the above amounts, assuming that all other variables remain constant.

	Profit decrease 31 December 2013	**Profit decease 31 December 2012**
EURO	(124,517)	(175,970)
USD	(9,158)	(12,271)
CHF	-	-

Legislative risks

Fiscal inspections are common in Romania, consisting of detailed checks of accounting records of the taxpayer. Such checks often occur after months or even years to establish payment obligations. Penalties have a positive character. Consequently, according to the results of these checks, companies may be due to additional taxes and fines. In addition, tax legislation is subject to frequent changes, and authorities often manifest inconsistency in the interpretation of legislation. However, the administrators believe that adequate reserves have been established for all significant tax liabilities.

In accordance with the provisions issued by the Minister of Finance that regulates the taxation of equity items that were not subject to income tax on their registration in accounting, due to their nature, if the group will change in the future revaluation reserves destination (in coverage loss or distribution to shareholders), it will lead to additional tax liabilities.

29. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

The real value of financial instruments

Financial instruments held to maturity are included in the balance sheet at cost of acquisition or redemption, as applicable. The real value is the amount at which the financial instrument can change normal transactions other than those arising from liquidation or forced sale. The actual values are obtained from quoted market prices or discounted cash flow models, as appropriate.

On 31 December 2013, cash and other availability, receivables and trade payables and other current liabilities (including amounts due to credit institutions) is close to their fair value due to their short maturity.

30. EMBEDDED DERIVATIVES

In 2010 the Group signed a long term contract for electricity supply valid until January 2018. Agreed price includes an adjustment thereof in relation to quotation of aluminum price on the LME market, which is not clearly and closely related to hosting contract and therefore represents an embedded derivative. The embedded derivative instrument was separately from the hosting contract and carried at fair value.

Embedded derivative is recorded at fair value through profit and loss account.

In 2012, the Group renegotiated the contract for the supply of energy, so as the pricing mechanism was modified.

For 2012, the addendum for power supply provides fixed purchase price so there are no embedded derivatives that require separate registration.

From 2013 until 2018 the agreed price includes a price adjustment linked to the aluminum price (different from the original), a minimum level, a maximum level and an element that cancel the minimum level if certain market conditions are fulfilled cumulatively (in terms of both aluminum and energy market). Consequently, embedded derivatives that are separate from the main contract consist of the following four parts:

- a series of 61 forward monthly contracts for the sale of aluminum, whose theoretical values are determined based on the amount of aluminum specified in the contract; theoretical values of forward contracts are determined based on the amount of energy specified in the contract, which represents the best estimate of the Group's management, at the beginning, and therefore on the renegotiation date, related to quantities of energy to be sold;

- a series of 61 monthly purchasing aluminum call options contracts, corresponding to the energy maximum price established in the contract;

- a series of 61 monthly sale contracts aluminum well option, corresponding to the energy minimum price established in the contract;

- a series of 61 monthly purchasing contracts well monthly options for which the base is an index of energy prices.

(All amounts are in thousands RON, if not otherwise mentioned)

30. EMBEDDED DERIVATIVES (continued)

The table below provides a breakdown of the derivatives on 31 December 2013 and 2012:

31 December 2013	**Assets**	**Liabilities**
Embedded derivatives - short term	36,878	-
Embedded derivatives - long term	72,511	-
Total	**109,389**	**-**

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

Since 1 January 2010, the Group adopted an amendment to IFRS 7 for presentation on level fair value measurement hierarchy.

The fair value of financial assets and financial liabilities are determined as follows:

- The fair value of financial assets and financial liabilities with standard terms and conditions and available assets on commercial markets is determined by reference to quoted market prices (includes listed redeemable notes, bills, bonds and notes receivable permanent).

- The fair value of other financial assets and financial liabilities (excluding derivative instruments) is determined in accordance with generally accepted pricing models based on cash flow analysis, using prices from observable market transactions and current dealer quotes for similar instruments.

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

(All amounts are in thousands RON, if not otherwise mentioned)

30. EMBEDDED DERIVATIVES (continued)

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

- Measuring the fair value hierarchy level 1 is derived from quoted prices (unadjusted) in active markets for identical financial instruments.

- Measuring the fair value hierarchy level 2 resulting from data, other than quoted prices included in Level 1, that are observable for the asset or liabilities, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

- Measuring the fair value hierarchy level 3 is derived from valuation techniques that include date for those financial instruments that are not based on observable market data (unobservable data provided).

	31 December 2013			
	Level 1	**Level 2**	**Level 3**	**Total**
Derivative financial instruments incorporated	-	109.389	-	109.389
Total	**-**	**109.389**	**-**	**109.389**

Financial assets at fair value through profit and loss

	31 December 2012			
	Level 1	**Level 2**	**Level 3**	**Total**
Derivative financial instruments incorporated	-	77.173	-	77.173
Total	**-**	**77.173**	**-**	**77.173**

There were no transfers between Level 1 and 2 for the year ended 31 December 2013 and 31 December 2012.

(All amounts are in thousands RON, if not otherwise mentioned)

31. COMPARATIVES

During 2013 the Group corrected fundamental errors recorded in previous years and also started to apply the IAS 19 principles revised in 2011 as shown below:

Financial Situation Position	**31 December 2012 (Previously reported)**	**31 December 2012 (Corrections)**	**31 December 2012 (Restated)**
	RON	**RON**	**RON**
Assets			
Fixed Assets			
Tangible assets	18,506,280	(30,282)	18,475,998
Total fixed assets	**18,540,335**	**(30,282)**	**18,510,053**
Total assets	**19,072,464**	**(30,282)**	**19,042,182**
Equity and liabilities			
Equity			
Retained earnings	9,573,151	(53,461)	9,519,690
Total equity	**14,100,631**	**(53,461)**	**14,047,170**
Liabilities			
Long-term liabilities			
Employee benefit obligations	100,146	23,179	123,325
Total long-term liabilities	**2,239,109**	**23,179**	**2,262,288**
Total liabilities	**4,971,833**	**23,179**	**4,995,012**
Total Equity and liabilities	**19,072,464**	**(30,282)**	**19,042,182**

The consolidated income statement and statement of comprehensive income	**31 December 2012 (Previously reported)**	**31 December 2012 (Corrections)**	**31 December 2012 (Restated)**
	RON	**RON**	**RON**
Other operating expenses	(1,007,648)	(23,179)	(1,030,827)
Total operating expenses	**(2,578,929)**	**(23,179)**	**(2,602,108)**
Result of operations	**(127,532)**	**(23,179)**	**(150,711)**
Net result for the year	**191,365**	**(23,179)**	**168,186**

31. COMPARATIVES (continued)

Explanations	Unfavorable results from correction of accounting errors related to previous financial years		Favorable result from the correction of accounting errors related to previous financial years
Derecognition of expenses erroneously recognized as expenses in the previous capitalization periods (feasibility studies)	30,282		-
Application of IAS 19 revised	23,179		-

32. SUBSEQUENT EVENTS

Insolvency

On the date of giving the Civil sentence no. 6482 dated 26.06.2013 by the Bucharest Tribunal, Civil Section VII, in case no. 22456/3/2012, which approved the final report prepared by the Judiciary Administrator EURO Insol SPRL, and based on Article 132, paragraph (1) of Law No. 85/2006, ordered the closure of judiciary reorganization procedure against Hidrolectrica SA on 20.06.2012, there were pending unresolved disputes thus:

- appeals against measures of termination of bilateral contracts;
- appeal against the closure of insolvency proceedings;
- appeal against the preliminary table;
- reciprocal compensation actions formulated both by Hidroelectrica against traders of electricity (Alpiq Romindustrie, Alpiq Romenergie, Energy Holding - see Note 15) and by them against Hidroelectrica.

Regarding the complaints made against the measure of denunciation bilateral contracts, insolvency procedure and appeals against the preliminary table, on 25.02.2014, the appeals of Alpiq Romindustrie and Energy Holding were admitted, the sentences are reversed and the cases sent for back to first instance.

The main impact of this litigation was to reopen the insolvency proceedings on 25.02.2014, initiated on 20.06.2012, the position of judiciary administrator still being held by EURO Insol SPRL.

Until the date of these financial statements The Court of Appeals' motivation for admission appeals was not published.

Company's lawyers opinion with reference to the solutions given on appeal is that they cannot be considered to have a significant impact on Hidroelectrica SA under judiciary reorganization, as the Court of Appeal has not denied any measure decided by judiciary administrator nor found that traders would be entitled to be enrolled in the table, cassation intervening only for formal procedural reasons. The lawyers believe that reorganization plan voted in June 2013, is in force and full effect mainly on the measures proposed and voted on by creditors and less on payments to creditors, made partly in June 2013 (currently enrolled creditors who have debts are those that agreed to conclude reschedule agreements).

The reorganization plan may be amended only as provided by Law 85/2006, respectively with the same formalities required for adoption, but so far do not consider that there are grounds for amending the Plan.

The time frame in which Hidroelectrica is under insolvency proceedings depends essentially on the time needed to resolve all disputes referred back to the Court of Appeal.

The share capital

On 28.02.2014, EGM Resolution No.7, approved Hidroelectrica share capital increase with a capital value of RON 5,014,000 which was registered at the National Trade Register Office by Certificate of mentions no. 97865 from 18.03.2014 regarding amendments to the Hidroelectrica SA under judiciary administration Memorandum.

(All amounts are in thousands RON, if not otherwise mentioned)

32. SUBSEQUENT EVENTS (continued)

Sale of assets

The GMS Decision no. 61/11.22.2013 approved the sale of seven SHPP packages.

At this stage, two assets packages were sold with a total of three SHPP, with an installed capacity of 2.08 MW, energy project 7.61 GWh and total price of **RON 11,236,500**, excluding VAT, tenderers are following legal entities:

- Three Pharm S.R.L. – SHPP group on Capra River Basin, Neamț County (Pi=1,60 MW), at the price of RON 7,295,000;

- IDROENERGIA S.R.L.(Italy) - Small Hydropower Plant on Barnar River Basin, Suceava County (Pi=0,48 MW), at the price of RON 3,941,500.

Registration warranty package valid in 2014 for BRD Groupe Societe Generale

On 10.03.2014 were concluded:

- Addendum no. 5 to cession agreement as guarantee no. G131 / 29.09.2009;

- Addendum no. 2 to cession agreement as guarantee no. G74 / 10/06/2011

By which Hidroelectrica granted guarantees to BRD in order to ensure financial obligations existing on 31.12.2013, under investment for the loan agreements signed in 2011 and credit line granted in 2009.

Existing financial obligations on 31.12.2013 to BRD Groupe Societe Generale were guaranteed according to degrees of coverage as stipulated in the loan investment contract.

These unconsolidated financial statements were signed by the Company's management on May 20, 2014.

Mihail Viorelian Stanculescu	**Gabriela Mihailescu**
General Manager	Financial Manager