

To the shareholders of
S.P.E.E.H. Hidroelectrica S.A under juridical administration

INDEPENDENT AUDITOR'S REPORT

Report on the Consolidated Financial Statements

- 1 We have audited the accompanying consolidated financial statements of S.P.E.E.H. Hidroelectrica S.A. under juridical administration ("the Company") and subsidiaries ("the Group") which comprise the consolidated balance sheet as at December 31, 2014, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

- 5 We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

Basis for Qualified Opinion

- 6 As discussed in the Note 11 to the consolidated financial statements, as of December 31, 2014 the Group does not meet several financial covenants presented within the long-term borrowings agreements in force at that time and did not obtain a derogation of fulfilment of these conditions from credit banks at the Consolidated Statement of Financial Position date. Therefore, as of 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.
- 7 As discussed in the Note 30 to the consolidated financial statements, as of December 31, 2014 the Group is involved in a long term electricity supply contract that includes derivatives that should be separated from the host contract. The fair value of the embedded derivatives as at December 31, 2013 is RON 109,389 thousand. As at December 31, 2014 the management has not updated the fair value of the embedded derivatives, which might be significant and material for the financial statements given the volume and commodities price changes. We were not able to determine during our audit any adjustments that would have been required for the year then ended had such an analysis for these embedded derivatives been performed.
- 8 Tangible assets in progress as at December 31, 2014 in total amount of RON 5.170.536 thousand, includes projects started long time ago in amount of RON 2,206,716 thousand, with variable degrees of completion at the date of Consolidated Statement of Financial Position and do not have a clear future capital commitment to complete, indicating impairment of these projects. The accompanying financial statements carry an impairment of non-current assets in progress in amount of RON 1.636.111 thousand, representing the value of hydropower constructions in progress proposed to be discontinued according to the restructuring plan approved as of February 22, 1999 by the CONEL General Shareholders Meeting (former National Company of Electricity) and an allowance for dismantling the non-current assets in progress in amount of RON 131,791 thousand. However a breakdown does not exist to which non-current assets it represents. The Company has not performed an impairment analysis of the tangible assets for which there were indications of impairment as at December 31, 2014. Furthermore, the total value of fixed assets presented in the accompanying consolidated financial statements prepared in accordance with IFRS, is derived from using the movements from the statutory standalone financial statements, without any detailed analysis being performed, We were not able to determine during our audit any adjustments that would have been required for the year then ended had such an analysis for these assets been performed.

Qualified opinion

- 7 In our opinion, except for the possible effects of the matters presented in paragraphs 7 and 8, and the effect of the corrections that could have been required regarding the matters presented in paragraph 6 the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of Hidroelectrica S.A. under juridical administration and its subsidiaries as at December 31, 2014, and its consolidated financial performance and its consolidated cash flows for the year then ended, in accordance with the International Financial Reporting Standards as adopted by the European Union.

Emphasis of Matter

- 8 We draw attention to the Note 3 to the consolidated financial statements which indicate that the consolidated financial position and the consolidated operating result of the Group are partially dependent on the decision taken by the Romanian Energy Regulatory Authority (“ANRE”) on charges of sale of electricity delivered on regulated market to supply and distributions suppliers, on tariff changes and / or decisions of the Romanian authorities that are not influenced exclusively by the Group management decisions. At the same time, permanent restructuring 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. These financial statements do not include adjustments that might arise from the result of this uncertainty. Our opinion is not qualified in respect of this matter.
- 9 We draw the attention to Notes 1 and 26 to the accompanying Consolidated Financial Statements in which it is presented that as at June 20, 2012 the Company entered into a reorganization process which was finalized on June 26, 2013. Starting with February 2014 the reorganization procedure has been reinstated due to the challenges made in court by the energy traders against the creditors table. As at the date of our report the Company is under juridical administration. These matters indicate an uncertainty regarding the Company’s ability to continue as a going concern. However, the Entity’s ability to continue as a going concern is dependent on its ability to generate sufficient future earnings and on the continued financial support from its shareholders and creditors and Romanian Government decisions. Company’s management and the juridical administrator believe that the Company will continue as a going concern and that the going concern assumption used for the preparation of these consolidated financial statements is appropriate. The accompanying consolidated financial statements do not include any adjustments in respect of these uncertainties. Our opinion is not qualified in this respect.
- 10 We draw attention to Note 26 and 32 to the consolidated financial statements which indicate that consequent to the court allowing the appeal by certain creditors, the Company went back under judicial administration on February 25, 2014. The creditors table approved on June 26, 2013 (Company exiting its first insolvency) is still subject to the outcome of the these cases. The Company management and judicial administrator believe that likelihood of change in creditors table is not very likely. The accompanying consolidated financial statements do not include any adjustments in respect of this uncertainty. Our opinion is not qualified in this respect.
- 11 Further to paragraph 11 above, we draw attention to Note 26 to the consolidated financial statements which indicate that as of December 31, 2014 the Company was subject to a fiscal control which was finalized in January 2014, pertaining to the period from 2006-2012, prior to Company’s first insolvency period, from which it came out on June 26, 2013. The additional taxes and penalties payable as per the notification from the fiscal authorities is RON 232.5 million. Further to the challenge submitted by the Company, ANAF issued Decision no. 406 of December 18, 2014 whereby it reduced the claimed amount to RON 214.4 million. As at the issuance date of the accompanying consolidated financial statements, the Company has filed a challenge against the tax return. The management of the Company and the judicial administrator believe that such additional taxes and penalties are without merit as well as against the applicable legal provisions. The accompanying financial statements do not include any adjustments to reflect this uncertainty. Our opinion is not qualified in this respect.

Other Matters

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

For signature, please refer to the original Romanian version.

Deloitte Audit S.R.L.
Bucharest, Romania
August 31, 2015