HIDROELECTRICA S.A. under juridical administration AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2014

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

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

CONTENT **PAGE**

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

	Note	December31 2014	December31 2013
		RON	RON
Assets			
Non-current assets			
Property, plant and equipment	4	16,919,154	17,759,936
Intangible assets		442	1,842
Financial Instruments	30	72,511	72,511
Other non-current assets		15,792	9,687
Total non-current assets		**17,007,899**	**17,843,976**
Current assets			
Inventories	5	60,059	46,022
Trade receivables	6	338,579	266,572
Other current assets	7	79,250	67,753
Financial Instruments	30	36,878	36,878
Cash and cash equivalents	8	580,384	80,436
Total current assets		**1,095,150**	**497,661**
Total assets		**18,103,049**	**18,341,637**
Equity and liabilities			
Capital and reserves			
Issued capital	9	1,746,168	1,740,329
Contributions in advance to share capital	9	5	4,439
Revaluation reserve	9	2,630,635	2,681,346
Retained earnings	9	11,442,871	10,423,693
Equity attributable to owners of the Entity		**15,819,679**	**14,849,807**
Liabilities			
Non-current liabilities			
Borrowings	11	407,282	798,747
Deferred revenue	13	251,051	261,582
Deferred tax liabilities	14	395,746	433,151
Financial Instruments	30	-	-
Retirement benefit obligation	15, 17	71,623	78,882
Provisions	17	131,791	131,791
Trade and other payables	12	-	113,781
Other non-current liabilities	16	64,059	126,350
Total non-current liabilities		**1,321,552**	**1,944,284**

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

	Note	December 31 2014	December 31 2013
		RON	RON
Current liabilities			
Borrowings	10	106,104	213,799
Current portion of long term loans	11	108,239	397,753
Deferred revenue		22,257	-
Financial Instruments	30	-	-
Trade and other payables	12	447,564	551,849
Provisions	17	66,658	94,091
Other current liabilities	16	210,996	290,054
Total current liabilities		**961.818**	**1,547,546**
Total liabilities		**2,283,370**	**3,491,830**
Total equity and liabilities		**18,103,049**	**18,341,637**

These consolidated financial statements were authorized to be issued by the management as at August 31, 2015, and signed on its behalf by:

Ovidiu Agliceru	Petronel Chiriac
General Director	Financial Director

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

	Note	Year ended December 31, 2014 RON	Year ended December 31, 2013 RON *(Restated)
Revenues from electricity	19	3,397,239	3,074,065
Other operating income	21	28,213	40,385
Total Revenues		**3,425,452**	**3,114,450**
Operating expenses			
Purchases of electricity	20	(14,042)	(26,741)
Depreciation and amortization	4	(966,133)	(996,365)
Payroll expenses		(418,790)	(474,806)
Other operating expenses	22	(864,852)	(653,920)
Total operating expenses		**(2,263,817)**	**(2,151,832)**
Operating profit / (loss)		**1,161,636**	**962,618**
Financial income	23	10,325	4,323
Financial costs	23	(36,669)	(82,836)
Income from operations with embedded derivatives	23	-	32,216
Exenses from operations with embedded derivatives	23	-	-
Financial (loss) / profit		**(26,344)**	**(46,297)**
Profit before income taxes		**1,135,292**	**916,321**
Income tax expense	14	(179,012)	(149,553)
Profit for the year		**956,280**	**766,768**
Other Comprehensive Income			
Remeasurment of post employment benefits		12,187	34,008
Total comprehensive income		**968,467**	**800,776**
Profit per share		2.14	1.71

**) The Consolidated statement of profit and loss and other comprehensive income for the year ended December 31, 2013 has been restated in accordance with Note 31.*

These consolidated financial statements were authorized to be issued by the management as at August 31, 2015.

Ovidiu Agliceru
General Director

Petronel Chiriac
Financial Director

HIDROELECTRICA S.A. under juridical administration AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2014
(all amounts are in RON thousand, unless specified otherwise)

	Share capital	Contributions in advance to share capital	Revaluation reserve	Retained earnings	Total
Balance at December 31, 2013	**1,740,329**	**4,439**	**2,681,346**	**10,423,693**	**14,849,807**
Result for the financial year					
Profit for the year	-	-	-	956,280	956,250
Other comprehensive income for the year (remeasurment of the post employment benefits in accordance with IAS 19 revised 2011)	-	-	-	12,187	12,187-
Other	4,434	(4,434)	-	-	-
Transfer of revaluation surplus from disposal of tangible assets	-	-	(50,711)	50,711	-
Total result of the year	**4,434**	**(4,434)**	**(50,711)**	**1,019,178**	**968,467**
Contributions of and distributions to Owners					
Other share capital increases, primarily through lands for which the Group has land deeds	1,405	-	-	-	1,405
Total transactions with Owners	**1,405**	**-**	**-**	**-**	**1,405**
Balance at 31 December, 2014	**1,746,168**	**5**	**2,630,635**	**11,442,871**	**15,819,679**

These consolidated financial statements were authorized to be issued by the management as at August 31, 2015.

Ovidiu Agliceru

General Director

Petronel Chiriac

Financial Director

HIDROELECTRICA S.A. under juridical administration AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2014
(all amounts are in RON thousand, unless specified otherwise)

	Share capital	Contributions in advance to share capital	Revaluation reserve	Retained earnings	Total
Balance at December 31, 2012	**1,740,329**	**3,763**	**2,783,388**	**9,519,690**	**14,047,170**
Result for the financial year					
Profit for the year	-	-	-	766,768	766,768
Other comprehensive income for the year (remeasurment of the post employment benefits in accordance with IAS 19 revised 2011)	-	-	-	34,008	34,008
Other	-	12	-	1,185	1,185
					-
Transfer of revaluation surplus from disposal of tangible assets	**-**	**-**	(102,042)	102,042	**-**
Total result of the year	**-**	**-**	**(102,042)**	**904,003**	**801,972**
Contributions of and distributions to Owners					
Other share capital increases, primarily through lands for which the Group has land deeds	-	664	-	-	664
Total transactions with Owners	-	**664**	-	-	**664**
Balance at 31 December, 2013	**1,740,329**	**4,439**	**2,681,346**	**10,423,693**	**14,849,807**

These consolidated financial statements were authorized to be issued by the management as at August 31, 2015.

Ovidiu Agliceru
General Director

Petronel Chiriac
Financial Director

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

	Year ended December 31, 2014 RON	Year ended December 31, 2013 RON
Cash flows from operating activities		
Profit before tax	**1,135,292**	**916,321**
Adjustments for non-cash items:		
Depreciation and amortization of non-current assets	988,619	990,088
Net movement of provisions for risks and charges	(22,584)	(26,697)
Allowances for doubtful receivables	4,254	1,694
Loss from sale of fixed assets	(17,171)	2,812
Reversal of accrued revenues	(7,096)	(4,552)
(Gain) / Loss from embedded derivatives	-	(32,216)
Unrealized forex differences	737	14,357
Interest income	(7,506)	(1,727)
Interest expense	30,925	63,877
	2,105,470	**1,923,957**
Movements in working capital		
(Increase)/Decrease in trade and and other receivables	(70,207)	(32,825)
Decrease in other assets	(18,467)	60,215
Decrease in inventories	(3,832)	612
(Decrease) in trade and other payables	(238,280)	(449,796)
Cash generated from operations	**1,774,684**	**1,502,163**
Interest paid	(36,712)	(62,049)
Income tax paid	(202,444)	(147,915)
Net cash generated by operating activities	**1,535,528**	**1,292,199**
Cash flows from investing activities		
Purchase of property, plant and equipment	(178,075)	(343,504)
Proceeds from disposal of property, plant and equipment	33,321	39,231
Interest received	7,506	1,727
Net cash used in investing activities	**(137,248)**	**(302,546)**

The accompanying notes are an integral part of these consolidated financial statements.
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(all amounts are in RON thousand, unless specified otherwise)

	Year ended December 31, 2014	**Year ended December 31, 2013**
	RON	**RON**
Cash flow from financing activities		
Proceeds from borrowings	4,924	-
Repayment of borrowings	(800,180)	(876,198)
Dividends paid	(103,076)	(97,748)
Net cash used in financing activities	**(898,332)**	**(973,946)**
Net (Decrease)/Increase in cash and cash equivalents	499,948	15,707
Cash and cash equivalents at beginning of the year	**80,436**	**64,729**
Cash and cash equivalents at end of the year	**580,384**	**80,436**

Ovidiu Agliceru

General Director

Petronel Chiriac

Financial Director

These consolidated financial statements were authorized to be issued by the management as at August 31, 2015.

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

1. GENERAL INFORMATION

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

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

In 2002, the Government decided to separate the maintenance activity from the core business – electricity production and following the GD no. 857 dated July 1st, 2002, Hidroelectrica was reorganized into 12 production and sale of electricity branches and 8 subsidiaries (separate corporate) of maintenance and repair services. During 2013 the 8 subsidiaries have merged into one single entity – Hidroelectrica-serv S.A. By means of the general shareholders meeting no 40 from May 29, 2013, the number of branches decreased to 7.

The 8 subsidiaries as at December 31, 2012 were:

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

Hidroelectrica is the sole shareholder of Hidroelectrica-serv registered in Romania. Hidroelectrica and Hidroelectrica-serv are referred to as "the Group".

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

Mainly due to the prolonged drought, the results and the financial position of the Company, the Board of Directors decided in its meeting from June 15th, 2012 to submit to Bucharest Court an application to enter the general procedure of insolvency, in order to reorganize its business activity according to a reorganization plan. The Bucharest Court admitted on June 20th, 2012 the application for entry in insolvency of Hidroelectrica, after which Remus Borza, coordinator of the insolvency firm Euro INSOL, was appointed trustee. The Company finalized the creditors table as at June 26, 2013 and went out of insolvency on the same date. Consequent to the courts allowing the appeals of certain creditors, the Company went back under special administration on February 24, 2014 and faces a number of legal disputes with the energy traders.

Taking into account the Group's strategic importance in the national energy system, the management and the trustee believe that the Group will continue to operate in the foreseeable future and, accordingly, consider appropriate the use of the going concern assumption for the preparation of the consolidated financial statements for the year ended December 31, 2014.

1. GENERAL INFORMATION (CONTINUED)

The regulatory environment

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

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

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

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

Tangible fixed assets

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

The buildings, special constructions, equipment’s and vehicles held by the Group as of December 31, 2013 are presented in the statement of financial position at fair value. Land is presented at historic cost, and for the plots of land in property before December 31, 2003 the valuation is based on the restated cost applying the general inflation index of prices between the acquisition date and December 31, 2003.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

Standards and interpretations effective in the current period

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

- **IFRS 10 "Consolidated Financial Statements"**, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),

- **IFRS 11 "Joint Arrangements"**, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),

- **IFRS 12 "Disclosures of Interests in Other Entities"**, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),

- **IAS 27 (revised in 2011) "Separate Financial Statements"**, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),

- **IAS 28 (revised in 2011) "Investments in Associates and Joint Ventures"**, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),

- **Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 11 "Joint Arrangements" and IFRS 12 "Disclosures of Interests in Other Entities"** – Transition Guidance, adopted by the EU on 4 April 2013 (effective for annual periods beginning on or after 1 January 2014),

- **Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 12 "Disclosures of Interests in Other Entities" and IAS 27 (revised in 2011) "Separate Financial Statements"** – Investment Entities, adopted by the EU on 20 November 2013 (effective for annual periods beginning on or after 1 January 2014),

- **Amendments to IAS 32 "Financial instruments: presentation"** – Offsetting Financial Assets and Financial Liabilities, adopted by the EU on 13 December 2012 (effective for annual periods beginning on or after 1 January 2014),

- **Amendments to IAS 36 "Impairment of assets"** - Recoverable Amount Disclosures for Non-Financial Assets, adopted by the EU on 19 December 2013 (effective for annual periods beginning on or after 1 January 2014),

- **Amendments to IAS 39 "Financial Instruments: Recognition and Measurement"**
  – Novation of Derivatives and Continuation of Hedge Accounting, adopted by the EU on 19 December 2013 (effective for annual periods beginning on or after 1 January 2014)

The adoption of these amendments to the existing standards has not led to any changes in the Entity's accounting policies.

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

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

- **Amendments to various standards "Improvements to IFRSs (cycle 2010-2012)"** resulting from the annual improvement project of IFRS (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38) primarily with a view to removing inconsistencies and clarifying wording - adopted by the EU on 17 December 2014 (amendments are to be applied for annual periods beginning on or after 1 February 2015),

2 APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

- **Amendments to various standards "Improvements to IFRSs (cycle 2011-2013)"** resulting from the annual improvement project of IFRS (IFRS 1, IFRS 3, IFRS 13 and IAS 40) primarily with a view to removing inconsistencies and clarifying wording - adopted by the EU on 18 December 2014 (amendments are to be applied for annual periods beginning on or after 1 January 2015)

- **Amendments to IAS 19 "Employee Benefits"** - Defined Benefit Plans: Employee Contributions - adopted by the EU on 17 December 2014 (effective for annual periods beginning on or after 1 February 2015)

- **IFRIC 21 "Levies**" adopted by the EU on 13 June 2014 (effective for annual periods beginning on or after 17 June 2014).

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

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

- **IFRS 9 "Financial Instruments"** (effective for annual periods beginning on or after 1 January 2018),

- **IFRS 14 "Regulatory Deferral Accounts"** (effective for annual periods beginning on or after 1 January 2016),

- **IFRS 15 "Revenue from Contracts with Customers"** (effective for annual periods beginning on or after 1 January 2017),

- **Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures"** - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (effective for annual periods beginning on or after 1 January 2016),

- **Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 12 "Disclosure of Interests in Other Entities" and IAS 28 "Investments in Associates and Joint Ventures"** - Investment Entities: Applying the Consolidation Exception (effective for annual periods beginning on or after 1 January 2016),

- **Amendments to IFRS 11 "Joint Arrangements"** – Accounting for Acquisitions of Interests in Joint Operations (effective for annual periods beginning on or after 1 January 2016),

- **Amendments to IAS 1 "Presentation of Financial Statements"** - Disclosure Initiative (effective for annual periods beginning on or after 1 January 2016),

- **Amendments to IAS 16 "Property, Plant and Equipment" and IAS 38 "Intangible Assets"** - Clarification of Acceptable Methods of Depreciation and Amortisation (effective for annual periods beginning on or after 1 January 2016),

- **Amendments to IAS 16 "Property, Plant and Equipment" and IAS 41 "Agriculture"** - Agriculture: Bearer Plants (effective for annual periods beginning on or after 1 January 2016),

- **Amendments to IAS 27 "Separate Financial Statements"** - Equity Method in Separate Financial Statements (effective for annual periods beginning on or after 1 January 2016),

2 APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

- **Amendments to various standards "Improvements to IFRSs (cycle 2012-2014)"** resulting from the annual improvement project of IFRS (IFRS 5, IFRS 7, IAS 19 and IAS 34) primarily with a view to removing inconsistencies and clarifying wording (amendments are to be applied for annual periods beginning on or after 1 January 2016),

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

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

3. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

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

Basis of preparation

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

Functional and presentation currency

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

Use of estimates and judgments

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

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

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

The Group („operator") concluded in December 2004 a concession agreement with MECMA (as grantor), according to which it received the right to use and commercially exploit public domain assets which includes hydropower plants and the land on which they are located. Given that the majority of shares are owned by the State, the Group's management believes that this is a public company and therefore do not fall under provisions of IFRIC 12 „Service Concession Arrangements". .

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of estimates and judgments (continued)

Since there is no other specific IFRS for the concession arrangements, the Group considered whether IFRIC 12 is applicable, based on
the hierarchy from IAS 8, which requires first to consider the provisions of other IFRSs which deal with other similar aspects

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

- The Grantor controls or regulates what services the operator must provide within the infrastructure, to whom it must provide them and at what price;

- The Grantor controls – through ownership, the beneficial rights or otherwise any significant residual interest in the infrastructure at the end of the agreement;

- Contractual arrangements would include the same provisions, if the agreement had been signed with a private company.

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

Useful life's of property, plant and equipment items

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

Trade receivables and accrued revenue

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

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

Accrued expenses

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

Deferred taxes

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Provisions and contingent liabilities

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

Going concern

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

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

Basis of consolidation

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

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

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

The principal accounting policies are presented below:

(a) Tangible assets

(i) Recognizing and measurement

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Tangible assets (continued)

(i) Recognizing and measurement (continued)

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

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

i. material costs and direct labor costs;

ii. any amounts that can be directly attributable to bringing the asset into working condition;

iii. costs of dismantle, removal and restoration of the area in which they were placed, when the Group is required to move the assets and restore land;

iv. Borrowing costs (capitalized).

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

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

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

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

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

(ii) Subsequent expenditure on maintenance

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Tangible assets (continued)

(iii) Depreciation

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

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

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

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

(iv) Impairment of non-financial assets

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Public patrimony

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

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

The main terms of the concession agreement are:

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

Fee payable by the Group under the concession contract for the period 1 January - 31 December 2014 is significantly less than the depreciation that the Group would have recorded for the assets if the contract had not existed. However, the Group has not recorded in its financial statements any amount related to the possible benefit because it cannot estimate the amount paid for the use of these assets to a third party in a transaction with an objectively determined price.

(c) Intangible assets

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

(d) Currency transactions

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

Exchange rates at December 31, 2014 and December 31, 2013 are as follows:

CCY	December 31, 2014	December 31, 2013
EUR	4,4821	4,4847
USD	3,6868	3,2251

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Trade receivables and similar accounts

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

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

(f) Inventories

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

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

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

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

(g) Bank deposits, cash and cash equivalents

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

(h) Share capital

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

Contributions in advance to share capital

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

(i) Revaluation reserves

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Revaluation reserves (continued)

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

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

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

(j) Dividends

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

(k) Trade and other payables

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

(l) Interest bearing loans

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

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

(m) Borrowing costs

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(n) Provisions

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

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

(o) Income tax

Income tax expenses comprise current tax and deferred tax.

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

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

- the initial recognition of assets or liabilities originating in a transaction that is not a business combination and that is not affecting the accounting or fiscal profit or loss;

- differences on investments in subsidiaries or jointly controlled entities, to the extent that it is probable that they will not be repeated in the future; and

- taxable temporary differences arising from the initial recognition of goodwill.

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

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

(p) Related parties

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

(q) Revenues

Revenues from sales of goods

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(q) Revenues (continued)

Revenues from rendering of services

Service revenues are recognized in the reporting period.

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

(r) Financial income and expenses

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

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

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

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

(s) Special purpose reserves for energy:

Special purpose reserve for energy sector

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

(t) Employee benefits

In accordance with Government Decision no. 1041/2003 and no. 1461/2003, the Group has an obligation to provide benefits in kind to employees who have retired. Also, in accordance with the Collective Labor Agreement, if they fulfill the legal requirements for retirement, employees are entitled to receive a monetary reward. As at 31 December 2014 the Group's management updated the current value of future obligations on these benefits in kind and cash rewards.

Short-term employee benefits

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(u) Subsidies

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

(v) Contingencies

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

(w) Fair value

Certain accounting policies of the Group and presentation of information requirements need the determination of fair value for financial assets and liabilities such as for non-financial. The fair values were determined in order to evaluate and present the information in the financial statements using the methods described below. When applicable, further information about the assumptions used in determining fair values are disclosed specific to the asset or liability. Please see also note 30 for the fair value of the financial instruments.

(i) Tangible assets

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

(x) Financial instruments

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

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

Financial assets

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(x) Financial instruments (continued)

Effective interest method

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

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

Financial assets at FVTPL

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

A financial asset is classified as held for trading if:

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

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

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

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

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Group has the positive intent and ability to hold to maturity and which do not meet the definition of loans and receivables. Subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method less any impairment.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(x) Financial instruments (continued)

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

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

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

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

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

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

Loans and receivables

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

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

Impairment of financial assets

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(x) Financial instruments (continued)

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

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

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

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(x) Financial instruments (continued)

Derecognition of financial assets

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

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

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

Financial liabilities and equity instruments

Classification as debt or equity

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

Equity instruments

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

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

Financial liabilities

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(x) Financial instruments (continued)

Financial liabilities at FVTPL

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

A financial liability is classified as held for trading if:

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

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

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

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

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

Other financial liabilities

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(x) Financial instruments (continued)

Embedded derivatives

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

Hedge accounting

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

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

Fair value hedges

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

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

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

Cash flow hedges

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(y) Leasing

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

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

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

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

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

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

4. PROPERTY, PLANT AND EQUIPMENT

	Land and land improvements	Buildings and special installations	Plant and machinery	Capital assets in progress	TOTAL
	000 RON	000 RON	000 RON	000 RON	000 RON
Cost					
At December 31, 2013	**392,965**	**19,262,559**	**6,804,958**	**5,130,955**	**31,591,437**
Additions	1,417	539	461	160,075	162,492
Transfers	1,732	7,276	109,023	(118,031)	-
Disposals	(5,338)	(8,940)	(1,362)	(2,464)	(18,104)
At December 31, 2014	**390,776**	**19,261,434**	**6,913,080**	**5,170,536**	**31,735,825**
Accumulated depreciation					
At December 31, 2013	**32**	**8,543,919**	**3,634,276**	**-**	**12,178,227**
Depreciation expense	-	622,468	342,129	-	964,629
Eliminated on disposal of assets		(1,909)	(35)	-	(1,944)
At December 31, 2014	**64**	**9,164,477**	**3,976,370**	**-**	**13,140,912**
Impairment allowance					
At December 31, 2013	**-**	**15,478**	**1,684**	**1,636,111**	**1,653,273**
Impairment adjustments recognized in profit or loss account		502	855	21,129	**22,486**
At December 31, 2014	**-**	**15,981**	**2,539**	**1,657,240**	**1,675,760**
Net book value					
At December 31, 2013	**392,933**	**10,703,163**	**3,168,998**	**3,494,844**	**17,759,936**
At December 31, 2014	**390,712**	**10,080,976**	**2,934,171**	**3,513,296**	**16,919,154**

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

4. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Land and land improvements	Buildings and special installations	Plant and machinery	Capital assets in progress	TOTAL
	000 RON	000 RON	000 RON	000 RON	000 RON
Cost					
At December 31, 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)	-
Disposals	(10,583)	(8,258)	(2)	(55,039)	(104,164)
At December 31, 2013	**392,965**	**19,262,559**	**6,804,958**	**5,130,955**	**31,591,437**
Accumulated depreciation					
At December 31, 2012	**-**	**7,555,874**	**3,629,588**	**-**	**11,185,462**
Depreciation expense	32	989,062	4,688	-	993,782
Eliminated on disposal of assets		(1,017)	-		(1,017)
At December 31, 2013	**32**	**8,543,919**	**3,634,276**	**-**	**12,178,227**
Impairment allowance					
At December 31, 2012	**-**	**16,698**	**1,959**	**1,641,022**	**1,659,679**
Impairment adjustments recognized in profit or loss account	-	(1,220)	(275)	(4,911)	(6,406)
At December 31, 2013	**-**	**15,478**	**1,684**	**1,636,111**	**1,653,273**
Net book value					
At December 31, 2012	**402,819**	**11,456,679**	**3,168,996**	**3,477,786**	**18,506,280**
At December 31, 2013	**392,933**	**10,703,163**	**3,168,998**	**3,494,844**	**17,759,936**

4. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Revaluation of tangible assets

The buildings, equipment and machinery owned by the Group at December 31, 2014 are presented in the statement of financial position at fair value.

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

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

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

Tangible assets of the Group mainly include plants, energy pumping stations, hydro power plants, dams, dikes, sluices. On December 31, 2013, the Group manages a total of 219 hydroelectric plants and pumping stations with a total installed capacity of 6,443.5 MW.

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

Direct comparison method

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

Cost Approach

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

The Value at cost of items of property, plant as at December 31, 2014, net of accumulated depreciation expense is RON 2,479,055 thousand (31 December 2013: RON 3,210,688 thousand). Out of this amount the value at cost of land net of accumulated depreciation expense is RON 387,810 (December 31, 2013 – RON 382,223), the value at cost of buildings and special constructions net of accumulated depreciation expense is RON 1,686,739 (December 31, 2013: RON 2,204,409) and the value at cost of plant and machinery is RON 409,556 (December 31, 2013: RON 583,364).

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

4. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

In accordance with the provisions of IAS 23.20 the Company has suspended the capitalization of borrowing costs during the extended periods in which it suspends its active development of qualyfing assets. Starting with June 26, 2012 when the Company went into insolvency the development of the capital work in progress has decreased and starting with 2013 most of the projects were postponed for the period when the Company will exist the insolvency process.

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

The outstanding investments in progress and advances for property, plant and equipment as at December 31, 2014, in amount of RON 5,170,536 thousand are broken down mainly among the following investment sites:

Investment site and description	**Accumulated investment value as at December 31, 2014 RON thousand**
HPD on the Olt river defile on the Cornetu – Avrig stretch - hydropower development of the Olt river with 5 hydropower plants	692,973
Surduc- Siriu HPD **-** hydropower development with 2 storages and 3 plants	616,961
Rastolita HPD - hydropower development with 1 storage and 1 plant	613,535
HPD on Jiu river on the Livezeni Bumbesti stretch **-** hydropower development with 1 storage and 2 plants	537,772
HPD Pascani on Siret river - hydropower development with 1 storage and 1 plant	366,169
HPD Cerna Belareca - hydropower development with 1 storage and 1 plant	317,259
HPD on Olt river on the Fagaras - Hoghiz stretch - hydropower development with 1 storage and 1 plant	174,339
HPD on Siret river, on the Cosmesti-Movileni stretch - hydropower development with 2 storages and 1 plant	168,674
HPD on Jiu river on the Valea-Sadului Vadeni stretch - hydropower development with 2 storages and 3 plants	164,920
HPD Bistra Poiana Marului Ruieni Poiana Rusca - hydropower development with 3 storages and 3 plants	167,420

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

4. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Investment site and description	Accumulated investment value as at December 31, 2014
HPU Raul Mare – Retezat - hydropower development with 1 storage and 1 plant	142,061
HPD on Strei river, on the Subcetate – Simeria stretch - hydropower development with 7 plants	161,058
HPD Cerna Motru Tismana stage II - hydropower development with 3 storages and 3 plants	86,224
HPD Runcu - Firiza - hydropower development with 2 plants	84,156

In 2014, a working group was formed to analyze the investments in progress presented below, but the analysis has not been completed as at the date of the financial statements.

The Company's management estimates that a decision regarding such projects will be made in the following financial year:

Investment site	Accumulated investment value as at December 31, 2014 thousand RON
CERNA-BELARECA HPD	317,259
HPD on Jiu river on Valea Sadului-Vadeni sector	164,920
HPD on Olt river on FAGARAS HOGHIZ sector	174,339
HPD on Siret river on Cosmeşti-Movileni sector	168,674
Paşcani HPD on Siret river	366,169
Caineni HPP - CORNETU-AVRIG HPD	103,338
Raul-Alb HPP - BISTRA POIANA MARULUI HPD	50,509
OTHERS	861,508

As at December 31, 2014 the Company registered a provision in amount of **RON 1,636,111** thousand for the investments in progress.

HPD ON OLT RIVER DEFILE ON CORNETU-AVRIG SECTOR (Caineni HPP)

Approval documents:

- Decree no. 24/1989 – declared of public utility
- Order of the Ministry of Economy, Commerce and Business Environment no. 2910/09.11.2011 updating the DG to the prices valid as at December 31, 2010 GD 489/1996 – approving the optimization of the technical and economic indicators of the site

Works commencement date: 1989

Location:

On Olt river, in the Olt Defile sector, between Racoviţa and Cornetu localities, Sibiu and Vâlcea counties. The hydropower development was designed to operate in 5 heads: Racoviţa HPP, Lotrioara HPP, Câineni HPP, Robeşti HPP and Cornetu HPP. Cornetu HPP has been operating since 2002, Robești HPP was put into operation in March 2012, and the others are in various stages of execution.

4. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Need and opportunity:

Given the need of water for irrigation, the complex water development plans, the characteristics of the equipment and the conditions in which the lower Olt developments are used (reversible) as well as the total investment value of the two versions, the Company chose the (current) five-head construction option.

Given that, by 2002, only the works at the energy part advanced and the works on the communication routes – under the responsibility of other institutions - had not been started, the need arose to analyze technical solutions to perform only the basic works (related to the energy use) and the mandatory works to protect CF and DN 7.

In addition, the high value of the outstanding basic works (RON 6.683 bln, price valid as at May 31, 2002) determined the general designer to reconsider the construction solutions analyzed upon approval of the investment in order to reduce the workload and implicitly the associated costs of energy use and finding a solution to the protection of CF and DN 7.

<u>COMPLEX HPD ON OLT RIVER ON FAGARAS-HOGHIZ SECTOR</u>

Approval documents:

-Decree 24/1989

-Declared of public utility based on Law 255/2010 Art. 2(1).

Works commencement date: 1989

Location

From a territorial and administrative stand point, the development is located in Brasov county between Hoghiz, Fantana, Cuciulata, Comana de jos, Venetia de Jos, Parau, Sercaia, Mandra localities and Ungra, Crihalma, Ticusu Nou, Halmeag, Sona and Fagaras on the left bank.

Need and opportunity

Energy use

The energy use of the development consists of two elements:

- the energy share of this plant is 109.8 GWh/year (56.2 GWh/year the plant’s energy + 53.1 the energy share of all the downstream plants). The total gross head of the entire development downstream is 402.5 m compared to 17.5 m of Fagaras HPP.

- the possibility to store a large volume of water that can be used not only to cover the drought or rainy seasons, but also to cover the optimum energy sale periods (weekly or daily).

Protection of the hydropower developments on Fagaras-Avrig sector

Without the Fagaras-Hoghiz HPD, the unsafe operation due to clogging may be extended, after reaching the state of balance in the first five lakes on Upper Olt, to the storages on Cornetu – Avrig sector.

4. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

HPD ON JIU RIVER ON VALEA SADULUI-VADENI SECTOR

Approval documents

- Decree 40/21.02.1989 – approval of investment
- Hidroelectrica GAS Resolution no. 37/2009 – approval of optimized parameters

Works commencement date: 1989

Location

The investment site "HPD on Jiu River on Valea Sadului-Vadeni sector" is located in the middle of Gorj county, on the middle sector of Jiu river along a section of approximately 16 Km, at the exit from the Livezeni-Bumbesti defile, and consists of three heads: Valea Sadului HPP (waterfall head), Curtisoara HPP and Turcinesti HPP.

Need and opportunity (according to approval documents)

The investment site "HPD on Jiu River on Valea Sadului-Vadeni sector" was approved by Decree no. 40/February 21, 1989 as complex use site fulfilling the following functions:

- supply of irrigation water across 74,000 ha in Gorj and Dolj counties;
- providing an additional flow for supplying the localities on the lower sector of Jiu river with water;
- flood protection of the localities, economic sites and communication routes;
- improving the quality of water by depositing the particles used in the coal industry;
- electricity production.

According to the approval decree, energy accounts for 27.7% in the investment, the other functions accounting for 72.3%.

PASCANI HPD

Approval documents

- GD no. 866/2006. The Romanian Government approved the joining of the investment sites under the name "**Paşcani Hydropower development**" created chronologically as follows:

- Decree no. 403/26.12.1985 approving the investment site "Pașcani Storage on Siret river in Iasi and Suceava counties", the beneficiary of the investment being the National Water Council. By Protocol no. 1186 of 07.01.2007, the works to finalize the storage were transferred from AN Apele Române - Direcţia Apelor "Siret" Bacău to SC Hidroelectrica SA.

Works commencement date: 1989

Location

Pașcani HPP is located on Siret river downstream Lunca locality, Iaşi county. Its source of water is Paşcani Storage with a volume of approximately 68.7 million cm, which retains it through a concrete river-type weir dam, equipped with segment weirs, peripheral dams and through the existing terrain.

Need and opportunity (according to the approval documents)

The investment site is designed to serve several purposes: supply of drinking water, irrigation water, production of electricity and has a primary role in reducing floods, which are frequent and significant on Siret river.

4. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Paşcani HPP on Siret river:

- installed power 11.9 MW (according to Decree 24/1989)
- and **9.74 MW** (according to endorsement no. 115/2009 of CTE S.C. Hidroelectrica S.A.);
- production of electricity 24.900 MWh (according to Decree 24/1989);
- production of electricity 31.000 MWh (according to endorsement no. 115/2009 of CTE S.C. Hidroelectrica S.A.)

Paşcani storage on Siret river (according to Decree 403/1985):

- total storage volume 68.7 million cm;
- water source for irrigation 46.000 ha;
- drained surface in the project area: 1.465 ha.
- extension of supply with industrial water in the Paşcani - Târgu Frumos area at Q = 1.0 m^3/s;
- transit of the 4.4 cm flow to Bahlui hydrographic basin;

HPD ON CERNA - BELARECA RIVER

Approval documents

- State Council Decree no. 158 / 1980
- CTE HE Endorsement no. 99/2003 - energy optimized scheme

Works commencement date: 1980

Location

The development is located in the South-West of the country in Caraş-Severin county, in the Cerna river hydrographic basin, near Băile Herculane resort.

Need and opportunity (according to the approval documents)

The utilization of the energetic potential of Cerna river and improvement of the hydraulic flow of Cerna river in Băile Herculane resort (a flow of 9.6 cm/sec had been previously diverted from Cerna basin to Jiu (Motru) basin, which caused the multi-annual normal flow of Cerna river in Băile Herculane resort to drop from 15.3 cm/sec to 5.7 cm/sec further to such deviation).

BISTRA-POIANA MARULUI-RUIENI-POIANA RUSCA HPD (Raul Alb HPP)

Approval documents: Decree no. 294/1981
Works commencement date: 1981

Location

The development is located in the South-West of the country in Caraş-Severin county, in the Cerna river hydrographic basin, near Băile Herculane resort.

Need and opportunity (according to the approval documents)

C_i = 260.5 MW; E_a= 521 GWh/year (according to approval documents)

The initial development scheme, according to Approval Decree no. 294/1981, was designed as a complex multi-purpose development meant to fulfill:

- *Energy functions*
- *Water management functions*

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

4. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

HPD ON SIRET RIVER ON COSMESTI – MOVILENI SECTOR

Approval documents

- GD no. 311/1990 approving the investment,
- GD no. 1598/2009 – declaring the national interest investment “Hydropower development on Siret river on Cosmesti – Movileni sector” of public utility.

Works commencement date: 1990

Location

In Siret hydrographic basin, Mărăşeşti town and Garoafa commune in Vrancea county and Movileni, Cosmeşti and Nicoreşti communes in Galaţi county

Need and opportunity (according to the approval documents)

The hydropower development on Siret river on Cosmesti – Movileni sector is a multi-purpose investment, namely:

- production of electricity from renewable and “clean” sources in Cosmeşti and Movileni hydropower plants;

- protection against floods and the transit thereof (Cosmeşti and Movileni storages provide protection against floods across 1,100 ha of land and 3 localities);

- supply with drinking, industrial and irrigation water: through Ionăşeşti pumping station, administered by SNIF Galaţi, which serves Terasa Tecuci irrigation systems);

Reliable and useful road infrastructure – through the hydropower junctions, it provides the road connection between the Western and the Eastern part of Moldova across the Siret.

5. INVENTORIES

As at December 31, 2014 and December 31, 2013, the inventories include spare parts, consumables and other stocks used in the operations of the hydroelectric plants as well as for the repairs and maintenance activity.

	December 31 2014 000 RON	December 31 2013 000 RON
Auxiliary Materials	9,872	4,653
Spare Parts	37,529	28,662
Consumables	10,071	4,506
Others	2,587	8,201
Total	**60,059**	**46,022**

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

6. TRADE AND OTHER RECEIVABLES

As at December 31, 2014 and December 31, 2013, the trade and other receivables are as follows:

	December 31 2014	December 31 2013
	000 RON	000 RON
Trade receivables	365,503	283,008
Other receivables	-	10,084
Allowance for doubtful receivables	(26,924)	(26,520)
Total	**338,579**	**266,572**

As at December 31, 2014 and December 31, 2013, the customers (gross value) are as follows:

	December 31 2014	December 31 2013
	000 RON	000 RON
Sistemul Energetic National ("SEN")		
Electrica	55,022	15,351
Transelectrica S.A.	124,257	186,635
E-on	16,076	15,922
Enel	50,831	14,206
ALRO Slatina	24,598	-
CET Brasov (under litigation)	18,725	18,725
Other Clients under litigation	5,936	7,329
Others	69,755	26,283
OPCOM	303	535
	365,503	**279,951**
Eligible customers	-	3,057
Export		-
Total (gross value)	**365,503**	**283,008**

The eligible customers as at December 31, 2013 relate to amounts owed mainly from Alro, SMR Bals, Elsid, Eurotech and Electrocarbon.

Movement in the allowance for trade receivables is as follows:

	December 31 2014	December 31 2013
	000 RON	000 RON
Balance at the beginning of the year	**26,520**	**28,214**
Allowances for doubtful customers	5,051	79
Reversal of allowance for doubtful customers	(4,647)	(1,173)
Balance at the end of the year	**26,924**	**26,520**

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

7. OTHER CURRENT ASSETS

As at December 31, 2014 and December 31, 2013, other assets are as follows:

	December 31 2014	December 31 2013
	000 RON	000 RON
Advances to suppliers	36,825	39,673
VAT recoverable	-	7,059
Other current assets	42,425	21,021
Total	**79,250**	**67,753**

As at December 31, 2013 the Company is involved in a litigation against the parties Andritz Hydor GMBH (Germany) and Andritz Hydro GmbH (Austria). The litigation seeks annulment of the restitution of the amounts paid by Hidroelectrica SA amounting to EUR 13.625 thousand, representing advance payments from May and June 2003 for Phase III of the Iron Gates II project, according to the contract 2I/50675/09.11.2001, as it was amended by addendums no. 3 and 4 signed by the parties on 5.12.2002 and 26.03.2003. As per the final reorganization plan approved by the juridic administrator, these amounts have been compensated against current liabilities towards Andritz Hydro. The administrator and the management of the Group consider that this advance is fully recovered and there is no need to record an adjustment as of December 31, 2014.

8. CASH AND CASH EQUIVALENTS

As at December 31, 2014 and December 31, 2013, the cash and cash equivalents are as follows:

	December 31 2014	December 31 2013
	000 RON	000 RON
Bank accounts	579,952	79,383
Petty cash	206	225
Cash equivalents	226	828
Total cash and cash equivalents	**580,384**	**80,436**

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

9. ISSUED CAPITAL

As at December 31, 2014 and December 31, 2013 the Company's share capital fully authorized and paid is divided into 447,564,307 ordinary shares, respectively 448,148,224 ordinary shares with a nominal value of 10 Ron/share.

As at December 31, 2014 the Group's shareholders are: the Romanian State through MECMA, which owns 358,769,989 shares, representing 80.056% from the share capital and Fondul Proprietatea, who owns 89,378,235 shares with a weight of 19,94% in the share capital.

As at December 31, 2014 the share capital presented in the consolidated financial statements in amount of 1,746,169 RON includes the effect of restatements recorded in prior years and the effects of hyperinflation under IAS 29: „Financial reporting in Hyperinflationary Economies".

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

9. ISSUED CAPITAL (CONTINUED)

Reconciliation of equity:

	December 31 2014	December 31 2013
	000 RON	**000 RON**
Share capital reported in accordance with MOF 3055/2009 as amended (nominal value)	4,481,482	4,475,643
Adjustments resulting from the adoption of IAS 29	1,028,872	1,028,872
Transfer of revaluation reserve to share capital according to statutory accounts	(3,764,186)	(3,764,186)
Share capital	**1,746,168**	**1,740,329**

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

Contributions in advance to share capital

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

Revaluation reserve

As at December 31, 2014 the revaluation reserve in amount of 2,630,635 thousand RON is the result of the revaluation of tangible assets at December 31, 2012, December 31, 2009 and December 31, 2006 (see Note 3).

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

Retained earnings

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

- The special destination fund for the energy sector in amount of RON 97,000 thousand (as at December 31, 2013: RON 97,000 thousand), the reserves thus set up being used for financing own investment works destined for the upgrading and development of the energy objectives stated in GO no. 89/2004. As of 1 January 2005, according to GO no. 89/2004 approved by Law no.529/2004, the Company made reserves every month within the limit of 6% of the income made from the supply of electricity, within the limit of the accounting profit, deductible in determining the accounting profit. The reserves made are used for the financing of own investment works destined for upgrading and development of the energy objectives, according to the destinations stated by GEO no. 89/2004. The provisions of GO no. 89/2004 were applicable until 31 December 2006.

- As at December 31, 2014 the legal reserves in amount of RON 159,875 (as at December 31, 2013: RON 101,977) represent legal reserve according to the statutory financial statements of the Company and cannot be distributed. The Company transfers to this reserve maximum 5% of its annual accounting profits until the cumulative balance reaches 20% of its paid up share capital.

- The accumulated profit and losses as at December 31, 2014 amounts to RON 11,001,149 (as at December 31, 2013 RON 10,224,716)

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

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

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

10. SHORT TERM BORROWINGS

As of December 31, 2014 and December 31, 2013 the short term borrowings are as follows:

	December 31 2014	December 31 2013
	000 RON	000 RON
BRD GSG (a)	88,145	52,745
RBS Bank (d)	-	56,979
Citi Bank Europe PLC (e)	-	91,092
	88,145	**200,816**
Other short term borrowings (facility credit lines contracted by subsidiaries)	17,959	12,983
Total short term borrowings	**106,104**	**213,799**

A description of the short term borrowings is presented below:

a) On September 29, 2009 the Group signed a loan agreement in amount of 300 million RON with BRD GSG – the facility is used as a credit line. The Contract has been concluded for a period of one year, with the possibility of renewal at maturity for terms of 6 or 12 months. The loan term is 30 September 2015.

b) ALPHA BANK ROMANIA from November 3, 2009 for 80 million RON – the maximum amount that may be granted during the facility for the types of credit agreed by the parties: a revolving facility of 40 million RON (irrevocable) and a revolving line in the same amount of 40 million RON (revocable). The facility may be used until January 30, 2013. As at December 31, 2013 the facility was fully repaid. The loan term is 31 March 2014.

c) An overdraft facility from RBS BANK from December 23, 2009 for 32,000,000 EUR The drawdown can be made in RON and/or EUR. The facility is granted as an overdraft („overdraft") and can be utilised until July 31, 2014. On July 30, 2013 through Addendum no 6 to the credit facility, a credit line limit has been established at 18,740,000 EUR, the Borrower committing that starting with August 31, 2013 to make monthly repayments of 1 million EUR from the principal.

d) An overdraft facility from CITIBANK EUROPE PLC from April 20, 2010 for 30 million USD. The maturity term is April 20, 2015. At maturity date, the facility is automatically extended by 12 months if the Bank does not submit in advance a written notice to the Borrower of the revocation facility.

e) An overdraft facility from TRANSILVANIA BANK from October 14, 2011, for 120,000,000 RON. The drawdown is available only in RON. Through addendum no 4/11.04.2013 the validity of the credit line was extended until 11.04.2014.

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

11. LONG TERM BORROWINGS

As of December 31, 2014 and December 31, 2013, the long term loans are as follows:

	December 31 2014	December 31 2013
	000 RON	000 RON
IBRD 1995 (a)	286	489
BIRD 2005 (c)	174,913	200,048
ING Bank Amsterdam 2009 (e)	76,756	47,762
EFG Eurobank 2010 (f)	-	71,755
Unicredit Austria 2010 (g)	10,343	51,746
BCR 2010 (h)	-	400,287
ING 2011 (i)	126,668	165,739
BRD Group Societe General (j)	126,555	158,283
EBRD (k)	-	92,497
	515,521	**1,196,500**
Less current portion	(108,239)	(397,753)
Long term borrowings – less current portion	**407,282**	**798,747**

Long term loans are detailed as follows:

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

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

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

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

c) Citibank International PLC – agent, from July 2, 2009, for the amount of 75 million EUR – loan taken for unstructured investments. The reimbursement is made at the end of each semester starting with July 2, 2011 until July 2, 2014 (7 equal installments).

d) ING Bank NV Amsterdam from November 16, 2009 for 60 million EUR – the facility shall be used to finance the investments in developing hydro network (new and / or existing). The loan was granted for a period of 5 years. The credit facility was taken over by ING Bank NV Dublin on December 3, 2009. The loan is repayable in 10 equal quarterly installments, starting with September 7, 2016 until December 7, 2018.

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

11. LONG TERM BORROWINGS (CONTINUED)

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

On June 3, 2010 a novation agreement was concluded between Unicredit Bank Austria and Unicredit Tiriac Bank for an amount of 23,474 thousand EUR. The loan was reimbursed in advance durring 2014.

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

h) ING Bank NV Dublin – dated 22 march 2011 for 60 million EUR – loan contracted for the financing of investment/maintenance of the network of hydro electrical plants. Reimbursement started on 07.06.2012, with the principal amount distributed over 17 equal quarterly installments during 07.06.2012-07.06.2016. In 29 August 2014 was approved the reimburment of the loan in the period 7 March 2016 – 7 December 2018.

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

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

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

According to the loan agreements, the Group has to comply with certain covenants. As at December 31, 2014 the management determined that the Group was not in compliance with part of the covenants. Consequently if the borrower does not fulfill the conditions required, the banks may, after written notification, request the accelerated maturity of credits drawn and not repaid, after a period of time allowed for the borrower to remedy the event. As at December 31, 2014, the long-term portion of the borrowings in amount of RON 149.895 thousand should have been presented as current liability, which would determine the increase of current liabilities, respectively the decrease of long-term debts with the same amount.

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

12. TRADE AND OTHER PAYABLES

As at December 31, 2014 and 2013, the Group's trade and other payables were as follows:

	December 31 2014	December 31 2013
	000 RON	000 RON
Suppliers of energy	60,387	91,704
Suppliers of fixed assets	74,790	232,393
Industrial Water Suppliers	250,508	279,964
Repairs and Maintenance Suppliers	10,431	34,578
Other Payables	51,448	26,991
Total	**447,564**	**665,630**

	December 31 2014	December 31 2013
	000 RON	000 RON
Long term trade payables	-	113,781
Short term trade payables	447,561	551,849
Total	**447,561**	**665,630**

The suppliers of energy are:

	December 31 2014	December 31 2013
	000 RON	000 RON
Sistemul Energetic National		
CEN Turceni	314	24,875
SN Nuclearelectrica SA	17,524	52,408
Transelectrica SA	42,549	14,421
Other	-	-
Total	**60,387**	**91,704**

13. DEFERRED REVENUE

As at December 31, 2014 and 2013, deferred revenue mainly consists of subsidies for investments received from MECMA, for the financing of certain investment projects.

	December 31 2014	December 31 2013
	000 RON	000 RON
Balance at the beginning of the year	**261,582**	**266,134**
Increases	18,822	-
Transfer to income of accrued revenues	(7,096)	(4,552)
Balance at the end of the year	**273,308**	**261,582**

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

14. INCOME TAX

The income tax expense for the period ended December 31, 2014 and 2013 consists of current and deferred tax recognized in the consolidated income statement.

	December 31 2014	**December 31 2013**
	000 RON	**000 RON**
Current income tax expense	216,417	182,647
Deferred tax expense / (income)	(37,405)	(33,094)
Total	**179,012**	**149,553**

The current income tax of the Group for the period ended December 31, 2014 and 2013 is determined based on statutory profits, adjusted for non-deductible expenses and non-taxable income at a statutory rate of 16%.

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

	December 31 2014	**December 31 2013**
	000 RON	**000 RON**
Profit / (Loss) before tax	**1,135,292**	**896,869**
Income tax (credit) / expense calculated at 16%	181,647	143,499
Effect of not deductible expenses	20,297	28,711
Effect of revenue that is exempt from taxation	(12,844)	(13,270)
Effect of cuurent fiscal loss to be recovered in next years	(3,790)	(2,584)
Effect of temporary differences calculated at 16%	(6,299)	(6,804)
Income tax expense recognized in profit or loss	**179,012**	**149,553**

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

14. INCOME TAX (CONTINUED)

As at December 31, 2014 and 2013, the deferred taxes related to temporary differences were as follows:

	31 decembrie 2014		31 decembrie 2013	
	Cummulated temporary differences	Deferred tax (Asset) / Liability	Cummulated temporary differences	Deferred tax (Asset) / Liability
Tangible assets revaluation	2,364,025	378,244	2,597,805	415,649
Embedded financial instruments	109,389	17,502	109,389	17,502
Restatement of Property Plant and Equipment	(1,675,760)	(268,122)	(1,665,741)	(266,519)
Decommissioning provisions	(131,791)	(21,086)	(131,791)	(21,086)
Provisions for current assets	(35,438)	(5,670)	(30,992)	(4,959)
Other provisions	(138,281)	(22,125)	(169,584)	(27,133)
Deferred tax not recognized	1,981,269	317,003	1,998,108	319,697
Total Deferred tax liability	**2,473,414**	**395,746**	**2,707,194**	**433,151**

	December 31, 2014	Recognised in Profit or Loss	Recognised in Other Comprehensive Income	December 31, 2014
	000 RON	000 RON	000 RON	000 RON
Deferred tax from:				
Revaluation of property plant and equipment	415,649	37,405	-	378,244
Embedded derivatives	17,502	-	-	17,502
Total Deferred tax liability	**433,151**	**37,405**	**-**	**395,746**

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

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

15. EMPLOYEE BENEFITS

As at December 31, 2014, the Group recorded a liability regarding the employee benefits, as described in Note 3 (t), in amount of RON 71,623 thousand (December 31, 2013: RON 78,882 thousand).

The employee benefit obligations were determined by an independent firm of actuaries, KPMG Advisory SRL (“KPMG”), and recorded by the Group in the financial statements at 31 December 2014.

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

- Number of employees at 31 December 2014 and number of employees estimated by the Group based on the projected rates of departure from the National Institute of Statistics („INS”), other statistical data provided by INS;

- Salary base as at 31 December 2014 and base salaries estimated by the Group for the future periods;

- The inflation rate for the period January – December, 2014 (including data from December, 2014), published by the INS and the inflation rate estimated by the Group for future periods;

- Electricity price at 31 December 2014 and the estimated price of the Group for future periods.

- The interest rate obtained considering the Treasury bill issued by the Ministry of Finance, assessment of the country risk, evaluation of the EUR exchange rate issued by the European Central Bank.

16. OTHER DEBTS

As at December 31, 2014 and 2013, other debts were as follows:

	December 31, 2014		December 31, 2013	
	Current 000 RON	Long term 000 RON	Current 000 RON	Long term 000 RON
Advances received from customers	1,578	-	8,220	-
Payable towards State Budget	88,786	-	77,412	-
Dividends payable	51,538	-	101,343	51,538
Project execution bonds	39,565	64,059	55,833	62,622
Other sundy debtors	29,529	-	59,436	12,190
Total	**210,997**	**64,059**	**290,054**	**126,350**

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

17. PROVISIONS

	December 31 2014	December 31, 2013
	000 RON	000 RON
Provisions for litigation	37,088	43,704
Provisions for restructuring	11,437	46,878
Provisions for dismantling of fixed assets in progress	131,791	131,791
Post employment benefits	71,623	78,882
Other provisions	18,133	3,509
TOTAL	**270,072**	**304,764**
Non current portion	203,414	210,673
Current portion	66,658	94,091
TOTAL	**270,072**	**304,764**

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

17. PROVISIONS (continued)

	Provisions for litigations	Provisions for restructuring	Other provisions	Provisions for dismantling of fixes assets in progress	Provisions for post employment benefits	Total
Balance as at January 1	**43,704**	**46,878**	**3,509**	**131,791**	**78,882**	**304,764**
Additional provisions recognised through PL	9,990	11,732	17,531	-	4,928	44,181
Reversal of provisions through PL	(16,606)	(47,173)	(2,907)	-	-	(73,945)
Reversal of provisions through comprehensive income for the year	-	-	-	-	(12,187)	(12,187)
Balance as at December 31	**37,088**	**11,437**	**18,133**	**131,791**	**71,623**	**270,072**

Provisions in the amount of 270,072 thousand RON, represent the value of the provisions for litigations, for employee benefits according to Collective Labor Agreement, wages and compensatory salaries, and other provisions as follows:

- Based on the restructuring program approved on 22 February 1999, at 31 December 2014, the Group recorded a provision for the cost of disposal of tangible assets in progress which were proposed to be abandoned in amount of 131,791 thousand RON.
- Provision for litigation with Enel Distributie Dobrogea regarding penalties for late payment in amount of 1,533 thousand RON – pending case since 2010.

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

- For disputes concerning expropriation of land for investment “Hydropower development on Strei river, sector Subcetate - Simeria" amounting to 24,237 thousand RON;

- For disputes concerning penalties and interest required by suppliers and admitted in the table of creditors, totaling 9,713 thousand RON:
  - provision litigation Termoelectrica – in amount of 8,499 thousand RON;
  - other provisions – in amount of 1,214 thousand RON

- provision for litigation (pending case) for salary claims required by employees of Sebes working point, in total amount of 1,605 thousand RON, admitted in the table of creditors under the condition;

- provision for restructuring – represented by the gross salaried under Collective Labor Contracts and contributions to be provided to the layd off employees in amount of 11,437 thousand RON. The provision has been made under the provisions of CLC.

- provision for pension and similar obligations in the amount of 71,623 thousand RON, represent the actuarial calculation for the future employee benefits under the Collective Labor Contract.

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

18. NUMBER OF EMPLOYEES

As of December 31, 2014 and 2013, the Group's number of employees were 6,530, respectively 6,868.

19. ELECTRICITY REVENUES

The Group has sold 18,684 thousand MWh during 2013 (15,025 thousand MWh in 2013). The price of electricity for the energy rendered on the regulated market is regulated by ANRE.

The revenues for the period ended December 31, 2014 and 2013 were as follows:

	U.M.	31 decembrie 2014	31 decembrie 2013
1. Total electric energy delivered	**MWh**	**18,683,991**	**15,025,168**
(A+B+C) out of which :	**RON**	**2,912,973**	**2,667,161**
A. Electric energy delivered on the	MWh	5,316,026	3,974,814
Regulated Maket, out of which:	RON	637,017	496,850
Supply for captive consumers and	MWh	5,316,026	3,974,814
Distribution operators (Electrica)	RON	637,017	496,850
B. Electric energy delivered on the	MWh	2,196,922	3,823,225
Free Market:	RON	376,190	674,287
Eligible consumers and licensed suppliers	MWh	2,196,202	3,823,225
	RON	376,052	674,287
C. Electric energy delivred on other markets	MWh	11,171,043	7,227,129
Aut of which:	RON	1,899,765	1,496,023
Day Ahead Market	MWh	3,937,091	2,525,234
	RON	624,994	434,673
Bilateral Contracts Market	MWh	5,773,364	3,331,567
	RON	938,806	698,363
OTC	MWh	125,038	-
	RON	21,607	-
Intraday	MWh	24	-
	RON	7	-
Balancing market	MWh	1,324,549	1,359,945
	RON	309,706	357,511
Membrii PRE	MWh	(50)	(41)
	RON	51	47
Direct consumers	MWh	10,970	1,036
	RON	4,585	5,421
Micro hydro power plants consumers	MWh	57.304	64
	RON	8	8
2. System services, transportation, market administration out of which:	RON	445,555	340,779
Delivered to Transelectrica	RON	257,712	269,026
System services, transportation, market administration on the free market	RON	132,402	31,036
Transportation sold on the free market	RON	55,441	40,717
3. Green certificates	RON	38,711	57,679
4. Emission reduction units	RON	-	7,608
5. Other	RON		838
TOTAL (1+2+3+4+5)	**RON**	**3,397,239**	**3,074,065**

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

20. PURCHASES OF ELECTRICITY

The purchases for the period ended December 31, 2014 and 2013 were as follows:

	December 31 2014 000 RON	December 31 2013 000 RON
Transelectrica SA (balancing market)	7,923	16,970
Other	1,266	4,918
OPCOM	4,853	4,853
Total	**14,042**	**26,741**

21. OTHER OPERATING INCOME

Other operating income was as follows:

	December 31 2014 000 RON	December 31 2013 000 RON
Deferred revenues reversal	7,096	7,142
Income from repair and maintenance activity	8,517	23,917
Other income	12,601	9,326
Total	**28,214**	**40,385**

22. OTHER OPERATING EXPENSES

Other operating expenses are as follows:

	December 31 2014 000 RON	December 31 2013 000 RON *(Restated)
Transport and energy distribution	190,763	151,714
Water expenses	379,729	319,909
Raw materials and consumables	42,723	44,581
Services contracted for repairs and maintenance	3,950	6,254
Provisions for current assets	4,254	3,468
Provisions for non current assets	22,486	6,232
Other provisions	(22,584)	(11,931)
Penalties for delay in payments to suppliers	5,661	50,447
Security expenses	21,302	20,890
Transportation expenses	9,115	12,146
Carrying value of disposed items	(17,171)	(21,199)
Tax on special constuctions	150,087	-
Others	74,537	71,409
Total	**864,852**	**653,920**

*) The consolidated statement of other operating expenses as of December, 2013 has been restated in accordance with Note 31.

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

23. FINANCIAL RESULT

Financial result is presented as follows:

	December 31 2014 000 RON	December 31 2013 000 RON *(Restated)
Interest income	7,506	1,727
Other financial income	2,511	2,596
Gain from operations with embedded derivatives	-	32,216
Financial income	**10,017**	**36,539**
Interest expense	(30,925)	(63,877)
Other financial expenses	(625)	(249)
Loss from operations with embedded derivatives	-	-
Financial expense	**(31,550)**	**(64,126)**
Net foreign exchange loss on financing activities	(4,811)	(18,710)
Financial result	**(26,344)**	**(46,297)**

*) The consolidated statement of financial result as of December, 2013 has been restated in accordance with Note 31.

24. TAXATION

The taxation system in Romania is undergoing a continuous development phase and is subject to various interpretations and constant changes which may sometimes be retroactive. Although the actual tax due for a certain transaction can be minimal, penalties can be significant, as they can be calculated at the value of the transaction and at a minimum ratio of 0.3% per day starting with march 2014, but can be significantly higher. In Romania, the fiscal year remains open for tax audit for a period of 5 years.

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

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

25. OPERATIONAL ENVIRONMENT

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

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

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

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

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

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

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

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

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

26. COMMITMENTS

Contracts for the refurbishment and modernization of hydropower plants

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

Thus, now the contractual price after reducing the value of works related to CHE Gogosu and after supplementation due to work commitments and various price adjustments, amounts to EUR 239,918 thousands. Up untill 31 December 2014 the refurbishment works have been finalized for 7 hydro power plants with an installed power of 30.8 Mw and the refurbishments to the 8th power plant have started

26. COMMITMENTS (CONTINUED)

Refurbishment on Lower Olt

In 2004, the Company concluded a contract with Voith Siemens Hydro Power Generation Gmbh. & Co. KG (currently Voith Hydro) and Va Tech Escher Wyss Gmbh (currently Andritz Hydro) worth EUR 356.7 million for the rehabilitation and modernization of the hydropower plants on Lower Olt (Ipotesti, Draganesti, Frunzaru, Rusanesti, Izbiceni – 20 groups), further to which all the 20 refurbished hydro-aggregates had been completed and put into operation by the end of 2013. The status as at December 31, 2014 is as follows:

- completed acceptances upon completion of works and commissioning for all plant hydro-aggregates and installations for Ipotesti HPP, Draganesti HPP, Frunzaru HPP, Rusăneşti HPP and Izbiceni HPP;

- completed final acceptances of block equipment 1 and 2 in all plants, less block 2 in Izbiceni HPP;

- completed final acceptances of the plant equipment for Ipotesti HPP, Draganesti HPP and Frunzaru HPP.

The final acceptance commissions for hydro-aggregates have postponed the acceptance because of the corrosion of the steel components of the turbine in the 19 hydro-aggregates. Because of the technical issues occurred, which could not be amicably settled as the Contractor refused to assume responsibility for their settlement, arbitration proceedings have been filed with the Court of International Arbitration.

The Wien District Tribunal issued temporary injunctions for both Andritz Hydro and Voith Hydro, blocking the enforcement of guarantees. Hidroelectrica challenged such injunctions, and the hearing in the trial with Andritz Hydro took place in November 2014. In December 2014, the Wien Tribunal ruled in favor of Hidroelectrica, and cancelled the emergency ordinance. Andritz Hydro filed appeal.

To complete the works on the Dispatch Center of Slatina HPU, Hidroelectrica allocated RON 3,513,000 to the 2015 investment program.

Refurbishment of Stejaru HPP

To refurbish Stejaru HPP, in 2014 Hidrolelectrica terminated the loan contract with EBRD for the financing of such project, annulling the pre-qualification stage started in 2013.

Further to such decision, Hidroelectrica decided to resume the procurement process for the refurbishment works at Stejaru HPP, based on GEO no. 34/2006, financing the project from own sources and/or loans.

On 12.06.2014, the contract notice for such project was published in SEAP and JOUE, and the bids were opened on 15.09.2014. A single bid was submitted for such tender which, further to the analysis of the evaluation commission, was declared uncompliant. The result of the awarding procedure was communicated on 06.10.2014.

Hidroelectrica resumed the procurement procedure for such project by publishing in SEAP and JOUE a new Contract Notice on 09.12.2014. The tender was completed and the contract executed in 2015.

To ensure the conditions for the contract to become effective, Hidroelectrica allocated RON 66,750 thousand to the 2015 investment program.

26. COMMITMENTS (CONTINUED)

<u>SIRIU-SURDUC HPD</u>

Approval documents: Decree 294/1981.
Location – in Buzău, Covasna and Vrancea counties, on Buzău, Bâsca Mare, Bâsca Mică and Zabala rivers.

Need and opportunity

The initial development scheme, according to the approval decree, was designed as a complex and multi-purpose development meant to fulfill, on the one hand, energy functions (production of electricity, system services, coverage of NES peak loads, storage of energy through water catchment) and water management functions (regulating water storages, supply with drinking and industrial water, irrigations, improvement of water quality, flood protection).

To optimize the investment by energetic criteria only, starting from 2003 the Company conducted optimization studies as follows:

In 2003, a study was conducted on the construction solutions at Surduc-Siriu HPD, Cireşu – Surduc head and Surduc – Nehoiaşu head, whose primary purpose was to <u>reduce</u> the investment <u>costs</u> by optimizing technically the works in the development, the installed flow and installed capacity at Nehoiaşu II HPP, if the annual electricity production approved by Decree 294/1981 is maintained.

The optimized scheme of Surduc – Nehoiaşu development comprises the same elements as the initial project, but, due to changes in energy conditions, the installed flow in the 2 plants was reduced from 2x20 cm/s to 2 x 13 cm/s and so was the useful volume of Cireşu reservoir from 160 million cm to 90 million cm, corresponding to a NWL of 965.75 mdM. The diameter of the headraces of the two plants remained the same, 4 m, and the diameter of Surduc – Nehoiaşu pressure gallery was reduced from 3.5m to 3.1m on section 3 (horizontally and inclined). The installed capacity at Nehoiaşu HPP – Surduc head was reduced from 2x83 MW to 2x55 MW.

Surduc weir dam, located on Bâsca Mare river, will serve to catch and regulate the river to allow the operation of Surduc – Nehoiaşu head, independently of the construction of Cireşu dam and Surduc plant. Surduc storage will have a useful volume of 282,000 cm, ranging between 868.50 and 873.00 mdM.

The contracted value as at December 31, 2014 for the works mentioned above is **RON 175,824,965**.

<u>RASTOLITA HPD</u>

Approval documents: Decree no. 95/1989
GD 489/1996 – approving the optimization of technical and economic indicators of the site

Works commencement date: 1989

Location: Răstoliţa river/ Mureş hydrographic basin/ Răstoliţa, Borzia localities / Mureş county

Need and opportunity

The purpose of Rastolita HPD is to use the hydrological potential of Rastolita river and the right side tributaries of Mures river on Lunca Bradului – Bistra Muresului sector. In the catchment sections, such small rivers total a multi-annual normal flow of Qm = 5.92 cm/s, and the construction of Rastolita dam at the final NWL rate of 760.00 mdM generates a gross head of 267.50 m. Following the environmental endorsement and the requirements of the National Energy System, the development scheme was optimized and approved by GD no. 489/1996.

The optimized development scheme at Pi = 35.2 MW and Ea = 116.5G Wh/year at Qi = 17cm/s was endorsed by the Board of Directors of CONEL by Resolution no. 17/31.05. 1995 and approved by the Inter-ministerial Committee of the Government of Romania on 21.03.1996.

The contracted value as at December 31, 2014 is **RON 129,898** thousand**.**

26. COMMITMENTS (CONTINUED)

STREI HPD

Approval documents: Investment approval decree no. 40/1989

Location - Strei river/ Mureș river hydrographic basin / Subcetate, Plopi, Bretea Romăna, Strei, Călan, Băcia, Simeria localities / Hunedoara county/ 190 ÷ 295 mdMB.

Need and opportunity (according to the approval documents)

The purpose of the investment site is to use the hydropower potential of the lower sector of Strei river, by constructing hydropower plants with a total installed capacity of 84 MW and electricity production of 170.100 Mwh in an average year.

The site is located between Subcetate locality and the junction of Strei river with Mureş river. The development will serve the following functions: electricity production, development of the irrigation system in the area, protection of localities and land against floods and water supply.

Main objectives of the development scheme

According to the approved scheme, the hydropower development on Strei river consists of the construction of five dams and seven hydropower plants which will regulate the flow of Strei river on a 32.5 km distance, at a head of 105 m and flow of 100 cm/s, along with the plants existing on Râul Mare. Works started in 1989.

In 2003, an optimization study was conducted, which was endorsed by CTE Hidroelectrica under no. 203/2003. The Company approved the most advantageous solution from an energy and economic stand point, with approximately equal heads and three lakes: Subcetate of 5.75 million cm, Strei of 1.8 million cm and Simeria of 1.8 million cm.

In 2008, the Company conducted the “Study for optimizing construction solutions and energy indicators for sites Strei HPP, Călan HPP, Băcia HPP and Simeria HPP”, which provided:

- the building of a single storage at Strei, and the construction of a MHPP at Strei HPP for the returned flow
- installed flow on all four plants of 50 cm/sec
- returning a flow of 50 cm/sec on Mureş river
- the procurement of green allowances

The study was endorsed by CTE Hidroelectrica under no. 53/2009.

In 2013, the Company conducted the “Feasibility study on the change of technical and economic indicators and scheduling of milestones for the investment site HPP on Strei river on Subcetate-Simeria sector”.

Based on CTE Hidroelectrica SA endorsement no. 29/2014, further to the analysis of the documentation, the stand points expressed and the talks held on the subject, the Company chose the solution of seven hydropower plants, three of which provided with reservoirs and four diversion-type hydropower plants, comprising 14 hydro-aggregates and 3 micro hydro-aggregates with a total installed capacity of 84.25 MW and an average electricity production of 164.52 GWh/year.

The contracted value as at December 31, 2014 is **RON 65,990** thousand.

26. COMMITMENTS (CONTINUED)

Other commitments:

In 2014, the Company carried out and completed tenders for the award of services to prepare:

- the integrated feasibility study for the project “Refurbishment of Mărișelu HPP”;
- the feasibility study for “SF – Level 4 works (LN 4) and modernization of HA2 Remeti HPP, including the 110 kV plant, the general installations of the plant, the pressure junction and Dragan dam”;
- the technical project for “Beresti HPP. Modernization of HA2”.

The Company concluded the contract for the modernization of hydro-aggregate no. 2 at Dragasani HPP, due to complete in 2015. The contract value amounts to RON 22,650,000 without VAT. The Company also concluded the contract for the modernization of the hydro-aggregate at Stanca HPP, due to complete in 2015. The contract value amounts to RON 9,776,730 without VAT.

2) Environmental conditionality

In 2014 monitoring and controlling actions were held regarding the significant environmental aspects. The activity took place in areas such as prevention of water pollution, land protection, removal and prevention of the effects of floods and works to improve the landscape affected by hydro technical workings.

Of the 227 hydro power objectives that require environmental permits, at the end of 2014, the Company held environmental permits for 220 objectives, representing approx. 97% of the total. Validity periods are between 2015 ÷ 2024.

Checks performed by local environmental authorities have not reported deviations from compliance with legislation, improvement measures, proposed by the environmental clearance during controls, were included in the annual work plans. From total of 78 chekes persformed in 2014 there were recived two fines which were challenged in court.

3) Employee benefits

As described in note 3 (t), the Group provides financial benefits and benefits in kind both to employees and former employees. In accordance with IAS 19 "Employee Benefits", the Group recorded a provision for employee benefits in the amount of RON 71,623 thousand at December 31, 2014 (as at December 31, 2013: RON 78,882 thousand). The amount of this allowance was determined by an independent actuary and recorded in the financial statements of the Group and is subject to periodic review.

4) Penalties on debts to suppliers

The group recorded during 2014 penalties related to outstanding debt in the amount of RON 923 thousand, representing mainly penalties applied by CE Oltenia and in accordance with the reorganization plan.

5) Other conditionality

At 31.12.2014, the Group is involved in various litigations, such as:

- Disputes related to the insolvency procedure

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

26. COMMITMENTS (CONTINUED)

- Labor disputes which have as object:

  - payment of compensatory salaries
  - Issuance of certificates for work activity in group I or II
  - appeal of dismissal decisions.

In the opinion of the Group's attorneys, the Group's administrator and management considers that the settlement of disputes mentioned above will be favorable and will not have a negative impact on the consolidated financial statements for the financial year ended at that date.

6) Disputes with Univers Union Federation and Hidrosind, Hidroelectrica's Branch or dismissed employees.

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

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

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

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

In 2014 the Group was involved in a number of 460 labour litigations, out of which 253 were in trial and 222 were won by the Group. The total amount paid by the Group in 2014 for compensatory salaries is RON 32,896 thousand.

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

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

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

For disputes not covered by Law 10/2001, the Group's management regularly analyze the pending litigation, and following the consultation with its legal representatives decide the need to create provisions for the amounts involved or their presentation in the consolidated financial statements. Based on information available to the Group, the management estimates that these disputes do not have a significant negative impact on the consolidated financial statements as at December 31, 2014.

26. COMMITMENTS (CONTINUED)

8) Other litigations

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

9) Onerous contracts

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

10) Insolvency

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

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

On September 10th, 2012 it was submitted to the Bucharest Court the preliminary table of creditors. Compensation, damages, interests and penalties were required primarily by: Alpiq, Alro, Energy Holding and Nuclearelectrica. Some of the creditors have made appeal to the creditors table.

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

The amount of RON 391.847 thousand representing debt requested by MECMA, and the amount of RON 144.194 thousand, representing claims requested by ANAF, were submitted in the consolidated list of creditors under settlement condition of the criminal case no 7774/1/2011 before the High Court of Justice for committing the potential crime of undermining the national economy by some members of the Group management. These amounts represent potential damages suffered by MECMA and ANAF to the extent that the action of undermining the national economy by the board members of the Group who are defendants in the case, will be proven. Both MECMA and ANAF are civil party in the criminal case and have requested for the introduction of HIDROELECTRICA as civil responsible party. On 31 March 2014 the sentence was given by the High Court of Justice and the instance obliged the former management to pay to MECMA and ANAF the amounts of RON 339.916 thousand, respectively RON 129,722 thousand. In the same time Hidroelectrica was taken out from the list of parties involved in this lawsuit. The decision was ppealed.

11) Fiscal control

During the period August 9^{th}, 2012 – December 5^{th}, 2013 Hidroelectrica was subject to a fiscal inspection and the verified period was January 1, 2006 – June 30, 2012. As at January 23, 2013 the Fiscal authority has released the final inspection report and the imposed penalties amounted to RON 232,520 thousand.

The Company's management and administrator believe that the fiscal inspection result has no legal basis and has submitted to the General Direction of Appeals from the fiscal authority a contestation against the fiscal minute no F-MC 851/21.01.2014.

ANAF DGSC issued decision no. 406/December 18, 2014 whereby:

- it admitted in part the challenge filed by Hidroelectrica, it annulled in part the tax return for RON 14,222,342;
- it cancelled in part the tax return regarding the additional tax liabilities, i.e., for the amount of RON 3,962,875;

26. COMMITMENTS (CONTINUED)

-it rejected as ungrounded and unreasoned the challenge filed by Hidroelectrica regarding the additional tax liabilities, i.e., for RON 214,385,212, which represent:

- RON 45,726,804 income tax;
- RON 94,780,271 delay interest/increases on income tax;
- RON 15,549,532 delay penalties on income tax;
- RON 35,491,888 value added tax;
- RON 12,466,340 delay interest/increases on VAT;
- RON 8,066,669 delay penalties on VAT;
- RON 933,558 unemployment fund withheld from policyholders;
- RON 1,230,116 delay interest/increases on the personal contribution to the unemployment fund withheld from policyholders;
- RON 140,034 delay penalties on the personal contribution to the unemployment fund withheld from policyholders.

The Company will file action for annulment against Decision no. 406/December 18, 2014 within 6 months from the date thereof. The action for annulment has not been filed yet, it is being debated with the company representatives and the representatives of the insolvency administrator.

As scuh the Company has contracted from BRD Groupe Societe General a letter of guarantee totaling RON 232,520 thousand which was issued in favour of the fiscal authority. The letter of guarantee has a validity of 6 months and will expire on February 18, 2016.

Considering the fact that the fiscal decision is related to periods prior of the Company entering into insolvency, based on the representation of the lawyers of the Company in the case mentioned above are applicable the provisions of the insolvency laws (85/2006), which state that the creditors which claim amounts that are related to periods prior of the insolvency and which are not enlisted in the final creditors table are decayed from any rights related to the respective claims.

The administrator and the management of the Company believe that this litigation will not have a significant negative impact on the financial statemenst and will be settled favourable to the Company.

12) Litigation against Andritz

As at December 31, 2013 the Company is involved in a litigation against the parties Andritz Hydor GMBH (Germany) and Andritz Hydro GmbH (Austria). The litigation seeks annulment of the restitution of the amounts paid by Hidroelectrica SA amounting to EUR 13.625 thousand, representing advance payments from May and June 2003 for Phase III of the Iron Gates II project, according to the contract 2I/50675/09.11.2001, as it was amended by addendums no. 3 and 4 signed by the parties on 5.12.2002 and 26.03.2003. As per the final reorganization plan approved by the juridic administrator, these amounts have been compensated against current liabilities towards Andritz Hydro. The administrator and the management of the Group consider that this advance is fully recovered and there is no need to record an adjustment as of December 31, 2013.

13) Litigations related to the insolvency

As at December 31, 2014 the Company is involved in several lawsuits with the energy traders which are related to:

- Appeals against the denunciation of the bilateral agreements with the energy traders for the total amount of RON 1,661,667 thousand.
- Appeals against the closing of the insolvency procedure for the total amount of RON 1,521,074 thousand.
- –Appeals against the preliminary table of creditors

Based on the representation of the lawyers of the Company these litigations will not have a significant negative impact on the Company, as the Court of Appeal has neither infirmed any measure taken by the juridical administrator nor has concluded that the energy traders would be entitled to be enlisted in the creditors table.

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

The Group is a state-owned entity. The Ministry of Economy, Trade and Business Environment ("MECMA") owns 80.0561% of the shares of the Group. The value of the Group's transactions with the Ministry of Economy and State-controlled entities, or over which the State exercises significant influence represents a significant portion of sales and purchases recorded in the 2014 financial year.

28. SALARIES GROUP MANAGEMENT

The Group has no contractual obligations to pay pensions to former directors and administrators and has not granted any loans to managers or directors during their exercise. The salaries expenses granted to directors (including those from subsidiaries) and administrators of the Group during 2014 were in amount of RON 9,823 thousand (as of December 31, 2013: RON 8,721 thousand).

29. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

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

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

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

Risk of the economic environment

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

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

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

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

29. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

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

	December 31 2014	December 31 2013
Financial assets	**000 RON**	**000 RON**
Cash and cash equivalents	580,384	80,436
Derivative instruments at FVTPL	109,389	109,389
Receivables and other debts	417,829	334,325
Financial liabilities		
Derivative instruments at FVTPL		-
Amortised cost	1,280,185	2,429,711

Price risk

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

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

The Counterparty Risk

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

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

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

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

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

	December 31 2014	December 31 2013
	000 RON	**000 RON**
Trade receivables	338,579	266,572
Other current assets	79,250	67,753

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

29. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

In the table below is an analysis of the trade receivables as at December 31, 2014 and December 31, 2013:

	December 31, 2014		December 31, 2013	
	Gross value	**Allowances**	**Gross value**	**Allowances**
Not past due	333,729	-	223,335	-
Between 30 - 90 days	2,925	-	28,461	-
Between 90 - 180 days	201	(182)	-	-
Between 180 – 365 days	709	-	14,927	(151)
Over 365 days	27,940	(26,742)	26,369	(26,369)
Total	**365,503**	**(26,924)**	**293,092**	**(26,520)**

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

29. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Liquidity risk

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

	December 31 2014 000 RON	December 31 2013 000 RON
Assets		
Monetary current assets in RON	985,589	394,973
Monetary current assets in EUR and USD	12,624	19,788
	998,213	**414,761**
Liabilities		
Monetary current liabilities in RON	(729,669)	(1,135,795)
Monetary current liabilities in EUR and USD	(614,575)	(1,356,538)
	(1,344,244)	**(2,492,333)**
Net position in RON	**255,920**	**(740,822)**
Net Position in foreign currency	**(601,951)**	**(1,336,750)**

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

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

As of December 31, 2014 and 2013, the Group recorded net current liabilities which indicate an increased liquidity risk.

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

	Net value	< 12 months	1 - 5 years	> 5 years
December 31, 2014				
Financial liabilities				
Trade and other payables	(447,564)	(447,564)	-	
Other debts	(275,055)	(210,996)	(64,059)	-
Long term borrowings	(407,282)	-	(396,167)	(11,115)
Short term borrowings	(214,343)	(214,343)	-	-
Total	**(1,344,244)**	**(872,903)**	**(460,226)**	**(11,115)**
December 31, 2013				
Financial liabilities				
Trade and other payables	(665,630)	(551.849)	(113.781)	-
Other debts	(416,404)	(290.054)	(126.350)	
Long term borrowings	(798,747)	-	(695.530)	(103.217)
Short term borrowings	(611,552)	(611.552)	-	-
Total	**(2,492,333)**	**(1.453.455)**	**(935.661)**	**(103.217)**

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

29. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Hydrological risk

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

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

The Interest Rate Risk

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

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

If the interest rates would be higher / lower by 1% (100 basis points) and all other variables were held constant, the Group's net income would increase / decrease by RON 6,216 thousand.

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

	December 31 2014	**December 31 2013**
	000 RON	**000 RON**
Borrowings	621,625	1,410,299
Cash and cash equivalents	(580,384)	(80,436)
Net Debt	**41,241**	**1,329,863**
Equity	15,819,679	14,849,807
Net debt to equity ration	**0.26%**	**8.96%**

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

29. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

The Foreign Currency Risk

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

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

	EUR	USD	RON	CHF	TOTAL
December 31, 2014					
Monetary assets					
Trade and other receivables			338,579		338,589
Other current assets			79,250		79,250
Cash and cash equivalents	12,489	89	567,760	45	580,384
Monetary liabilities					
Trade and other payables	(10,910)		(711,709)		(722,619)
Borrowings on short and long term	(515,234)	(88,431)	(17,960)		(621,625)
Net exposure	**538,633**	**88,250**	**1,715,258**	**45**	**2,342,457**

	EUR	USD	RON	CHF	TOTAL
December 31, 2013					
Monetary assets					
Trade and other receivables	-	-	266,572	-	266,572
Other current assets	-	-	67,753	-	67,753
Cash and cash equivalents	19,788	-	60,648	-	80,436
Monetary liabilities					
Trade and other payables	11,963		1,070,071		1,082,034
Borrowings on short and long term	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 expressed in RON thousand, unless specified otherwise)

29. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

The following exchange rates were applied during the year:

	Average exchange rate			Exchange rate as at		
	December 31 2014	**December 31 2013**	**December 31 2012**	**December 31 2014**	**December 31 2013**	**December 31 2012**
Lei / EUR	4,4446	4.4190	4.4560	4.4821	4.4190	4.4287
Lei / USD	3,3492	3.3279	3.4682	3.6868	3.2551	3.3575
Lei / CHF	3,6587	3.5900	3.6984	3.7273	3.6546	3.6681

Sensitivity analysis:

For a 10% strengthens of the RON against the relevant currency (EUR/USD/CHF) as of 31 December 2014 and 31 December 2013, would have increased profit by the amounts shown below. This analysis assumes that all other variables remain constant.

	Increase in profit December 31, 2014	**Increase in profit December 31, 2013**
EUR	(53,863)	124,517
USD	(8,852)	9,158
CHF		-

A 10% depreciation against the relevant currency (EUR/USD/CHEF) as of 31 December 2014 and 31 December 2013, would be a similar effect but with an opposite impact compared with the amounts shown above, assuming that all the other variables remain constant.

	Decrease profit December 31, 2014	**Decrease profit December 31, 2013**
EUR	53,863	(124,517)
USD	8,852	(9,158)
CHF		-

29. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Legislative Risks

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

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

The net value of financial instruments

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

At December 31, 2014, cash and equivalents, receivables and payables and other short term debt (including amounts owed to credit institutions) approaches their real value due to their short maturity.

30. EMBEDDED FINANCIAL INSTRUMENTS

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

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

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

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

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

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

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

30. EMBEDDED FINANCIAL INSTRUMENTS (CONTINUED)

The table below presents a distribution of the derivatives as at December 31, 2014 and December 31, 2013:

December 31, 2014	**Assets**	**Liabilities**
Embedded derivatives – short term	36,878	-
Embedded derivatives – long term	72,511	-
Total	**109,389**	**-**

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

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

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

- The fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices (includes listed redeemable notes, bills of exchange, debentures and perpetual notes).

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

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

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

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.

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

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

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

30. EMBEDDED FINANCIAL INSTRUMENTS (CONTINUED)

Financial assets at FVTPL

	December 31, 2014			
	Level 1	**Level 2**	**Level 3**	**Total**
Embedded derivatives		109,389		109,389
Total		**109,389**		**109,389**

Financial assets at FVTPL

	December 31, 2013			
	Level 1	**Level 2**	**Level 3**	**Total**
Embedded derivatives	-	109,389	-	109,389
Total	**-**	**109,389**	**-**	**109,389**

There were no transfers between Level 1 and 2 in the years ended December 31, 2014 and December 31, 2013, respectively.

31. COMPARATIVES

During 2014, the Group has corrected the presentation of certain transactions whithout affecting the result of the year 2013, as presented below:

Consolidated statement of profit and loss

	31-Dec 2013	**31-Dec 2013**	**31-Dec 2013**
	(As reported previously)	**reclasification**	**(as restated)**
Sales of electricity	3,074,065	-	3,074,065
Other	79,616	(39,231)	40,385
Total revenues	**3,153,681**	**(39,231)**	**3,114,450**
Operating expenses			
Electricity	(26,741)	-	(26,741)
Depreciation and amortization	(996,365)	-	(996,365)
Salaries and wages	(474,806)	-	(474,806)
Other operating expenses	(711,861)	57,941	(653,920)
Total operating expenses	**(2,209,773)**	**57,941**	**(2,151,832)**
Operating gain	**943,908**	**18,710**	**962,618**
Financial income	4,323		4,323
Financial cost	(64,126)	(18,710)	(82,836)
Derivative gain	32,216	-	32,216
Derivative loss	-	-	-
Financial Result	**(27,587)**	**(18,710)**	**(46,297)**
Gain before income tax	**916,321**	**-**	**916,321**

32. SUBSEQUENT EVENTS

Asset sale – March 2015

The Creditors' Committee of Hidroelectrica SA has approved the sale of 20 packages of assets, consisting of 31 small hydro-plants. Further to the tenders conducted on March 30, 2015, 1 package of assets was sold comprising 1 small hydro-plant, namely:

- Asset micro hydropower plant in the Bolovanis river basin, Neamt county: small hydro-plant Bolovanis (Pi = 0.55 MW, Em = 1.60 GWh, awarding price = RON 1,484,160), awarded to S.C. THREE PHARM S.R.L. (Romania, Targu Mures)

Conclusion of the guarantee package in force for 2015 for BRD Groupe Societe Generale

On March 11, 2015, the following were concluded:

- Addendum no. 6 to contract no. G131/September 29, 2009 for assignment of receivables as guarantee;
- Addendum no. 3 to contract no. G74/June 10, 2011 for assignment of receivables as guarantee,

whereby Hidroelectrica granted guarantees to secure the financial obligations existing as at December 31, 2014 based on the agreements executed for the investment loan granted in 2011 and the credit line granted in 2009.

The financial obligations existing as at December 31, 2014 towards BRD Groupe Societe Generale were secured in accordance with the coverage degrees mentioned in the investment loan contract and in the credit line contract.

Contracted loans

On April 7, 2015, the Company executed the loan contract worth EUR 50 million with the BRD – ING consortium. The loan is used for general financing needs, including loan refinancing, is due in 5 years and it can be drawn within 6 months from contract date. It bears a 1.5% margin at 3M Euribor and a granting commission of 0.2% of the amounts drawn.

Case ENERGY HOLDING v. EURO INSOL

By Civil Sentence no. 43 of January 6, 2015 issued in file no. 29713/3/2012, the Bucharest Tribunal rejected as ungrounded the challenge filed by Energy Holding against the measure of insolvency administrator Euro Insol to terminate energy sale-purchase contract no. 33CE/January 14, 2004. In addition, the court ordered appellant Energy Holding to pay Hidroelectrica all the court expenses in amount of RON 412,825.20.

Hidroelectrica entered into insolvency on June 20, 2012, according to the decision of the Bucharest Tribunal issued in file no. 22456/3/2012. EURO INSOL was appointed insolvency administrator. EURO INSOL immediately started negotiations with all contractual partners under the electricity sale contracts in order to align the contractual price to the price charged on electricity markets, where energy was sold at double the contract prices. Because electricity was sold at contract prices, Hidroelectrica has incurred cumulated losses of RON 4,874,746,999 (approximately EUR 1.1 billion) between 2006 and 2012 only.

The objection of energy traders to Hidroelectrica's initiation of the insolvency procedure

After pending the issuance of a ruling on January 14, 2015 and 4 postponements of the ruling, on February 12, 2015, the Bucharest Tribunal rejected as ungrounded all the objections raised by energy traders and trade unions to the decision to reopen the insolvency procedure of Hidroelectrica.

The objection registered with the Bucharest Tribunal under no. 26502/3/2012 was initially rejected as deprived of purpose by Sentence no. 6218 issued on June 19, 2013. Such sentence was quashed by the Bucharest Court of Appeal which, by decision no. 459 of February 25, 2014 rejected the trade unions' appeal and remanded the case to the Bucharest Tribunal.

32. SUBSEQUENT EVENTS (CONTINUED)

In this stage, the Bucharest Tribunal rejected as ungrounded the objections filed by Alpiq Romindustries, Alipq Romenergie, Alpiq AG and the National Trade Union Petrom Energie to the decision to initiate the insolvency procedure against Hidroelectrica on June 20, 2012.

In addition, the court ordered Alpiq Romindustries and Alpiq RomEnergie to pay court expenses in amount of RON 29,469.05 to Hidroelectrica and RON 29,516.71 to Fondul Proprietatea, which joined the case in favour of Hidroelectrica.

Hidroelectrica entered into insolvency on June 20, 2012 after it accrued debts due in less than one year of over RON 2.6 billion and debts due in more than one year of RON 1.5 billion. When the procedure was initiated, Hidroelectrica had been involved in 11 bilateral contracts concluded with energy traders, whereby energy was sold below production cost and at half the market price. Hidroelectrica was also registering losses from historical investments and contracts for retrofitting certain production facilities, and half of the annual production was sold on the regulated market at one third of the production cost.

Retrofitting of hydropower plant Stejaru

Through a contract notice, the Company initiated the procurement procedure “Open tender” to procure works for “The retrofitting of hydropower plant Stejaru” on December 9, 2014. On March 16, 2015, at the headquarters of Hidroelectrica, the bids for the award of the retrofit works at hydropower plant Dimitrie Leonida - Stejaru were publicly opened.

In early April 2015, the bidder represented by the association Romelectro SA – Litostroj Power DOO sent, on the terms established, the answers to the clarifications filed by the evaluation commission. After the analysis of the answers, the bid was declared compliant and the bidder was declared successful for the retrofitting of hydropower plant Dimitrie Leonida - Stejaru for EUR 75 million without VAT, 32% below the estimated project value in 2011.

Throughout the analysis of the bid, the members of the evaluation commission prepared draft reports and minutes, recording their observations during the analysis of the qualification documents, the technical and financial offer and the amendments to the contract.

In early May 2015, the retrofitting contract for hydropower plant Stejaru was executed.

Romanian and foreign companies joined the two large companies as subcontractors, such as SSH Hidroserv SA, Energomontaj SA, Electroservice RB SRL, Electroechipament Industrial SRL, General Design Tech SRL, ISPE SA, Energoconstruct SA, Concret Construct SRL, Mecanica IND 2004, Blansko Engineering AS (The Czech Republic).

The project will be carried out for approximately 7 years from contract execution and involves the retrofitting of the 6 hydro-aggregates. The works that must be performed are: rehabilitation and modernization of hydro-mechanical equipment whose technical condition, after appraisal, allows it (butterfly and round valves, suction pump cofferdams, pressure regulators, lifting and transport machinery); replacement of turbines, generators, transformers, automation equipment (of the plant’s general stations and installations), compressed air installations, cooling water, emptying of suction pumps, drainage and oil management, the 10.5 kV, 110 kV and 22 kV plants, own services transformers.

Also, the contract provides the design of the monitoring, control, protection and SCADA system, to bring the plant to the current operating standards and the rehabilitation of the constructions on the hydraulic circuit.

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

32. SUBSEQUENT EVENTS (CONTINUED)

Insolvency

On March 11, Civil Section III of the Bucharest Tribunal issued Civil Sentence no. 2515, whose minutes read as follows: “[The Court] rejects the exception of prematurity. Pursuant to Art. 11(1), letter j), by reference to Art. 101(5) of Law no. 85/2006, [the court] confirms the amendment and extension by one year, i.e., until June 20, 2016, of the reorganization plan of Hidroelectrica SA, proposed by EURO INSOL SPRL as insolvency administrator of the Company, as approved in the creditors’ meeting of December 18. 2014. [The court] schedules the hearing to continue the procedure for June 10, 2015.”

The consolidated financial statements were approved by management of the Company, on August 31, 2015, and signed on its behalf by:

Ovidiu Agliceru	Petronel Chiriac
General Director	Financial Director