

S.P.E.E.H. HIDROELECTRICA S.A.
Two-tier Company



FINANCIAL STATEMENTS
For year ended on
December 31, 2019

Prepared in accordance with
the Minister of Finances Order no. 2844/2016 regarding approval of
the Accounting Regulations in accordance with
International Financial Reporting Standards

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S.P.E.E.H. HIDROELECTRICA S.A. a two-tier company

STATEMENT OF THE FINANCIAL POSITION

AS OF DECEMBER 31, 2019

(All amounts are expressed in RON, unless otherwise stated)

	<u>Note</u>	<u>31 December 2019</u>	<u>31 December 2018</u>
Assets			
Fixed assets			
Tangible assets	5	14,695,506,367	15,287,335,832
Intangible assets		3,441,762	4,314,994
Other assets		2,390,385	2,703,649
Total fixed assets	8	214,385,212	-
		<u>14,915,723,726</u>	<u>15,294,354,475</u>
Current assets			
Inventories	6	70,883,042	70,000,911
Trade receivables	7	327,536,263	445,823,203
Other receivables	8	6,111,792	220,492,636
Advance payments		2,084,599	2,120,469
Bank deposits	9	1,736,855,286	2,496,667,070
Restricted cash		10,257,471	10,257,471
Cash and cash equivalents	10	222,976,476	75,763,691
Total current assets		2,376,704,929	3,321,125,451
		<u>17,292,428,655</u>	<u>18,615,479,926</u>
Total assets			
Equity and liabilities			
Equity			
Share capital	11	4,482,393,310	4,482,393,310
Adjustment of inflation to share capital	11	1,028,872,000	1,028,872,000
Public patrimony		39,619,341	39,619,341
Revaluation reserve	11	6,458,435,638	6,859,132,234
Other reserves	11	687,946,734	583,885,429
Retained earnings		2,398,100,713	3,565,623,133
Total own equity		15,095,367,736	16,559,525,447
		<u>15,095,367,736</u>	<u>16,559,525,447</u>
Liabilities			
Long-term liabilities			
Deferred tax liabilities	12	26,445,661	68,316,357
Leasing		14,529,615	-
Deferred income	14	155,794,499	161,186,535
Deferred tax liabilities	15	708,991,968	744,501,726
Employees' benefits	16 B	101,206,714	92,801,043
Provisions	18	582,561,094	286,554,994
Trade receivables	13	13,737,548	15,248,789
Other liabilities	17	14,096,461	8,125,574
Total long-term liabilities		1,617,363,560	1,376,735,018
		<u>1,617,363,560</u>	<u>1,376,735,018</u>

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S.P.E.E.H. HIDROELECTRICA S.A. a two-tier company**STATEMENT OF THE FINANCIAL POSITION**

AS OF DECEMBER 31, 2019

(All amounts are expressed in RON, unless otherwise stated)

	<u>Note</u>	<u>31 December 2019</u>	<u>31 December 2018</u>
Current liabilities			
Current portion of long-term loans	12	43,561,064	42,509,247
Current portion of leasing		5,064,771	-
Trade payables	13	161,425,822	155,933,031
Tax on current profit		181,676,152	106,847,471
Deferred revenues	14	36,997,921	25,832,992
Employees' benefits	16 A	32,019,137	34,923,038
Provisions	18	98,756,293	147,746,623
Other current liabilities	17	20,196,199	165,427,059
Total current liabilities		579,697,359	679,219,461
Total liabilities		2,197,060,919	2,055,954,479
Total equity and liabilities		17,292,428,655	18,615,479,926

The accompanying notes represent integral part of these individual financial statements.

Bogdan BADEA President of Directorate	Marian BRATU Member of Directorate	Razvan PAȚALIU Member of Directorate	Radu POP Member of Directorate	Cristian VLADOIANU Member of Directorate
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Marian Fetita
Manager of Accounting Department

Prepared by

Gabriela Vasilescu
Head of Reporting, Control and Planning
Department

S.P.E.E.H. HIDROELECTRICA S.A. two-tier company
STATEMENT ON PROFIT OR LOSS AND OTHER ELEMENTS OF THE OVERALL RESULT
FOR THE YEAR ENDED ON DECEMBER 31, 2019
(All amounts are expressed in RON, unless otherwise stated)

	Nota	2019	2018
Revenues			
Sales of electricity	19	4,142,446,993	4,252,014,632
Other operating revenues	21	34,761,548	21,118,098
Total Revenues		4,177,208,541	4,273,132,730
Operating Expenses			
Electricity purchased	20	(25,774,982)	(126,925,533)
Depreciation and impairment of tangible and intangible assets	6	(737,517,895)	(665,787,207)
Resumption of adjustments for the depreciation of tangible and intangible assets, net	6	34,528,626	127,149,416
Value adjustments of trade receivables and other receivables, net		(1,116,983)	(21,237,758)
Stock value adjustments		(247,132)	(570,013)
Salaries and other emoluments	16 C	(396,670,837)	(374,479,753)
Expenses with turbinated water		(327,629,039)	(359,594,144)
Materials and consumables		(9,576,551)	(8,107,558)
Maintenance and repairs		(101,776,664)	(89,309,146)
Changes in provisions	18	(325,353,206)	(356,518,513)
Other operating expenses	22	(310,799,736)	(185,492,071)
Total Operating Expenses		(2,201,934,399)	(2,060,872,280)
Operating Profit		1,975,274,142	2,212,260,450
Financial income	23	113,776,305	77,628,616
Financial expenses	23	(7,824,347)	(628,007)
Net financial result		105,951,958	77,000,609
Profit before income tax		2,081,226,100	2,289,261,059
Income tax	15	(694,689,582)	(349,983,319)
Net Profit		1,386,536,518	1,939,277,740
Other elements of the overall result			
Revaluation of tangible assets		-	1,371,943,377
Impact of deferred tax on revaluation reserve		-	(220,819,692)
Decreasing the revaluation reserve following the depreciation of tangible assets		(52,014,420)	
Other elements of the overall result		(52,014,420)	1,151,123,685
Total overall result		1,334,522,098	3,090,401,425

The accompanying notes represent integral part of these individual financial statements.

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President of Directorate	Member of Directorate	Member of Directorate	Member of Directorate	Member of Directorate

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Manager of Accounting Department

Prepared by,
Gabriela Vasilescu
Head of Reporting, Control and Planning Dpt.

S.P.E.E.H. HIDROELECTRICA S.A. two-tier company
INDIVIDUAL STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED ON DECEMBER 31, 2019
(All amounts are expressed in RON, unless otherwise stated)

	Share capital	Adjustment from IAS 29	Public patrimony	Reserves from revaluation	Other reserves	Retained earnings	Total
Balance on January 1, 2018	4,482,393,310	1,028,872,000	39,346,649	5,988,831,674	469,422,376	3,281,414,639	15,290,280,648
Overall result							
Profit of the year	-	-	-	-	-	1,939,277,740	1,939,277,740
Other elements of the overall result							
Revaluation of tangible assets	-	-	-	1,371,943,377	-	-	1,371,943,377
Deferred tax related to the revaluation of fixed assets	-	-	-	(220,819,692)	-	-	(220,819,692)
Total other elements of the overall result	-	-	-	1,151,123,685	-	-	1,151,123,685
Total overall result	-	-	-	1,151,123,685	-	1,939,277,740	3,090,401,425
Transactions with the Company's shareholders							
Dividends distributed	-	-	-	-	-	(1,821,429,318)	(1,821,429,318)
Total transactions with shareholders	-	-	-	-	-	(1,821,429,318)	(1,821,429,318)
Other changes of equity							
Establishing legal reserves	-	-	-	-	114,463,053	(114,463,053)	-
Resume of the revaluation reserve to retained earnings as a result of depreciation and disposal of tangible assets	-	-	-	(280,823,125)	-	280,823,125	-
Other changes*)	-	-	272,692	-	-	-	272,692
Balance on 31 December 2018	4,482,393,310	1,028,872,000	39,619,341	6,859,132,234	583,885,429	3,565,623,133	16,559,525,447

(to be continued on next page)

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*) See Note 14

S.P.E.E.H. HIDROELECTRICA S.A. two-tier company
INDIVIDUAL STATEMENT OF CHANGES IN EQUITY
 FOR THE YEAR ENDED ON DECEMBER 31, 2019
 (All amounts are expressed in RON, unless otherwise stated)

	Share capital	Adjustment from IAS 29	Public patrimony	Reserves from revaluation	Other reserves	Retained earnings	Total
Balance on 1 January 2019	4,482,393,310	1,028,872,000	39,619,341	6,859,132,234	583,885,429	3,565,623,133	16,559,525,447
Overall result							
Profit for the year	-	-	-	-	-	1,386,536,518	1,386,536,518
Other elements of the overall result							
Revaluation of tangible assets	-	-	-	(52,014,420)	-	-	(52,014,420)
Total other elements of the overall result	-	-	-	(52,014,420)	-	-	(52,014,420)
Total overall result	-	-	-	(52,014,420)	-	1,386,536,518	1,334,522,098
Transactions with Company's shareholders							
Distributed dividends	-	-	-	-	-	(2,798,679,809)	(2,798,679,809)
Total transactions with shareholders	-	-	-	-	-	(2,798,679,809)	(2,798,679,809)
Other changes of equity							
Establishing legal reserves	-	-	-	-	104,061,305	(104,061,305)	-
Transfer of the revaluation reserve to retained earnings as a result of depreciation and disposal of tangible assets	-	-	-	(348,682,176)	-	348,682,176	-
Balance on 31 December 2019	4,482,393,310	1,028,872,000	39,619,341	6,458,435,638	687,946,734	2,398,100,713	15,095,367,736

The accompanying notes represent integral part of these individual financial statements.

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 Manager of Accounting Department

Prepared by,
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 Head of Reporting, Control and Planning Dpt.

S.P.E.E.H. HIDROELECTRICA S.A. two-tier company
STATEMENT ON CASH FLOWS
FOR THE YEAR ENDED ON DECEMBER 31, 2019
(All amounts are expressed in RON, unless otherwise stated)

	Note	2019	2018
Cash flows from operating activities:			
Net profit		1,386,536,518	1,939,277,740
<i>Adjustments for non-cash items:</i>			
Depreciation of tangible assets	5	735,399,336	664,455,854
Depreciation of intangible assets		2,118,559	1,331,354
Resumption of value adjustments of tangible assets, net	5	(34,528,626)	(127,149,417)
Expenses from revaluation of tangible assets, net		-	5,434,388
Expenses with value adjustments of trade receivables and other receivables, net	7, 8	1,116,983	21,237,758
Expenses for value adjustments for inventories		247,132	570,013
Loss / (profit) from assignment of tangible assets	21, 22	253,525	(120,410)
Resumption of investment subsidies	21	(5,526,866)	(5,539,422)
Unrealized losses from exchange rate variation	23	2,439,132	97,903
Interest income	23	(86,126,778)	(58,376,605)
Interest expenses	23	344,101	322,495
Income tax	15	694,689,582	349,983,319
		2,696,962,598	2,791,524,970
Changes in:			
Trade receivables		119,604,215	(105,839,187)
Other assets		(2,125,363)	57,946,019
Inventories		(1,129,263)	(2,331,238)
Restricted cash		-	(10,257,471)
Advance payments		35,871	219,438
Trade receivables		1,056,293	4,286,386
Deferred revenues		11,299,759	1,669,361
Employees' benefits		5,501,770	17,812,988
Provisions	18	247,015,770	334,605,366
Other liabilities		(1,584,845)	(33,705,453)
Cash generated from operating activities		3,076,636,805	3,055,931,181
Interest paid		(344,101)	(322,495)
Income tax paid		(655,370,658)	(336,133,560)
Net cash from operating activities		2,420,922,046	2,719,475,126
Cash flow used in the investment activity:			
Acquisitions of tangible assets		(136,162,035)	(166,955,347)
Acquisitions of intangible assets		(1,245,327)	(333,600)
Proceeds from the sale of intangible assets		1,780,362	771,112
Interest earned		100,938,562	35,466,539
Payments for deposits with an initial maturity of more than 3 months		(9,246,000,000)	(5,916,000,000)
Proceeds from deposits with original maturities longer than 3 months		9,991,000,000	5,071,384,629
Net cash used in investment activity		710,311,562	(975,666,667)

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S.P.E.E.H. HIDROELECTRICA S.A. two-tier company
STATEMENT ON CASH FLOWS
 FOR THE YEAR ENDED ON DECEMBER 31, 2019
(All amounts are expressed in RON, unless otherwise stated)

	Note	2019	2018
Cash flow from financing activity:			
Loan's reimbursement	12	(43,258,011)	(89,211,742)
Leasing payments		(5,064,771)	-
Dividends paid	11	(2,935,698,041)	(1,684,411,087)
Net cash from financing activity		(2,984,020,823)	(1,773,622,829)
Net increase /decrease in cash and cash equivalents		147,212,785	(29,814,370)
Cash and cash equivalents on 1 January	10	75,763,691	105,578,061
Cash and cash equivalents on 31 December	10	222,976,476	75,763,691

The accompanying notes represent integral part of these individual financial statements.

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S.P.E.E.H. HIDROELECTRICA S.A. two-tier company
EXPLANATORY NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED ON DECEMBER 31, 2019
(All amounts are expressed in RON, unless otherwise stated)

1. REPORTING ENTITY

These financial statements are individual financial statements of the company "Societatea de Productie a Energiei Electrice in Hidrocentrale Hidroelectrica S.A". (The "Company" or "Hidroelectrica SA").

Hidroelectrica SA is registered with the Trade Register Office under no. J40/7426/2000, having a sole registration number 13267213. The main headquarters of the Company are in Romania, Bucharest, 15-17 Ion Mihalache Blvd., Tower Center Building, 11-14th floors, sector 1.

SPEEH Hidroelectrica SA's main object of activity is represented by the production and supply of electricity by exploiting the hydrological potential in compliance with the legislation in force, performing trade activities corresponding to the object of activity approved by the constitutive act, based on the production license no. 332 / 24.07.2001, for the commercial exploitation of the power generation capacities, including ancillary services, updated by the ANRE Decision no. 509/2017, valid until 24.07.2026, and the electricity supply license no. 932/27.05.2010 for supply of electricity, updated by the ANRE Decision no. 768/ 2016, valid until 01.06.2020. All these decisions granted by ANRE are updated on a regular basis.

As of December 31, 2019 and December 31, 2018, the Company's shareholders are the Romanian State which holds through the Ministry of Economy, Energy and Business Environment 358,842,926 shares, representing 80.06% of the share capital, and Fondul Proprietatea which holds 89,396,405 shares representing 19,94% of the share capital.

The company has 7 branches without legal personality, as follows: SH Bistrita, SH Curtea de Arges, SH Cluj, SH Hateg, SH Portile de Fier, SH Ramnicu Valcea, SH Sebes.

The company is currently administered in two-tier system, by the Supervisory Board and the Directorate. Between 20.06.2012- 21.06.2016 the Company was in insolvency procedure to reorganize the activity under the official receiver of EURO INSOL S.P.R.L.

The Company's listing process is in the preparation phase, respectively the selection of legal and financial consultants of equity advisor type. At the end of this stage, will be selected the offer mediation consortium (Global coordinators, book runners and retail brokers) for the IPO phase. At this moment, the schedule of the IPO has not been established, and it will be established together with the consultants (after their selection) and the Company's shareholders.

At 31 December 2018 and 31 December 2019 Hidroelectrica SA holds the following shares in other companies:

Subsidiary	Activity	Registered office	% participation as on 31 December 2019	% participation as on 31 December 2018
Hidroserv S.A.	Energy services (maintenance, repair, construction)	Bucharest, Romania	100%	100%
Hidroelectrica Trading D.o.o.	Trading energy	Belgrade, Serbia	-	100%

Hidroserv SA has entered the insolvency proceedings in October 2016. Hidroelectrica SA lost control of Hidroserv SA in February 2018 because of the decision of the syndic judge to waive the management right over Hidroserv SA and assign it to the official receiver. In November 2018, Hidroelectrica SA decided to liquidate Hidroelectrica Trading Doo. The liquidation process of the branch was completed on 31.08.2019. Considering the above, as of December 31, 2019, the Company no longer prepares consolidated financial statements.

Legal framework

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

- Implementing the mandatory national regulatory system for the energy sector in order to guarantee efficiency, competition, transparency in this sector, and consumers' protection;
- Issuing or suspending operating licenses for existing entities involved in the energy sector or those that will occur, aiming at creating a competitive environment within the electricity markets;
- Elaboration the methodology and criteria for calculating tariffs in the energy sector and the framework contracts for the sale, purchase and delivery of electricity to final consumers.

Based on GEO 114/2018, ANRE Order 10/2019 and ANRE Order 216/2019, the Company delivers to electricity suppliers at a regulated price between March 1, 2019 - December 31, 2020. The energy price and the quantity delivered are determined by ANRE, according to its own methodology. During 2019, the Company delivered a quantity of electricity of 1.6 TWh at the regulated price of 111.61 RON / MWh. In accordance with ANRE Decision 2215/2019, for the first semester of 2020, the Company must deliver 1.8 TWh at the regulated price of 102.56 RON / MWh, and for the second semester the maximum quantity is 1.3 TWh, the price not being yet established.

1. BASES FOR PREPARATIONS

2.1 Accounting bases

The individual financial statements were prepared in accordance with the Order of the Minister of Public Finance no. 2844/2016 for the approval of the Accounting Regulations in accordance with the International Financial Reporting Standards, as amended ("OMFP No. 2844/2016"). According to OMFP no. 2844/2016, International Financial Reporting Standards are standards adopted according to the procedure laid down in European Commission Regulation No 1606/2002 of the European Parliament and of the Council dated 19 July 2002 regarding the application of international accounting standards. (IFRS adopted by European Union). OMFP no. 2844/2016 also includes additional provisions compared to the IFRS provisions adopted by the EU, the Company identifying in its specific case the provisions related to the accounting of public patrimony and green certificates (see accounting policies 3. (h) and (s)).

The individual financial statements were authorized for issue by the Directorate and endorsed by the Supervisory Board on 21.04.2020. These statements will be submitted to shareholders for approval in the general meeting scheduled for May 2020.

Details of the Company's accounting policies are included in Note 3. This is the first set of the Company's annual financial statements in which IFRS 16 "Leasing contracts" has been applied. Significant changes in accounting policies are described in Note 2.6.

2.2 Functional currency and presentation currency

These individual financial statements are presented in Lei (RON), which is the Company's functional currency. All amounts are in RON, unless otherwise indicated.

2.3 Use professional estimates and judgments

For the preparation of these financial statements, the management has developed professional judgments, estimates and assumptions that affect the application of the Company's accounting policies and the reported amounts of assets, liabilities, income, and expenses. The actual results may differ from these estimates.

Estimates and assumptions are periodically reviewed. Revisions of estimates are recognized in the period in which the estimate was revised and in affected future periods.

a) Significant professional considerations

Information on professional judgment for applying the accounting policies which have most significant effects on the amounts recognized in the separate financial statements are presented below:

a1) Concession

In November 1998 was issued the Law no. 213/1998, which regulates the status of the public domain. This law stipulates that the ownership of the public patrimony belongs to the State or the local authorities which can lease or concession the goods that are under public property. In accordance with the provisions of Law no. 213/1998 and Law no. 219/1998, the Ministry of Economy and Trade (subsequently the Ministry of Energy, at present Ministry of Economy, Energy and Business Environment) has leased in the name of the State to the Company the hydroelectric installations (dams, piers, locks, water luster) and the lands on which they are located. Thus, in December 2004, was concluded the Concession Agreement no. 1 between the Ministry of Economy and Trade (concession provider) and the Company (concessionaire) for all tangible assets under public patrimony in the balance as on 31 December 2003 for a period of 49 years.

The main terms of the Concession Agreement no. 171 / 27.12.2004 supplemented with addendum no. 1 / 17.10.2013, no. 2 / 27.05.2015 and no. 3 / 26.02.2016 are the following:

- The state through the Ministry of Economy and Trade, later through the Ministry of Energy, currently the Ministry of Economy, Energy and Business Environment holds the property right over the assets that represent the object of the contract;
- The Company has the right to use these assets for a period of 49 years, starting with the date of signing the concession contract by both parties, for the purpose of operation, rehabilitation, modernization, refurbishment, and construction of new hydropower facilities according to investment programs;
- The Company pays an annual royalty of 1/1000 of the annual net income from the production of electricity and the provision of ancillary services, calculated according to the quantities actually sold;
- Upon termination of the contract, certain assets that were used by the concessionaire in the course of the concession will be returned to the concession provider, as presented below;
- The Company has the obligation to use the assets in accordance with the provisions of the concession contract and the operating license.

The concession agreement defines the following types of assets:

- Return assets - the assets returning as full right, free of charge and free of encumbrances to the concession provider, upon termination of the concession agreement. Return assets are the assets that made the object of the concession, mentioned in Annex no. 7 to the Government Decision no. 1705 /

29.11.2006 for the approval of the centralized inventory of assets belonging to public domain, as well as those resulting from the investments made during the concession agreement.

The Company has identified that the return assets in the Company's accounting records are those that resulted from the investments made during the concession contract in connection with the assets mentioned in Annex 7 to the Government Decision no. 1705 / 29.11.2006. The Company depreciates these assets for the duration representing the minimum between the duration of the concession agreement and the useful life of the respective assets.

- Taking-over assets - assets of the public domain nature (lands and buildings, technical installations and cars, as well as fixed asset in progress of public assets) made during the concession agreement which, upon termination of the concession agreement, can be returned to the concession provider, insofar the latter shows its intention to take over the respective assets in return for a compensation payment equal to the net accounting value. Takeover goods are assets that belong to the concessionaire and were used during the concession period.
- Own assets - the assets which, upon termination of the concession agreement, remain the property of the concessionaire. There are considered own assets (constructions, technological equipment, machines, machines and work installations, measuring and control devices and instruments, means of transport, furniture, office equipment, equipment for protection of human and material values and other tangible assets) assets which belonged to the concessionaire and were used by the concessionaire during the concession period, with the exception of the takeover assets; Taking over assets and own assets are amortized over the estimated useful life.

In the analysis of the application of IFRIC 12 "Service Concession Agreements", the Company considered the following characteristics of public-private service concession agreements in the analysis of the concession agreement concluded with the Ministry of Economy, Energy and Business Environment:

- a) The concession provider controls or regulates the type of services that the concessionaire must provide within the infrastructure, to whom it must provide and at what price;
- b) The concession provider controls - through ownership, right of benefit or otherwise - any significant residual interest in the infrastructure at the end of the term of the agreement.

The company concluded that do not fall under the scope of IFRIC 12 because it does not meet characteristic a) above.

The Company recognizes the royalty related to the concession agreement in Other operating expenses.

a2) Cash generating units (CGU)

A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of cash inflows generated by other assets or groups of assets.

Following the analysis, the Company concluded that all the assets of the power plants under license for electricity production represent a single cash-generating unit (mainly based on the fact that the license stipulates Company's obligation to maintain the availability of these production capacities), and obsolete power plants, as well as historical investment objectives for hydropower schemes with social functions that have been approached since the design concept as having only a secondary energy function, are distinct cash-generating units.

Regarding the historical tangible assets with multiple functions mentioned above, they will follow the same treatment and will be considered separate cash generating units when they are put into operation.

a3) Lease and modernization of return goods

In the analysis of the application of IFRS 16 "Leasing contracts" on the concession contract presented above, the Company considered the following criteria to determine whether this contract contains a leasing:

- a) The lessee has the right to obtain essentially all the economic benefits from the use of the identified asset;
- b) The lessee has the right to dispose of the use of the identified asset.

The company concluded that both criteria are met, consequently the concession contract contains a lease by which the Ministry of Economy, Energy and Business Environment transferred to the Company the right to control the use of public domain assets in exchange for a royalty. According to the provisions of IFRS 16, the Company determined the value of the asset related to the right of use and the value of the leasing related to this contract as null, because future lease payments are variable and depend on the revenues obtained by the Company.

Regarding the modernizations performed on the return goods, the Company concluded that they represent modernizations of the leasing asset for which the Company has the quality of "accounting owner", in the sense that these modernizations serve the purpose of the Company, as lessee, to use the assets in the leasing system. As a result, the Company recognized the modernizations on the return goods as tangible fixed assets.

The Company considers that the aspects presented below represent indications that the Company is the "accounting owner" of the modernizations carried out:

- a) The Ministry of Economy, Energy and Business Environment, as lessor, does not reimburse the cost of modernizations to the Company, as lessee. Thus, the financing of the modernizations works is made entirely from Hidroelectrica's own sources, the Company being responsible for covering the costs;
- b) The Company is not obliged to make improvements on the return goods. Decisions regarding the modernization projects on the return goods are taken by the Company, depending on the needs and purpose of using the return goods;
- c) The refurbishments are carried out on the Company's risk and responsibility and are not available to the lessor until the end of the contract.

a4) Obligations regarding the disassembly and restoration of the site

Order no. 119 of February 11, 2002 for the approval of the "Procedure for transition to conservation, post-use or abandonment of dams" stipulates the procedures for post-use and abandonment of dams to be performed by the owners of dams under certain conditions provided by law.

The owners of dams are defined by the Emergency Ordinance no. 244 of November 28, 2000 (republished) on the safety of dams and represents legal persons of any title, which have in custody, ownership and / or administration a dam.

Post-use refers to the dams that have reached the final level, which have fulfilled their normal operating stage, and which can still be used for purposes other than those for which they were built. Post-use requires the implementation of a set of measures and works to ensure the new functionality of the dam in a safe way, protection of the population and the environment. The necessary measures and works are carried out both by the care of the dam's owner or administrator, and by the post-user, by changing its use.

The transition to post-use of dams is proposed by the dam owners and is approved by order of the minister

under which subordination, coordination or under whose authority the unit that owns the dam is, based on the approval of the Ministry of Waters and Environmental Protection.

After the execution of the works provided in the post-use project, once they are completed, the protocol for the works are handed between the former owner and the post-user, following the legal procedures for handover-takeover report of the objective.

Abandonment refers to completed or unfinished dams, with or without normal obsolete life, which can no longer be operated or post-used due to technical impossibility or excessively high costs and which, at the same time, represent a potential danger to the population and environment. The abandonment requires the implementation of a set of measures and works for decommissioning the dam, the ecological reconstruction of the area and the proper ensuring of the flow of liquid and solid flows, including the maximum ones, in the initially barred section. The necessary measures and works are carried out by the care of the custode of dam or administrator and must ensure the flow conditions existing prior to the execution of the dam.

Initiation of operations for dam abandonment takes place:

- following the request of the owners of the dams, when they find that the necessary performance requirements cannot be met according to the law, the respective dams presenting an unacceptable associated risk;
- as a result of the disposition of the control authorities, following some performed expertise that show that the dams present an unacceptable associated risk, representing a real danger for the population and environment;
- following accidents, when the conclusions of the expertise expressly specify the abandonment due to the very high cost of the necessary restorations, as well as the non-fulfillment of the performance requirements and safety criteria etc.

The reception of the decommissioning and ecological reconstruction works is carried out by representatives of the owner of dam and of the central or local public administration, which takes over the respective area, by concluding a handover-takeover report.

The Romanian State through the Ministry of Economy and Trade, later through the Ministry of Energy, currently the Ministry of Economy, Energy and Business Environment, holds the property right over the hydropower facilities (dams, embankments, locks, accumulation lakes) and the lands on which they are located belong to public domain and which represent the object of the concession contract mentioned above. The Company has the right to use these assets for a period of 49 years, starting with the date of executing the concession contract (2004) for the purpose of operation, rehabilitation, modernization, refurbishment, as well as construction of new hydropower facilities according to investment programs. At the end of the concession contract, the Company transfers to the State the assets resulting from the rehabilitation, modernization, refurbishment, or construction carried out on the concession assets.

According to the concession contract, the Company has the right during the contract to abandon or deactivate assets that are part of the public domain with the consent of the concession provider.

The Company considers that, in accordance with the legal provisions and the practices in the field, the abandonment occurs in extreme situations, when the dams become an unacceptable risk with effect on the environment and the population. Given that these buildings have complex functions, in addition to producing electricity including flood protection, water supply, irrigation, etc., post-use is the usual way in which these buildings will be used by central or local public administration, after which can no longer be used for energy purposes.

The necessary works for post-use are established by technical documentation prepared based on an expertise assessing the safety of the dam at that time, carried on by experts certified by Ministries and certified / approved by the Ministry of Environment, Waters and Forests.

Also, the abandonment works are carried out based on a special documentation drawn up with the water management permit, the environmental protection agreement, and the local and central public administration approval, as the case may be. These documents and approvals will establish the activities necessary for carrying out the abandonment.

Given that the rate of degradation and lifespan of a dam varies significantly from case to case (some can reach hundreds of years), as well as the complexity and variety of works that may be required for post-use or abandonment, which depend of the actual situation of each dam at the time of post-use or abandonment, the works and costs that may be required cannot be reliably estimated in such a long time from the present time. Also, there are significant uncertainties regarding the evolution of the degree of degradation and determination of the real life of a dam, these depending on natural phenomena (floods, landslides, earthquakes, etc.) and the behavior over time of the construction itself.

The Company estimates that until the end of the concession contract (34 years remaining) the probability of situations requiring the transfer to post-use or abandonment of public domain assets or hydroelectric power plants owned by the Company (other than those in current assets described in Note 5) is reduced, given the long life of dams, which can be extended over 100 years through maintenance and improvement works.

Consequently, the Company recognizes decommissioning provisions when management has made the decision to abandon an asset or move to post-use. The provisions are recognized based on the costs resulting from the technical documentation prepared by specialists in the field employed by the Company.

a5) Electricity sale-purchase contracts

In the normal course of business, the Company concludes contracts for the sale-purchase of electricity on the centralized markets managed by OPCOM:

- spot contracts: transactions on the market for the next day and intra-day;
- regulated contracts with on-time delivery;
- unregulated contracts with delivery on time: bilateral contracts concluded on the centralized market of bilateral electricity contracts (PCCB) and on the centralized market with continuous double negotiation of bilateral electricity contracts (OTC);
- and spot transactions on the balancing market, settled through Transelectrica, the transmission and system services operator.

According to IFRS 9 “Financial Instruments”, a sale-purchase contract of a non-financial item (including electricity) may be classified and recognized as a financial instrument. According to paragraph 2.4 of IFRS 9, in the situation where the sale-purchase contracts of non-financial items can be settled net in cash or in another financial instrument, or through the exchange of financial instruments, they fall within the scope of IFRS 9. The standard is excepting from this rule, contracts initiated and continued for the purpose of receiving or delivering a non-financial element in accordance with the requirements of the entity regarding the purchase, sale or use (“the exception provided by IFRS 9”).

The management performed an analysis of the types of sale-purchase contracts of electricity described above to determine the extent to which these contracts fall within the scope of IFRS 9.

Spot transactions

Spot transactions, having as ultimate goal the balancing the electricity market, are contracts that cannot be settled otherwise than by delivering quantities of electricity on short term. Consequently, management considers that these contracts are subject to the exception provided by IFRS 9.

Regulated contracts

The regulated contracts are concluded for quantities and prices established by ANRE, representing electricity intended for the domestic consumers of the last resort suppliers, and do not allow unilateral termination, but termination limited to force majeure, bankruptcy or ANRE's order. For this reason, the management considers that these contracts are subject to the exception provided by IFRS 9, as they do not offer the option of termination with net cash settlement.

Unregulated contracts – PCCB

Unregulated contracts with term delivery on PCCB allow unilateral termination, as an act of will of the parties, with partial payment of undelivered quantities, and not by net cash settlement.

These contracts may be terminated in cases of non-fulfilment of the contractual terms by one of the parties (a) with partial payment of the undelivered quantities, in the case of electronic tender procedures on PCCB, or (b) with payment of the difference between the contracted price and the market price on the termination date, applicable to the undelivered quantity (net cash settlement). However, the termination situations do not intervene through an act of will of the parties but represent unforeseen events.

As these contracts do not offer the option of termination with net cash settlement, management applies the exception provided by IFRS 9.

Unregulated contracts – OTC

Unregulated contracts with on time delivery on the OTC market do not allow unilateral termination, but only termination as a result of a cause for termination (failure to fulfil obligations, bankruptcy, force majeure). The causes of termination do not reflect an act of will of the parties, but unforeseen events; consequently, the management considers that these contracts are subject to the exception provided by IFRS 9, as they do not offer the option of termination with net cash settlement.

Based on the detailed analysis above, the Company does not recognize assets or liabilities at the beginning of electricity sale-purchase contracts, but only sale-purchase transactions with electricity deliveries.

b) Assumptions and uncertainties due to estimates

Information on assumptions and uncertainties due to estimates that could cause significant adjustments in the following year is included in the following notes:

- Note 3 a) and b) - estimates regarding the useful lives of tangible and intangible assets;
- Note 5 - assumptions regarding the determination of the revalued value of tangible assets;
- Note 5 - assumptions regarding the determination of the recoverable value of current assets;
- Notes 18 and 25.1 - recognition and measurement of provisions and contingent liabilities;
- Note 8 - assessment of the recoverability of the receivables in dispute;
- Note 12 - evaluation of the obligations regarding the benefit plans and other long-term benefits of the employees: the main actuarial assumptions;
- Notes 3 d), 7 and 27 b) - determination of expected credit losses for trade receivables;
- Note 18 - estimates regarding the calculation of decommissioning provisions;
- Note 2.6 - estimates regarding the calculation of usage rights;
- Note 28 - COVID-19 - influences on the Company's activity.

Determining fair values

Certain accounting policies of the Company and the disclosure requirements need to establish fair value for both financial and non-financial assets and liabilities.

In determining the fair value of an asset or liability, the Company uses market data, to the extent possible. Fair values are classified within the different levels of the fair value hierarchy based on the input data used in valuation techniques, as follows:

- Level 1: quoted (unadjusted) prices on active markets for identical assets or liabilities;
- Level 2: input data, other than quoted prices included in Level 1, which are observable for an asset or liability, either directly (e.g. prices) or indirectly (e.g. price derivatives);
- Level 3: input data for an asset or liability that is not based on observable market data (unobservable input data).

If the input data used for establishing the fair value of an asset or liability can be classified at different levels of the fair value hierarchy, then the fair value is fully classified in the fair value hierarchy level corresponding to the lowest level of the data input for the entire evaluation.

The Company recognizes transfers between the levels of the fair value hierarchy at the end of the reporting period in which a change has occurred.

2.5 Basics of evaluation

The financial statements are based on the principle of continuity of activity. Financial statements are prepared on a historical cost basis, except for tangible assets that are measured at fair value using the revaluation method.

2.6 Significant Changes in Accounting Policies

The accounting policies applied in these financial statements are the same as those applied in the annual financial statements for the financial year ended 31 December 2018, except for the adoption of the new standards in force from 1 January 2019 presented below.

IFRS 16 „Leasing agreements”

Starting with January 1, 2019, the Company applied for the first time a new standard, IFRS 16 "Leasing agreements".

IFRS 16 replaces the existing leasing instructions, including IAS 17 "Leasing", IFRIC 4 "Determining the extent to which a commitment contains a lease", SIC-15 "Operating leasing - Incentives" and SIC-27 "Valuation of transactions which implies the legal form of a leasing agreement". The standard eliminates the current dual accounting model for tenants and requires companies to bring most leases into the balance sheet in a single model, eliminating the distinction between operational and financial leases.

In accordance with IFRS 16, a contract is or contains a lease where it confers the right to control the use of an identified asset for a period of time in exchange for compensation. For such agreements, the new model requires the lessee to recognize a right to use the asset and a leasing right. Assets with the right to use are depreciated during the leasing agreement, and the debt generates interest. Interest expenses are recorded in the profit and loss account during the lease, being calculated at the remaining balance of the lease for each period.

The company adopted IFRS 16 from 1 January 2019 using the amended retrospective method, without changing the figures from previous periods.

The company used the following exemptions from recognition:

- i) has not recognized any right to use the assets and no leasing debt related to the contracts that expire in 2019 (12 months or less from the initial date of application);
- ii) did not recognize any right to use the assets and no leasing debt for low value contracts (less than USD 5,000).

The rights to use the assets related to the previous operational leasing agreements were valued at the date of the initial application at the value of the leasing debt, adjusted with the advance payments. Leasing liabilities were valued at the value of the lease payments for the remaining contractual period, updated with the marginal lease rate on January 1, 2019. The marginal lease rate of the Company applied to leasing debts on January 1, 2019 was 1.31% for the contracts in EUR and 3.98% for contracts in RON.

The table below shows the value of the adjustment for each asset and liability item affected by the application of IFRS 16 on January 1, 2019:

	<u>1 January 2019</u>
Fixed assets	
Tangible fixed assets	24,002,260
Long-term liabilities	
Leasing	(19,594,386)
Short term debts	
Leasing	(4,407,874)

Mainly, the Company has lease agreements for buildings.

3. SIGNIFICANT ACCOUNTING POLICIES

The Company has consistently applied the following accounting policies for all periods presented in these financial statements except for changes in the accounting policies described in Note 2.6.

(a) Tangible assets

(i) Recognition and evaluation

Tangible assets are initially recognized at cost, which includes the purchase price and other costs directly attributable to the acquisition and bringing of the asset to the location and condition necessary for its use. Subsequent to initial recognition, land, plant, equipment and other tangible assets are measured at revalued amounts less cumulative depreciation and any impairment losses.

Borrowing costs attributable directly to the acquisition, construction or production of an asset that require a substantial amount of time to be used are capitalized as part of the cost of the asset. In determining the amount of eligible costs of capitalization during a period, any investment income generated by such funds is deducted from the borrowing cost. All other borrowing costs are registered as expense over the period they are incurred. Funding costs are represented by interest and other financial charges on loans contracted by an entity.

The initial cost of an intangible asset includes the estimated initial cost of dismantling and extracting it out of the records as well as restoring the location on which immobilisation is located when these amounts can be reliably estimated and the Company has an obligation with regard to dismantling, relocation of the tangible assets and restoration of the site.

Revaluations are performed with enough regularity so that the carrying amount should not differ materially from that which would have been determined by using fair value at the end of the reporting period.

When revaluing a tangible asset, cumulative depreciation is eliminated from the gross carrying amount of the asset and the net amount is adjusted to the revalued amount of the asset.

Spare parts, spare equipment and service equipment are classified as tangible assets if they are expected to be used in more than one period or may be used only in connection with an item of tangible asset.

Any profit or loss on the disposal of a tangible asset is recognized in profit or loss account.

(ii) Subsequent expenditure

Subsequent expenditures are capitalized only if it is probable that the future economic benefits associated with the expenses will enter the Company.

(iii) Depreciation

Depreciation is calculated to reduce the cost of tangible assets, less the estimated residual value, using the straight-line depreciation method over their estimated useful life, and is recognized in profit or loss account. Assets purchased under finance leases are amortized over the shorter of the lease term and their useful life, unless there is reasonable assurance that the Company will acquire ownership before the lease term is terminated. Land and fixed assets are not amortized.

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The estimated useful lives for intangible assets are as follows:

Category	<u>Duration on useful life (years)</u>
Buildings	65 - 97
Equipment	25 - 47
Equipment and systems of measurement and control	15 - 23
Means of transport	16 - 24
Other fixed assets	15 - 23

The depreciation method, useful lives and residual values are reviewed at each reporting date and adjusted accordingly, if appropriate.

(b) Intangible assets

(i) Recognition and evaluation

Intangible assets acquired by the Company and that have useful life durations are measured at cost less cumulative depreciation and losses.

(ii) Subsequent expenditure

Subsequent expenditures are capitalized only when they increase the future economic benefits embodied in the asset to which they refer. All other expenses, including internally goodwill generated and trademarks, are recognized in profit or loss when incurred.

(iii) Depreciation

Depreciation is calculated to lower the cost of intangible assets less the estimated residual value using the straight-line method over their estimated useful life, and is recognized in profit or loss.

The estimated useful lives for software and licenses are 3-5 years.

The depreciation method, useful lives and residual values are reviewed at each reporting date and adjusted accordingly if appropriate.

(c) Financial instruments

(i) Recognition and Initial evaluation

Commercial receivables are recognized when they are generated. All other financial assets and liabilities are initially recognized when the Company becomes part of a contractual arrangement relating to an instrument.

Cash and cash equivalents include balances of cash, sight deposits and deposits with a maturity of up to three months from the date of incorporation that have an insignificant exposure to the risk of changes in fair value, being used by the Company for the management of short-term commitments.

A financial asset (unless a trade receivable does not have a significant financing component) or a financial liability is initially measured at fair value plus, for an item that is not measured at fair value through profit or loss ("FVTPL"), transaction costs directly attributable to its acquisition or issue. A commercial loan without a significant financing component is initially valued at the transaction price.

(ii) Classification and subsequent evaluation

Financial assets

On initial recognition, a financial asset is classified as being measured at amortized cost or FVTPL.

Financial assets are not reclassified after their initial recognition, unless the Company changes its business model for the management of financial assets, in which case all the financial assets affected are reclassified on the first day of the first reporting period as a result of the change in the business model.

A financial asset is measured at amortized cost if the following two conditions are met and is not designated as FVTPL:

- assets are held in a business model whose objective is to hold assets for the purpose of collecting contractual cash flows; and
- its contractual terms give birth at specified times to cash flows, representing only the principal and interest payable on the principal.

Financial assets at amortized cost

- These assets are subsequently measured at amortized cost using the effective interest method. The amortized cost is reduced by depreciation adjustments. Interest income, foreign exchange profit and losses, impairment adjustments are recognized in profit or loss account. Any profit or loss on derecognition is recognized in profit or loss account.

Financial liabilities - classification, subsequent evaluation and profit or losses

Financial liabilities are classified as financial liabilities at amortized cost using the effective interest method. Interest expense and foreign exchange profit or losses are recognized in profit or loss. Any profit or loss on derecognition is recognized in profit or loss.

(iii) De-recognition

Financial assets

The company derecognizes a financial asset only when the contractual rights to the cash flows of the asset expire or when it transfers the financial asset, respectively when it transfers all contractual rights to receive cash flows through a transaction in which all risks and benefits assimilated for holding the asset are transferred or in which the Company neither transfers nor retains substantially all the risks and rewards of ownership, nor does it retain control over the financial asset.

The Company may enter transactions in which it transfers assets recognized in the statement of financial position, but retains, in whole or in substance, all the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognized.

Financial liabilities

The company derecognizes a financial liability when its contractual obligations are terminated, canceled, or expires. Also, the Company derecognizes a financial liability when its terms are changed and cash flows of the changed debt are substantially different, in which case a new financial liability is recognized at its fair value, based on the amended terms.

When derecognizing a financial liability, the difference between the accounting value and the value paid (including any non-monetary assets transferred or liabilities assumed) is recognized in profit or loss account.

(iv) Compensation

Financial assets and financial liabilities are offset and the net amount is presented in the statement of financial position only when the Company has a legal right to offset these amounts and intends to settle them on a net basis or to realize the asset and to pay simultaneously the debt.

(d) Share capital

Ordinary shares are classified as equity. The company recognizes the changes in the share capital under the conditions provided by the legislation in force and after their approval by the General Meeting of Shareholders and registration with the Trade Register.

(e) Depreciation

(i) Non derivative financial assets

The Company recognizes an adjustment for expected credit losses ("ECL") for financial assets measured at amortized cost.

Trade receivables loss adjustments are always valued at a lifetime ECL.

In determining whether the credit risk of a financial asset has increased significantly since initial recognition and ECL estimation, the Company considers reasonable and sufficient, information that is relevant and available at no cost or unreasonable effort. These include quantitative and qualitative information and analysis that are based on the Company's historical experience and on the correct loan assessment, including forecasted information.

The Company considers that the credit risk of a financial asset is increasing significantly if it has an outstanding maturity of more than 90 days.

- the debtor is unlikely to pay all his obligations to the Company without the Company taking actions such as the performance of the guarantee (if any); or
- the financial asset has a maturity of more than 180 days.

ECL over the lifetime represents the expected credit losses that will result from all implicit events during the expected life of a financial instrument.

The 12-month ELC represents the part of the ECL that results from the events of non-fulfillment of the obligations related to a financial instrument that may occur within 12 months from the reporting date (or a shorter period if the expected life of the instrument is longer less than 12 months).

ECL Evaluation

The ECL is a credit loss estimate that is determined by evaluating a series of possible outcomes. Credit losses are measured at the present value of all cash deficits (the difference between the cash flows due to the entity under the contract and the cash flows the Company expects to receive).

Impaired financial assets due to credit risk

At each reporting date, the Company analyses whether financial assets measured at amortized cost are impaired because of credit risk. A financial asset is impaired as a result of credit risk when one or more events have occurred having a negative impact on the estimated future cash flows of that financial asset.

Evidence that a financial asset is impaired includes observable data on the following events:

- (a) significant financial difficulty of the debtor;
- (b) a breach of contract, for example failure to fulfil obligations or an event leading to non-repayment at maturity;

- (c) restructuring a financial asset of the Company under conditions that the Company would not normally have considered;
- (d) it is probable that the debtor will enter insolvency or bankruptcy or some other form of financial reorganization; or
- (e) the disappearance of an active market for that financial asset due to financial difficulties.

Presentation of adjustments for ECL in the statement of financial position

Impairment losses on financial assets measured at amortized cost are deducted from the gross accounting value of the assets.

Removing from the balance sheet

The gross accounting value of a financial asset is removed from the balance sheet if the Company no longer has any means of recovering it (usually at the debtor's bankruptcy).

(ii) Non-financial assets

At each reporting date, the Company reviews the amounts of non-financial assets (other than inventories and deferred tax assets) to determine whether there are any impairment indices. If such indices exist, the recoverable amount of the asset is estimated.

The recoverable amount of an asset or a cash-generating unit represents the maximum between the value to be used and fair value less sale costs. The value in use is based on the expected future cash flows at present value using a pre-tax discount rate that reflects current market assessments of value of money in time and the risks specific to the asset or cash-generating unit.

An impairment loss is recognized when the carrying amount of an asset or a cash-generating unit exceeds its recoverable amount.

Impairment losses are recognized in profit or loss, except for tangible assets presented at revalued amount, in which case the impairment loss is recognized in overall income and decreases the revaluation reserve in equity to the extent of the recognized revaluation surplus, and the remaining impairment loss is recognized in profit or loss.

Impairment loss is reversed only if the carrying amount of the asset does not exceed the carrying amount that would have been calculated, net of depreciation and amortization, if the impairment loss had not been recognized.

(f) Foreign exchange transactions

Foreign currency transactions are converted into functional currency by applying exchange rates on the transaction date.

Monetary assets and liabilities denominated in foreign currency are converted into functional currency at the exchange rate on the reporting date communicated by the National Bank of Romania. Non-monetary assets and liabilities measured at fair value in a currency are converted into the functional currency at the exchange rate on the date when the fair value was determined. Exchange rate differences are recognized in profit or loss account. Non-monetary items denominated in a currency which are measured at historical cost are not converted into functional currency.

(g) Inventories

Inventories are made up of consumables, spare parts and other materials, mainly consisting of materials for maintenance and repair of hydropower plants.

The cost of inventories is determined using the average cost method. The cost of inventory includes all acquisition costs and other expenses related to bringing inventory to the location and status.

Inventories are valued at the minimum cost and net realizable value. Net realizable value represents the estimated sale value less the estimated completion costs and the expenses incurred for the sale.

(h) Public patrimony

The public patrimony represents the value of the assets belonging to the public domain transferred to the Company by various State's agencies. According to OMFP 2844/2016, the entities that have not completed the legal procedures for the transfer of public patrimony assets, should highlight them separately in their equity, in accounts of elements assimilated to capital.

(i) Reserves from revaluation

The difference between the revalued amount and the net accounting value of tangible assets is recognized as a revaluation reserve in equity.

If the carrying amount of an asset is increased as a result of revaluation, that increase is recorded and accrued in equity at revaluation reserves. However, the increase is recognized in profit or loss to the extent that it offsets a decrease with the same amount of the asset, previously recognized in profit or loss.

If the carrying amount of an asset is reduced as a result of a revaluation, that decrease is recognized in profit or loss. However, the decrease is recognized in equity on revaluation reserves if there is a balance in the revaluation reserve for that asset.

The revaluation reserve is transferred to retained earnings in an amount corresponding to the use of the asset (as depreciation) and at disposal of the asset.

(j) Dividends

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

(k) Provisions

A provision is recognized if, following a prior event, the Company has a legal or constructive obligation, that can be reliably estimated and it is probable that an outflow of economic benefits will be required to settle that obligation. Provisions are determined by updating expected future cash flows using a pre-tax rate that reflects current market assessments of time value of money and debt-specific risks. Depreciation of the update is recognized as financial expense.

(l) Contingent assets and liabilities

A contingent liability is:

- a) a potential obligation arising as a result of previous events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not entirely controlled by the Company; or
- b) a current obligation arising from previous events, but not recognized because:
 - i. It is unlikely that the settlement of the obligation will require resource outflows incorporating economic benefits; or
 - ii. obligation cannot be measured with enough reliability.

Contingent liabilities are not recognized in the financial statements but are presented in the notes, unless the possibility of resource outflows incorporating economic benefits is unlikely.

A contingent asset is a potential asset that arises as a result of past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events that are not entirely controlled by the Company.

A contingent asset is not recognized in the financial statements but is presented when an economic benefit is probable.

(m) Leasing

The Company has applied IFRS 16 using the modified retrospective method and, as a result, the comparative information has not been restated and are reported in accordance with IAS 17 and IFRIC 4. Details of the accounting policies in accordance with IAS 17 and IFRIC 4 are presented separately.

Policy applicable from 1 January 2019

When initiating a contract, the Company assesses whether that contract is, or includes, a leasing contract. A contract is, or contains, a leasing contract if that contract grants the right to control the use of an identified asset, for a certain period, in exchange for an equivalent value.

This policy applies to contracts concluded on or after 1 January 2019.

At the date of commencement or amending a contract containing a lease, the Company allocates the equivalent value of the contract to each leasing component based on the individual sale price of the leasing component.

Policy applicable before 1 January 2019

Upon initiating an arrangement, the Company determines whether the arrangement is or contains a leasing operation.

Upon initiating or re-evaluating an arrangement that contains a leasing asset, the Company segregates the payments and other consideration provided in the arrangement between those related to the leasing operation and those related to other items, based on the relative fair values. If the Company concludes that, for a finance lease, the credible separation of payments is impractical, then it recognizes an asset and a liability at the fair value of the asset that is the subject of the arrangement; the debt is then reduced as payments are made and the implicit financial cost of the debt is recognized using the marginal borrowing rate of the Company.

Assets held by the Company under leasing, that substantially transfer all the risks and rewards of ownership to the Company, are classified as finance leasing. On initial recognition, assets acquired under leasing and finance leasing liabilities are measured at the lower of their fair value and the present value of the minimum leasing payments. After initial recognition, assets are accounted for in accordance with the accounting policy applicable to the asset.

Minimum lease payments made under finance leasing are allocated between financial expense and reduction of outstanding debt. Financial expense is allocated to each period during the leasing period so that a constant interest rate is obtained at the remaining balance of the liability.

Assets held under other leasing engagements are classified as operating leasing and are not recognized in the separate statement of financial position of the Company.

Payments made under operating leasing are recognized in profit or loss on a straight-line basis over the lease agreement. Incentives received in connection with operating leasing are recognized as an integral part of the total leasing expense over the leasing term.

(n) Income

The Group recognizes revenues from contracts with clients in accordance with IFRS 15.

According to this standard, income is recognized when or as the client gains control over the goods or services provided, at the value that reflects the price that the Company expects to be entitled to receive in exchange

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for these goods and services. Revenues are recognized at the fair value of the services provided or the goods delivered, net of VAT, excise duties and other taxes related to the sale.

	Nature and fulfillment of contractual obligations	Recognition of income under IFRS 15
Sale of electricity	Invoices for sales of electricity produced are issued at the end of the month for energy delivered in the current month.	Revenues are recognized as time passes (monthly), as the customer receives and consumes simultaneously the benefits provided by the Company's performance as the Company provides. The determining factor is the fact that the production and delivery of electricity is simultaneous, because the electricity is not stored.
Providing electricity to final consumers	Invoices for the supply of electricity are issued monthly based on meter readings and based on estimates for the delivered electricity in case no readings have been made, communicated by the distribution operators.	<p>Revenues are recognized as time goes on, as the client simultaneously receives and consumes the benefits provided by the Company as the Company provides. The determining factor is the fact that the production and consumption of electricity is simultaneous because the electricity is not stored.</p> <p>Revenues related to the supply of electricity to final consumers include the transmission rate and the distribution rate. These services are provided by the transmission operator and the distribution operators.</p> <p>The company analyzed the quality of electricity supplied in transactions to final consumers in terms of re-invoicing the cost of transmission and distribution provided and concluded that it has the quality of principal.</p>
Ancillary services	Invoices for ancillary services are issued monthly, for services rendered in the previous month.	Income is recognized as time passes because the client receives and consumes the benefits provided by the Company performance as the Company performs.

(o) Income and financial expenses

Financial income and expenses of the Company include mainly:

- interest income;
- interest expenses;
- profit or losses on exchange rate differences regarding financial assets and liabilities;
- impairment losses on financial assets (other than trade receivables).

Liability costs that are not directly attributable to a purchase, construction or production of long-term assets are recognized in the income statement using the effective interest method.

Profit and losses on foreign exchange differences are carried forward to a net basis.

(p) Employees' benefits

(i) Short-term employees' benefits

Employees' short-term benefits are valued on an unrealized basis and are recognized as an expense as related services are provided. A liability is recognized at the amount that is expected to be paid if the Company has a present legal, constructive or implicit obligation to pay respective amount for services previously provided by the employee and the liability can be estimated credibly.

(ii) Defined benefit plans

The net liability of the Company for defined benefit plans is calculated separately for each plan by estimating the amount of future benefits that employees have earned in the current and prior periods, by updating this amount at their present value.

The calculation of defined benefit obligations is performed annually by a qualified actuary using the projected credit unit method.

Revaluations of net debt related to defined benefits, including actuarial profit and losses, are recognized immediately in other overall income. The Company determines net interest expense (income) with the due net interest on the defined benefit of the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period, at the net debt at respective date, taking into account any changes in net debt on defined benefit over the period as a result of contributions and benefits payments. Net interest expense and other expense related to defined benefit plans are recognized in profit or loss account.

When the benefits of a plan are changed or when a plan is reduced, the resulting changes in benefits that relate to past service or profit or loss as a result of the discount are recognized immediately in profit or loss account. The Company recognizes the profits and losses from the settlement of a defined benefit plan when the settlement occurs.

(iii) Other long-term benefits for employees

The Company's net liability for employees' long-term benefits represents the amount of future benefits earned by employees in exchange for services rendered in the current period and in prior periods. These benefits are updated to the present value. Revaluations are recognized in profit or loss account in the period in which they occur.

(v) Benefits on terminating the employment contract

The benefits on the termination of the employment contract are recognized as expense at the earliest date when the Company no longer has any real possibility of giving up the offer and the date on which the Company recognizes the restructuring costs. If the benefits are not expected to be settled in less than 12 months from the reporting date, they are updated to their present value.

q) Income tax

Income tax expense comprises current tax and deferred tax. Income tax expense is recognized in profit or loss account unless it relates to items recognized directly in equity or other overall income items, case when the tax is recognized directly in equity or other overall income.

The Company determined that the interest and penalties related to the income tax, including the fiscal treatment uncertainties, do not meet the definition of the income tax, and therefore they are recorded as provisions.

(i) Current tax

Current tax comprises the tax that is expected to be paid or received for the taxable income or tax loss realized in the current year, as well as any adjustments for tax paid or received in respect of previous years. It is determined using tax rates adopted or largely adopted at the reporting date.

(ii) Deferred tax

Deferred tax is recognized for temporary differences between the carrying amount of assets and liabilities used for the purpose of financial reporting and the tax base used to calculate the tax. Deferred tax is not recognized for:

- temporary differences arising on the initial recognition of assets and liabilities arising from transactions that are not business combinations and do not affect profit or loss on accounting or tax purposes;
- temporary differences arising from investments in subsidiaries, associates or jointly controlled entities, to the extent that the Company may exercise control over the temporary reversal period and are unlikely to be reversed in the foreseeable future.

Deferred tax assets are recognized for unused tax losses, unused tax credits and deductible temporary differences, only to the extent that future taxable profits are likely to be used to cover them. Deferred tax assets are reviewed at each reporting date and are diminished to the extent that the related tax benefit is no longer probable.

Deferred tax is calculated based on tax rates that are expected to be applied to temporary differences when reversed, using tax rates adopted or largely adopted at the reporting date.

The deferred tax assessment reflects the tax consequences that arise from the way the Company expects to recover or settle the carrying amount of its assets and liabilities at the reporting date.

Deferred tax assets and liabilities are offset only if certain criteria are met.

r) Grants

Grants are recognized in the statement of financial position as deferred revenue when there is reasonable assurance that they will be received and the Company will comply with the grants' conditions, if any. Grants are recognized in profit or loss at the time of recognition of related costs (for example, depreciation of fixed assets from subsidies or consumption of inventory acquired from subsidy).

s) Green certificates

According to OMFP 2844/2016, the Company highlights the green certificates received and not traded off the balance sheet. On sale, green certificates are recognized in the profit or loss account.

t) Affiliated parties

An affiliated party is a person or entity that is affiliated with the entity that prepares the financial statements:

- (a) A person or close member of the family of that person is affiliated to an entity that reports whether that person:
- i) owns control or has joint control over the reporting entity;
 - ii) has significant influence on the reporting entity; or
 - iii) is a member of management of the reporting entity or a parent-company of the reporting entity;
- (b) A company is affiliated to an entity that reports whether it meets one of the following conditions:
- i) the entity and reporting entity are members of the same group (which means that each parent-company, subsidiary or member subsidiary is affiliated to the others entities);
 - ii) an entity is an associate or joint venture of the other entity (or associate or joint venture of a member of the group to which the other entity belongs);

- iii) both entities are joint ventures of the same third party;
- iv) an entity is a joint venture of a third party and the other entity is an associate of the third party;
- v) entity is a post-employment benefit plan for the employees of the reporting entity or of an entity related to the reporting entity. If the reporting entity itself represents such a plan, employers who fund the plan are also linked to reporting entities;
- vi) the entity is jointly controlled or controlled by a person identified in paragraph (a);
- vii) the person identified in paragraph (a) letter i) has significant influence on the entity or is part of the key management personnel of the entity (or the management of a parent-company entity of the entity);
- viii) the entity or any member of a group to which it belongs shall provide reporting entities or the parent-company of the entity reporting service related to the key management personnel of that respective entity.

A reporting entity is exempted from the disclosure requirements as in IAS 24.18 on related party transactions and open balances, including engagements, with:

- a) Government, which has control, joint control or has significant influence on the reporting entity; and
- b) Another entity that is affiliated because the same government has control, joint control or significant influence both on the reporting entity and on the other entity.

u) Subsequent events

Events that occurred after the reporting date that provide additional information about the conditions that existed at these reporting dates (events that determine adjustments to the financial statements) are reflected in the individual financial statements. Events occurring after reporting dates that provide information about conditions that arise after reporting dates (events that do not result in adjustments to the financial statements) are disclosed in the notes to the financial statements when they are important. When the principle of continuity of activity assumption is no longer appropriate during or after the reporting period, the financial statements are not prepared on a principle of continuity basis.

4. NEW STANDARDS NOT YET IN FORCE

The following standards, amendments in standards and interpretations have been issued, but are not yet in effect for the annual period beginning on January 1, 2019. The Company does not intend to adopt these standards prior to their entry into force.

The Company expects that the adoption of the financial reporting standards below in future periods will not have a material effect on the Company's financial statements.

(i) Standards and Interpretations adopted by the EU

- Amendments to IAS 1 "Presentation of Financial Statements" and IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" - Definition of Materiality - effective for annual periods beginning on or after 1 January 2020.
- Amendments to IFRS 9 "Financial Instruments", IAS 39 "Financial Instruments: Recognition and Measurement" and IFRS 7 "Financial Instruments: Presentation Requirements" - Reform of the interest rate benchmark - effective for annual periods beginning on or after of 1 January 2020.
- Amendments to the References of the Conceptual Framework of IFRS Standards - in force for annual periods starting with or after 1 January 2020.

(ii) Standards and interpretations that have not been adopted by the EU

- IFRS 14 "Deferred accounts related to regulated activities" (applicable for annual periods beginning on or after 1 January 2016) - The European Commission has decided not to issue the approval process for this interim standard and to wait for the final standard.
- IFRS 17 "Insurance Contracts" - in force for annual periods beginning on or after 1 January 2021.
- Amendments to IFRS 3 "Combinations of enterprises" - Definition of an enterprise - effective for annual periods beginning on or after 1 January 2020.
- Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in associates and joint ventures" - Sale of or contribution with assets between an investor and its associates or its joint ventures - effective date has been postponed for an indefinite period, until the research project on the method of equivalence is completed.

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5. Intangible assets

	Land and landscaping	Construction and special equipment	Machines, equipment and other fixed assets	Tangible fixed assets in progress	TOTAL
GROSS ACCOUNTING VALUE					
Sold Ia 1 January 2018	753,389,705	10,162,266,718	3,023,494,852	5,121,319,969	19,060,471,244
Additions	-	4,430	-	193,032,611	193,037,041
Transfers	108,540	179,357,829	63,205,672	(242,672,041)	-
Outflows	(650)	(554,312)	(904,643)	-	(1,459,605)
Revaluation recognized in other items of overall income, net	10,791,471	986,545,032	374,606,874	-	1,371,943,377
Revaluation recognized in profit or loss, net	(19,508,196)	15,622,180	(1,551,691)	-	(5,437,707)
Gross carrying amount offset by accumulated depreciation at revaluation	(158,637)	(1,122,647,344)	(859,852,179)	-	(1,982,658,160)
Balance on 31 December 2018	744,622,233	10,220,594,533	2,598,998,885	5,071,680,539	18,635,896,190
CURRENT AMORTIZATION					
Balance on 1 January 2018	110,746	737,201,722	580,942,593	-	1,318,255,061
Depreciation expense	62,855	385,445,622	278,947,377	-	664,455,854
Cumulative depreciation of outflows	-	-	(37,791)	-	(37,791)
Cumulative depreciation offset by gross carrying amount at revaluation	(158,637)	(1,122,647,344)	(859,852,179)	-	(1,982,658,160)
Balance on 31 December 2018	14,964	-	-	-	14,964
CUMULATED VALUE ADJUSTMENTS					
Balance on 1 January 2018	507,017	16,598,686	1,539,988	3,457,049,121	3,475,694,812
Value adjustments made in profit or loss	1,438	42,492,203	2,210,590	60,228,511	104,932,742
Value adjustments reversed in profit or loss	-	(141,201)	(294,981)	(231,645,978)	(232,082,160)
Balance on 31 December 2018	508,455	58,949,688	3,455,597	3,285,631,654	3,348,545,394
NET ACCOUNTING VALUE					
Balance on 1 January 2018	752,771,942	9,408,466,310	2,441,012,271	1,664,270,848	14,266,521,371
Balance on 31 December 2018	744,098,814	10,161,644,845	2,595,543,288	1,786,048,885	15,287,335,832

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	Land and landscaping	Construction and special equipment	Machines, equipment, and other fixed assets	Tangible fixed assets in progress	TOTAL
GROSS ACCOUNTING VALUE					
Balance on 1 January 2019	744,622,233	10,220,594,533	2,598,998,885	5,071,680,539	18,635,896,190
Initial recognition of rights to use upon initial application of IFRS 16	-	24,002,260	-	-	24,002,260
Balance on 1 January 2019 adjusted	744,622,233	10,244,596,793	2,598,998,885	5,071,680,539	18,659,898,450
Additions	129,000	8,123	-	141,447,698	141,584,821
Transfers from tangible assets in progress	3,754,606	67,531,525	135,049,460	(206,335,591)	-
Transfers from tangible assets in progress in intangible assets	-	-	-	(4,012,669)	(4,012,669)
Decreasing the revaluation reserve	-	(48,574,886)	(3,439,534)	-	(52,014,420)
Outflows	(1,324,641)	(3,809)	(2,667)	-	(1,331,117)
Balance on 31 December 2019	747,181,198	10,263,557,746	2,730,606,144	5,002,779,977	18,744,125,065
CUMULATED DEPRECIATION					
Balance on 1 January 2019	14,964	-	-	-	14,964
Depreciation expense	31,345	397,149,337	338,218,654	-	735,399,336
Cumulative depreciation of outflows	-	-	(1,364)	-	(1,364)
Balance on 31 December 2019	46,309	397,149,337	338,217,290	-	735,412,936
CUMULATED VALUE ADJUSTMENTS					
Balance on 1 January 2019	508,455	58,949,688	3,455,597	3,285,631,654	3,348,545,394
Value adjustments made in profit or loss	-	2,793,763	17,357	20,234,024	23,045,144
Transfers from tangible assets in progress	-	938,039	75,533,399	(76,471,438)	-
Transfer from tangible assets in progress in intangible assets	-	-	-	(822,252)	(822,252)
Value adjustments reversed in profit or loss	(461,463)	(39,291,666)	(11,320,725)	(6,488,670)	(57,562,524)
Balance on 31 December 2019	46,992	23,389,824	67,685,628	3,222,083,318	3,313,205,762
NET ACCOUNTING VALUE					
Balance on 1 January 2019	744,098,814	10,161,644,845	2,595,543,288	1,786,048,885	15,287,335,832
Balance on 31 December 2019	747,087,897	9,843,018,585	2,324,703,226	1,780,696,659	14,695,506,367

Tangible fixed assets put into operation

The Company's tangible assets include mainly special constructions, namely hydropower plants, pumping stations, micro-hydropower stations, locks, and hydro-aggregates, equipment and installations. The company manages 208 production capacities with an installed capacity of 6,394 MW and 5 pumping stations with an installed capacity of 91,5 MW.

Impairment adjustments of land, constructions, installations and equipment on balance as of December 31, 2019 in the amount of RON 91,122,444 (less the impact of 52,014,420 related to revaluation reserves) (December 31, 2018: RON 62,913,741) represent mainly depreciation adjustments of the Racovita HPP investment, as well as the value of the constructions and technological equipment related to the micro hydropower plants that were taken over from Electrica SA and from the I.R.E. Deva in 2002 based on GD 554/2002, being in a technical condition unsuitable for operation, in an advanced state of physical and moral degradation and which are not included in the maintenance program or in the investment program for the following periods. The micro-hydropower plants that have been taken over are not operating or need significant repairs. Also, these micro hydropower plants are no longer included in the production license.

During 2019, the Racovita HPP investment was put into operation. Following this, the adjustments related to Racovita HPP in the amount of RON 76,471,438 in depreciation adjustments of tangible assets and the amount of 822,252 in depreciation adjustments of intangible assets were transferred from impairment investments.

Use rights in connection with leasing contracts

Tangible fixed assets include assets regarding use rights, mainly in connection with the Company's headquarters, in the amount of RON 19,443,798 as of December 31, 2019, classified in Special constructions and installations.

Revaluation of tangible assets

The lands and landscaping, the special buildings, and installations, as well as the cars, equipment and other fixed assets were revalued by an independent appraiser on December 31, 2018. The revaluation of fixed assets is performed every 3 years.

As a result of the depreciation of special constructions and installations, the Company decreased the revaluation reserve by RON 52,014,420 in 2019. Of this amount, RON 37,872,571 represent value adjustments recognized in profit or loss in 2018, which should have been recognized in other elements of the overall result by decreasing the revaluation reserve. The company made this correction in 2019 by:

- a) the increase of the resumption of the adjustments for the depreciation of tangible and intangible assets, net and the decrease of the revaluation reserve in the situation of profit or loss and of other elements of the global result; and
- b) reclassification of the above amount between Cumulative value adjustments and the Gross accounting value in the situation of the movement of tangible assets.

The management decided not to withdraw the initial balances in the statement of financial position, as the amount is not significant.

Evaluating the fair value

The following table shows the assessment methods used to determine fair values (Level 3) for revaluation of land, buildings and special installations, machinery, equipment, and other fixed assets, as well as significant unobservable inputs used.

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Category	Assessment Method	Significant unobservable input data	Correlation between unobservable main input data and fair value measurement
Lands	<p><i>Direct comparison approach</i></p> <p>The fair value is estimated based on the price per square meter for land with similar characteristics (e.g. property rights, location, physical characteristics, and the best use). The market price is based on the most recent transactions.</p>	<ul style="list-style-type: none"> • Adjustments for liquidity, location, area 	<p>The estimated fair value would increase (decrease) if:</p> <ul style="list-style-type: none"> • Adjustments for liquidity, location, area would be smaller (larger)
Construction and special equipment	<p><i>Cost approach - The cost of net reconstruction / net replacement cost</i></p> <p>The valuation model based on the cost method is based on determining the cost of replacing the asset, deducting impairment items that result in impairment of the asset as a result of physical, functional or external impairment.</p>	<ul style="list-style-type: none"> • Physical depreciation • Functional depreciation • External depreciation 	<p>The estimated fair value would increase (decrease) if:</p> <ul style="list-style-type: none"> • Physical, functional, and external depreciation would be lower (higher)
	<p><i>Revenue - based approach (administrative buildings)</i></p> <p>The income-based valuation model estimates the present value of the net cash flows that will be generated by a rental investment, considering the occupancy rate and the expenses related to the landlord. Estimating the discount rate considers, among other things, the quality of a building and its location.</p>	<ul style="list-style-type: none"> • Estimation of annual net income • Update rates 	<p>The estimated fair value would increase (decrease) if:</p> <ul style="list-style-type: none"> • Estimated annual net income would be higher (lower) • Discount rates would be lower (higher)
Machines, equipment, and other fixed assets	<p><i>Cost approach - The cost of net reconstruction / net replacement cost</i></p> <p>The valuation model based on the cost method is based on determining the cost of replacing the asset, deducting impairment items that result in impairment of the asset as a result of physical, functional or external impairment.</p>	<ul style="list-style-type: none"> • Physical depreciation • Functional depreciation • External depreciation 	<p>The estimated fair value would increase (decrease) if:</p> <ul style="list-style-type: none"> • Physical, functional, and external depreciation would be lower (higher)

Tangible fixed assets in progress

As of December 31, 2019, the Company has investments in progress with a gross accounting value of RON 5,002,779,977 (December 31, 2018: RON 5,071,680,539) for which it has recorded impairment adjustments in the amount of RON 3,222,083,318 (December 31, 2018). : RON 3,285,631,654).

The main fixed assets in progress refer to the following investment projects - hydropower facilities: Livezeni – Bumbesti, Siriu – Surduc, Rastolita, Cornetu-Avrig, Pascani, Cerna Belareca, Cosmesti-Movileni, Valea Sadului.

These investments in progress include mainly multifunctional investments represented by historical objectives of investments scheme with hydropower social function (described below) that were intended from the beginning as having only a secondary energy function.

At these investment objectives, the complex functions of rational and safe water management, include:

- Mitigation of flood trance;
- Protection of population, localities and agricultural lands;
- Water supply to riparian localities;
- Ensure the water supply for the population and industry;
- Ensuring flow for irrigation, during periods of drought;
- Retain solid flow in the dead volume of the accumulation;
- Other social functions.

The social functions described above are specific to public authorities, whose purpose is not to obtain profit. In fact, many of these investments belonged over time to the National Agency "Romanian Waters" [Agentia nationala "Apele Romane"], the governmental agency that has as its object the area's planning and water management. Hidroelectrica SA is a company constituted under the Law 31/1990 on the Commercial Companies and is not a non-profit organization. In addition, Hidroelectrica no longer benefits from public funds to complete such social investments which, by continuing their financing, would violate the ultimate objective of maximizing shareholders' profit.

The "historic" hydro-energetic projects were initiated mainly between 1982-1989, following a succession of State Council Decrees and the financing was made with public money, through the ministries involved, the investment holders. After 1989, some of these projects were carried out by the Romanian Waters, financed by public funds, until Hidroelectrica SA had took them over. The economic and energetic conditions have significantly changed compared to those of the 1980s and 1990s, especially due to the disappearance of the centralized state investment fund, the beneficiaries of the complex works have ceased the financing of the specific works within the hydropower projects, the costs of these works remaining only in the obligation of Hidroelectrica SA.

After Hidroelectrica S.A insolvency, in June 2012, and in view of the future listing of the company's shares, the Official Receiver has chosen as a priority the strong orientation of the company towards profit and the judicious use of money funds.

In 2017, the Company has contracted services to estimate the cost of abandoning, preserving, and safely of works at complex investment, in accordance with the provisions of the Supervisory Board Decisions issued in 2016 (see note 18)

In 2018, after receiving responses from the Ministry of Public Finance regarding the fiscal implications of the abandonment of some ongoing investment projects that were financed and the Special Energy System Development Fund, by an internal decision, was appointed a new working commission that resumed the financial analysis and drafted a grounding note in order to present to Hidroelectrica's management the results and conclusions of this analysis.

The company performed a detailed analysis of ongoing investments and determined and recorded impairment losses both on December 31, 2019 and in previous periods.

Value adjustments refer to:

- a) unprofitable investment objectives for which the abandonment decision was taken and for which value adjustments were registered to their total gross value. The gross value of the abandoned investments is RON 588,033,926 as of December 31, 2019 (2018: RON 422,866,743). Both on 31 December 2019 and on 31 December 2018, the net accounting value of these fixed assets is zero. Thus, the Company has created provisions for decommissioning and site restoration (see Note 18). As of December 31, 2019, these provisions for decommissioning and site restoration are in the amount of RON 468,459,011 (2018: RON 205,417,104). See Note 18 Provisions. In 2019, the Company decided to abandon the Valea Sadului Vadeni objective, which represents the difference between the amounts mentioned for 2019 and 2018.
- b) investments for which the recoverable amount was less than the net accounting value (other than those from point a) above). For these, the depreciation adjustments as of December 31, 2019 are in the amount of RON 2,559,987,353 (2018: RON 2,795,474,537). The difference between the balance on 31 December 2019 and the one on 31 December 2018 represents the objective of Valea Sadului Vadeni which was moved to the abandoned category from point a) and the commissioning of the objective Racovita HPP, the Company transferring to machines, equipment and other fixed assets the value together with the depreciation adjustment in the amount of RON 76,471,438.
- c) assets that operate but have not yet been received for procedural reasons, in gross amount of RON 326,459,332 at 31 December 2019 (31 December 2018: RON 424,020,838) for which the Company recorded value adjustments at the level of accumulated depreciation, in the amount of RON 49,671,069 as of December 31, 2019 (December 31, 2018: RON 42,626,404).
- d) advances for tangible assets with a gross accounting value of RON 24,390,970 (December 31, 2018: RON 23,182,495), paid in connection with the HPP Portile de Fier II Refurbishment project in the amount of RON 15,573,927 (December 31, 2018: RON 14,365,452), and advances paid in connection with the HEA Cornetu-Avrig project, HPP Caineni step to UCM Resita, insolvent company - RON 8,817,043 (December 31, 2018: RON 8,817,043), amounts for which the Company fully recorded impairment adjustments.

The investment objectives include, among others, the Bumbesti - Livezeni hydropower development, with a net accounting value of RON 466,209,166 as of December 31, 2019, for which the works were suspended in 2017 due to the cancellation of construction and environment permits and loss of litigation with non-profit environmental protection organizations based on the need to re-evaluate the effects of the project in relation to the status of protected natural area where the works are carried out. The project was started in 2003, and later in 2005 the protected area was established Defileul Jiului National Park.

Currently, the Company is in the process of obtaining the building permit and the environmental agreement for the continuation of the works, being undertaken a series of actions including the elaboration, by an external consultant, of the environmental documentation necessary to obtain the environmental agreement, including the initiation of the environmental procedure, environmental impact assessment, so that the legal procedures specific to the reauthorization of the project can be followed later.

The company considers that so far, no problems have been identified that lead to the conclusion that the authorizations have not been obtained.

The determination of the recoverable amounts of current investments was based on a series of assumptions related to the forecast cash flows.

The significant assumptions used in estimating the recoverable amount are presented below. The values assigned to the assumptions were based on historical data and management's assessment of future trends.:

- price growth rate of 0.5% per year,
- the production capacity of each investment used to determine the forecasted revenue,
- EBITDA margins based on the Company's historical performance - 70%,
- the payback period of 50 years,

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- average discount rate of 9%.

6. INVENTORIES

	31 December 2019	31 December 2018
Additional materials	1,663,365	1,742,732
Spare parts	49,457,441	49,231,156
Consumables	5,288,974	11,990,759
Other stocks	14,473,262	7,034,706
Advance payments for stocks	-	1,558
Total	70,883,042	70,000,911
	31 December 2019	31 December 2018
Adjustments for depreciation of consumables	2,047,280	1,835,839
Adjustments for depreciation of other stocks	96,818	61,126
Total	2,144,098	1,896,965

7. TRADE RECEIVABLES

	31 December 2019	31 December 2018
Trade receivables	404,959,300	524,563,516
Adjustments for impairment of trade receivables	(77,423,037)	(78,740,313)
Total	327,536,263	445,823,203

Receivables from related parties are presented in Note 26.

Reconciliation between the initial balance and the final balance of adjustments for impairment of trade receivables is as follows:

	2019	2018
Balance on 1 January	78,740,313	76,754,329
Constituted adjustments	104,174	2,033,568
Reverse adjustments	(1,421,450)	(47,584)
Balance on 31 December	77,423,037	78,740,313

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At 31 December 2019 and 2018, adjustments for impairment of trade receivables include mainly:

- Transenergo Com: RON 22,251,775;
- CET Brasov: RON 18,724,742;
- KDF ENERGY: RON 10,619,368;
- Arelco Power: RON 8,559,070;
- Termoficare 2000 Pitesti: RON 4,192,675,

The duration of the trade receivables is presented in the Note 27.

8. OTHER ASSETS

	31 December 2019	31 December 2018
Advance paid to suppliers	457,568	63,721
Disputed receivables	233,599,336	233,599,336
Others	14,277,995	12,233,215
Adjustment for depreciation	(27,837,895)	(25,403,636)
Total	220,497,004	220,492,636
The current portion	6,111,792	220,492,636
The long-term portion - disputed receivables	214,385,212	-

The reconciliation between the initial balance and the final balance of the adjustments for the depreciation of other receivables is as follows:

	2019	2018
Balance on 1 January	25,403,636	6,151,863
Constituted adjustments	2,528,085	19,251,773
Reverse adjustments	(93,826)	-
Balance on 31 December	27,837,895	25,403,636

The claims in dispute include:

- a) The profit tax paid to ANAF in the amount of RON 19,214,124, the amount resulting from the correction of some expenses in 2011, corrections made during the fiscal inspection completed with RIF F-MC 7 / 21.01.2014, report contested by the company. The company recorded adjustments for the impairment of this receivable. The Company estimates that the dispute by which the tax report was challenged will not be finalized until December 31, 2020, as a result the Company presents these receivables as long-term receivables.
- b) The amount of RON 214,385,212 resulting from the foreclosure carried out by the National Agency for Fiscal Administration ("ANAF") in 2016 on the Company's accounts opened with ING Bank. In order to recover this receivable, the Company carried out actions both against ANAF and ING Bank. The main aspects regarding the receivable of RON 214,385,212 are presented at points i.- v. - below.

The company estimates that it has considerable chances of winning the dispute with ING Bank based on the reasoning presented in point v. below and, consequently, it did not register any adjustment for depreciation as of December 31, 2019.

The litigation with ING Bank is in the trial of the merits, after taking a decision in the merits, the appeal and appeal stages will follow, so the Company estimates that a final and irrevocable decision on this dispute will be taken as soon as possible after 31 December 2020. Consequently, on December 31, 2019, the

Company presents the receivables from the dispute with ING Bank as long-term receivables.

i. General Tax Inspection

Hidroelectrica was under general tax inspection, the period under control being 01.01.2006 - 30.06.2012. ANAF issued the Tax Decision no. F-MC 851 / 21.01.2014 regarding additional tax liabilities in value of RON 232,570,429 representing income tax, VAT, social contributions, and accessories, related to these categories of taxes, fees and contributions.

By the Decision for solving the preliminary tax complaint no. 406 / 18.12.2014, ANAF's General Directorate for Solving Complaints, partially upheld the appeal filed by Hidroelectrica, ordering the annulment of the Tax Decision for RON 18,185,217. Consequently, the obligations established by the Tax Decision were reduced to RON 214,385,212.

Given that Hidroelectrica was not insolvent at the date of the tax decision, it could be applied the enforcement procedure because the Tax Decision became enforceable title. According to the provisions of art. 148¹ of the Fiscal Procedure Code applicable at that time, the writ of execution could have been suspended or not commenced if Hidroelectrica SA should have submitted to the competent fiscal body a letter of bank guarantee, at the level of the established tax obligations, with a validity of at least 6 months from the date of issue.

In order to suspend the enforcement procedure, the Company submitted to ANAF letter of bank guarantee no. GI-16/0826 in value of RON 214,385,212. This letter was extended / renewed successively until August 2016. The main aspects regarding the payment of the letter of bank guarantee are presented in point iv. below.

i. The litigation filed by Hidroelectrica against the Decision for solving the preliminary fiscal appeal no. 406 / 18.12.2014 and the annulment of the Tax Decision no. F-MC 851 / 21.01.2014

Hidroelectrica filed a complaint against Decision no. 406 / 18.12.2014 and requested in court the cancellation of the Tax Decision no. F-MC 851 / 21.01.2014. At present, file no. 3288/3/2015 instrumented by the Bucharest Court of Appeal is in the stage of evidence administration, respectively the experts designated by the court are preparing the financial-accounting expertise report.

The next trial is on May 6, 2020 for the administration of evidence, including the expert report.

ii. Decisions regarding the Tax Decision no. F-MC 851 / 21.01.2014 within the insolvency file of Hidroelectrica

As it intended to capitalize in the insolvency procedure the Tax Decision no. F-MC 851 / 21.01.2014, on 17.12.2014, ANAF registered in the insolvency file of Hidroelectrica a payment request, based on the provisions of art. 64 paragraph 6 of Law no. 85/2006 regarding the insolvency procedure. In accordance with the provisions of this text of law, the payment obligations born during the insolvency procedure are paid according to the resulting documents, not requiring registration with the creditors' group. ANAF claimed that, by issuing the respective taxation decision on 21.01.2014 (therefore, during the insolvency proceedings), the debt from the Tax Decision acquires the character of current debt, which is paid with priority, without registration in the List of creditors.

In December 2014, the official receiver Euro Insol found that ANAF has no right over the requested debt neither during the procedure nor after its closure, considering the following:

- the receivable from the Tax Decision is not current (born during the insolvency proceedings), but previous to the procedure, as it targeted the debts established for the period 01.01.2006 - 20.06.2012;
- as is the case of a previous claim, it should be declared in the creditors' group within the term stipulated in Law no. 85/2006, in case of the Company, the term being 06.08.2012;
- failure to file the statement of claim within the legal term shall result in its revocation, in accordance with the provisions of art. 76 par. (1) of the Law no. 85/2006.\

Against this measure of the Official receiver, ANAF has prepared an appeal.

By Civil Sentence no. 6458 / 17.07.2015 given by the syndic judge, the court rejected ANAF's appeal, validating with the decision the reasoning of the Official receiver and acknowledging that the claim for damages by ANAF does not exist.

Sentence no. 6458 / 17.07.2015 was appealed by ANAF. Bucharest Court of Appeal - 5th Civil Division, by Decision no. 135 / 10.03.2016, dismissed ANAF's appeal and maintained its final sentence as legal and sound.

iii. The dispute regarding the challenge on enforcement filed by Hidroelectrica and ING Bank regarding the foreclosure carried out by ANAF

On February 18, 2016, ING Bank issued in favor of ANAF the Letter of Guarantee No. GI-16/0826 amounting to RON 214,385,212 with validity until August 18, 2016.

By Decision no. 21 of August 18, 2016, the Supervisory Board approved the non-extension of the Letter of Guarantee and, if appropriate, the exercise of an appeal against any writs of execution that could be initiated by ANAF without a valid letter of bank guarantee.

On 18.08.2016 ANAF sent ING Bank a payment request to execute the letter of bank guarantee. On 25.08.2016, following the analysis of the conformity of the received request, ING Bank submitted to ANAF the address of refusal to pay the request.

On 06.09.2016, ANAF started the foreclosure against ING Bank as a result of its refusal to comply with the payment request. Following the summons of foreclosure received, ING Bank paid to ANAF the amount of RON 214,385,212.

Both ING Bank and Hidroelectrica SA filed a challenge on enforcement appeal against the foreclosure initiated by ANAF.

On 06.03.2019, the Bucharest Tribunal-Civil Section V, by Civil Decision no. 641, cancelled the foreclosure carried out by ANAF. The decision mentions that the return of the foreclosure can be performed only by ING Bank, because it was under foreclosure, the fact that Hidroelectrica paid, in its turn, the amount executed concerns only the relations between Hidroelectrica and ING Bank generated by the credit agreement no. 16271 / 02.09.2016.

According to the motivating decision, communicated on 25.06.2019, the cancellation of the foreclosure performed by ANAF is motivated by the following:

- the conditions for the execution of the letter of bank guarantee by ANAF were not fulfilled;
- the request for payment made by ANAF in order to execute the letter of bank guarantee did not comply with the requirements of the letter of bank guarantee regarding the content of the request for payment.

The decision of the court, although final, could be challenged only by extraordinary means of withdrawal (appeal for annulment or review). Thus, ANAF formulated a request for review which is the object of file no. 18751/3/2019 pending before the Bucharest Tribunal, with a trial date on 26.05.2020.

iv. The litigation opened by Hidroelectrica against ING Bank regarding the recovery of the amount paid following the foreclosure execution performed by ANAF

By the address no. 100178 / 14.09.2016, ING Bank notified Hidroelectrica that following the payment made to ANAF, the bank credited the Company's accounts with the amount of RON 214,385,212 based on the credit agreement no. 16271 / 09.02.2016, concluded to issue the letter of bank guarantee. The amount not covered by the Company's existing cash in all accounts opened by Hidroelectrica at ING Bank will become an unauthorized loan and immediately due, so the bank requested the urgent payment of the amounts necessary to pay the unauthorized loan. Following the notification of ING Bank, Hidroelectrica paid the amount of RON 214,385,212.

As a result of the Civil Sentence no. 641, by which the court annulled the foreclosure performed by ANAF against ING Bank, Hidroelectrica requested the court to oblige ING Bank to reimburse the amount of RON 214,385,212, as well as the legal interests of RON 61,611,928, calculated between 09.14.2016 - 30.06.2019. Hidroelectrica's request is the subject of file no. 25111/3/2019 registered with the Bucharest Tribunal.

The company submitted this request considering the following:

- ING Bank did not comply with the contractual obligations mentioned in the credit agreement no. 16271 / 09.02.2016, by the fact that it gave effect to the ANAF's request to execute the letter of bank guarantee as the payment request made by ANAF was not in accordance with the requirements of the letter of bank guarantee regarding the content of the payment request (also presented by Decision No 641 - see point iv above);
- By canceling the foreclosure performed by ANAF against ING Bank, ING Bank is entitled to recover the amount from ANAF by returning the foreclosure. Consequently, Hidroelectrica does not owe ING the amount of RON 214,385,212. Thus, according to the Civil Code, art. 1341, Hidroelectrica has the right to be refunded this amount, as it was paid to ING to pay off an undue amount.

During the litigation, ING Bank requested the court to suspend the case until the settlement of the case in which Hidroelectrica requested the annulment of the Tax Decision no. F-MC 851 / 21.01.2014, act that generated the fiscal obligation that was guaranteed by the letter of bank guarantee (see point ii. above).

The next term in this file is 26.05.2020. During this hearing, the court is expected to decide on ING Bank's request to suspend the case.

Hidroelectrica also formulated, on the fiscal procedure, requests for the restitution by ANAF of the debt in the amount of RON 214,385,212.

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The company analyzed the recoverability of the receivable in value of RON 214,385,212. The company considers the receivable recoverable, considering the following factors:

- the final favorable decision regarding the cancellation of the foreclosure performed by ANAF - presented at point iv. above;
- the action taken by the Company to recover the debt from ING Bank, as well as the arguments presented to the court to support the restitution request - presented above.

9. BANK DEPOSITS

	31 December 2019	31 December 2018
Bank deposits with a maturity of more than 3 months	1,736,855,286	2,496,667,070
Total	1,736,855,286	2,496,667,070

The average interest rate on term deposits in 2019 was 3.06% per year (in 2018 the average interest rate was 2.42% per year).

10. CASH AND CASH EQUIVALENTS

	31 December 2019	31 December 2018
Bank accounts	222,832,887	75,651,322
Cash	137,014	104,512
Cash equivalents	6,575	7,857
Total cash and cash equivalents	222,976,476	75,763,691

11. EQUITY

(a) Share capital

	31 December 2019	31 December 2018
Subscribed share capital	4,482,393,310	4,482,393,310
Restatement differences in accordance with IAS 29	1,028,872,000	1,028,872,000
Share capital	5,511,265,310	5,511,265,310

On December 31, 2019 and 2018, the Company's authorized, subscribed and fully paid-in share capital is divided into 448,239,331 ordinary shares with a par nominal value of 10 RON / share. Shareholders are entitled to dividends and each share gives a voting right at shareholders' meetings.

Until December 31, 2003, the statutory share capital in nominal terms was restated in accordance with IAS 29 "Financial reporting in hyperinflationary economies", the related adjustments being found in the carried forward result.

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(b) Reserve from revaluation

The reconciliation between the initial balance and the final balance of the revaluation reserve is as follows:

	<u>2019</u>	<u>2018</u>
Balance on 1 January	6,859,132,234	5,988,831,674
Revaluation of tangible assets	-	1,151,123,685
The transfer of the revaluation reserve to the result carried forward as a result of depreciation and losses on tangible assets, net of tax	(348,682,176)	(280,823,125)
Decreasing the revaluation reserve	<u>(52,014,420)</u>	-
Balance on 31 December	<u>6,458,435,638</u>	<u>6,859,132,234</u>

(c) Other reserves

Other reserves include:

- legal reserves in the amount of RON 588,346,013 (2018: RON 486,885,429), constituted in proportion of 5% of the profit before tax, until they reach 20% of the Company's paid-in share capital, in accordance with the legal provisions. These reserves are deductible when calculating income tax and are not distributable; and
- non-distributable reserves in the amount of RON 97,000,000, established in 2006 based on the Emergency Ordinance 89/2004.

(d) Dividends

In 2019, the Company distributed dividends in the amount of RON 2,798,679,809 (6.24 RON / share) from the profit of 2018 and from the carried forward result representing the revaluation reserve registered before 2004 transferred to the carried forward result as the depreciation and cancellation of the related tangible assets. According to the Fiscal Code, these reserves were taxed as a result of the change of destination.

	<u>Dividends distributed in 2019</u>
Dividends distributed from the profit of the year 2018	1,798,679,809
Dividends distributed from retained earnings representing revaluation reserves transferred	1,000,000,000
Total	<u>2,798,679,809</u>

In 2018, the Company distributed dividends in the amount of RON 1,821,429,318 from the following sources:

	<u>Dividends distributed in 2018</u>
Dividends distributed from the profit of the year 2017	1,134,411,087
Dividends distributed from retained earnings representing revaluation reserves transferred	260,228,826
Dividends distributed from retained earnings representing accumulated profit	426,789,405
Total	<u>1,821,429,318</u>

In 2019, dividends were paid in the amount of RON 2,935,698,041 (2018: RON 1,684,411,087), representing RON 2,798,679,809 distributed in 2019, respectively RON 137,018,232 representing balance payment dividends on December 31, 2018.

12. LONG TERM LOANS

Description	31 December 2019	31 December 2018
Contract: International Bank for Reconstruction and Development ("IBRD"), July 13, 2005, EURO 66 million - loan contracted for the rehabilitation of the Lotru hydroelectric plant and for the institutional development of the Company. The loan agreement entered into force on January 25, 2006, following the ratification by the Romanian Parliament of the guarantee agreement concluded between the IBRD and the Romanian State. Reimbursement: half-yearly between March 15, 2010 - September 15, 2021.	53,123,330	77,874,140
Contract: BRD GSG - ING Bank from 7 April 2015, EUR 50 million - loan contracted for general financing needs. Reimbursement: 20 equal quarterly installments, last installment on December 23, 2020.	16,883,395	32,951,464
Total loans	70,006,725	110,825,604
The current portion	43,561,064	42,509,247
The long-term portion	26,445,661	68,316,357

In 2019, the Company reimbursed RON 43,258,011 (2018: RON 89,211,742). Unrealized exchange rate losses related to loans amount to RON 2,439,132 in 2019 (2018: RON 85,342).

The main obligations and conditions stipulated in the loan agreements refer to the payment obligations, financial reporting, and financial indicators.

The loan agreement concluded with IBRD specifies as financial indicators the debt service coverage rate - the minimum imposed threshold is 1.5, and the current liquidity rate - the minimum imposed threshold is 1.2.

The loan agreement concluded with BRD - ING specifies as financial indicators the ratio between Loans and EBITDA - the maximum imposed threshold is 2.5, and the ratio between the net cash from the operating activity after deducting capital expenses and debt service - the minimum imposed threshold is of 1.2.

On December 31, 2019 and 2018, the Company met the mentioned financial indicators.

13. TRADE RECEIVABLES

	31 December 2019	31 December 2018
Suppliers of energy	10,644,941	8,471,165
Providers of immobilizations	81,197,417	77,716,362
Water suppliers	45,287,380	41,600,065
Repair providers	29,197,854	27,806,205
Other suppliers	8,835,778	15,588,023
Total	175,163,370	171,181,820
Current portion	161,425,822	155,933,031
Long-term portion	13,737,548	15,248,789

The suppliers of electricity, water and repairs are mainly those presented in Note 26 Related parties. Other

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suppliers include service providers, materials, and consumables, etc.

The long-term portion represents 15% of the value of the services invoiced by Romelectro in the Stejaru HPP refurbishment project and will become due on the date of issuance of the acceptance certificate at commissioning.

14. DEFERRED INCOME

	31 December 2019	Short term under 1 year	Long term over 1 year
Investment grants	161,135,354	5,487,729	155,647,625
Assets received by transfer from clients	154,363	38,556	115,807
Advance income related to the sale of electricity	31,459,606	31,459,606	-
Other income in advance	43,097	12,030	31,067
Total	192,792,420	36,997,921	155,794,499

	31 December 2018	Short term under 1 year	Long term over 1 year
Investment grants	166,490,863	5,494,688	160,996,175
Assets received by transfer from clients	191,002	38,245	152,757
Advance income related to the sale of electricity	20,279,357	20,279,357	-
Other income in advance	58,305	20,702	37,603
Total	187,019,527	25,832,992	161,186,535

Reconciliation between the initial balance and the final balance of subsidies and assets received by transfer from clients:

	2019	2018
Balance on 1 January	166,681,865	172,486,485
Increases during the year	134,718	7,494
Transfers in public patrimony	-	(272,692)
Revenues on income	(5,526,866)	(5,539,422)
Balance on 31 December	161,289,717	166,681,865

Transfers in the public patrimony refer to the commissioning of the dam objective and the dams at Racovita HPP financed from special funds.

15. TAX ON PROFIT

In order to determine the current and deferred tax, the Company considers the impact of uncertain tax positions and the possibility of additional taxes and interests. This assessment is based on estimates and assumptions and may involve several professional judgments about future events.

The Company considers that the tax records are due and appropriate for all open fiscal years, based on the management's assessment, considering various factors, including the interpretation of tax legislation and previous experience. New information can become available that may cause the Company to modify its reasoning regarding the adequacy of existing tax liabilities; such changes in tax liabilities will have an impact on the income tax expense in the period in which that determination is made.

(a) Amounts recognized in profit and loss account

	2019	2018
Current income tax expense	730,199,339	389,969,485
Deferred income tax income	(35,509,757)	(39,986,166)
Total	694,689,582	349,983,319

(b) Amounts recognized in other overall income

	2019			2018		
	Before tax	Benefit (expense) tax	After tax	Before tax	Benefit (expense) tax	After tax
Revaluation of tangible assets	-	-	-	1,371,943,377	(220,819,692)	1,151,123,685
Total	-	-	-	1,371,943,377	(220,819,692)	1,151,123,685

(c) Reconciliation of the effective tax rate

		2019		2018	
Profit before profit tax		2,081,226,100		2,289,261,059	
Tax calculated by applying the Company's tax rate	16.0%	332,996,176	16.0%	366,281,769	
The fiscal effect of:					
- Non-deductible expenses	0.9%	17,747,655	-0.0%	240,169	
- Non-taxable income	0.0%	-	0.0%	(2,161,897)	
- Fiscal incentives	-3.3%	(68,272,731)	-2%	(41,334,213)	
- Other regulations	19.8%	411,865,948	1.2%	26,957,491	
Income tax adjustments for previous periods	0.0%	352,534	0.0%	-	
Income tax	33.4%	694,689,582	15.3%	349,983,319	

Fiscal incentives are obtained for the broken-down payment of VAT (according to GEO 23/2017, art. 23), the reinvested profit and sponsorships granted.

The fiscal effect of other regulations refers to the change in the destination of revaluation reserves in connection with the following transactions:

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a) For 2019

- Distribution of dividends in the amount of RON 1,000,000,000 from revaluation reserves previously transferred to the carried forward result and which, according to the fiscal legislation, are taxed at the moment of changing the destination; and
- Changing the destination of revaluation reserves by covering the accounting corrections (losses) registered in 2018 on account of the result carried forward in the amount of RON 1,574,162,178.

b) For 2018

- Distribution of dividends in the amount of RON 260,228,826 from revaluation reserves previously transferred to the carried forward result and which, according to the fiscal legislation, are taxed at the moment of changing the destination.

(d) Changes in deferred tax balances

	Net balance on 1 January 2019	Recognized in profit and loss account	Recognized in the overall result of the year	Net balance on December 2019	Deferred tax receivables	
Tangible and intangible assets	822,699,790	(2,435,077)	820,264,713	-	820,264,713	
Provisions	(50,248,311)	(30,678,815)	(80,927,127)	(80,927,127)	-	
Employees' benefits	(16,498,732)	(1,217,193)	(17,715,925)	(17,715,925)	-	
Trade receivables	(11,238,199)	(1,178,672)	(12,416,871)	(12,416,871)	-	
Inventories	(212,822)	-	(212,822)	(212,822)	-	
Total Liability / (Receivable) with deferred tax	744,501,726	(35,509,757)	708,991,968	(111,272,745)	820,264,713	

	Net balance on 1 January 2018	Recognized in profit and loss account	Recognized in the overall result of the year	Net balance on December 2018	Deferred tax receivables	Deferred tax liabilities
Tangible and intangible assets	595,394,566	6,485,532	220,819,692	822,699,790	-	822,699,790
Provisions	(15,946,064)	(34,302,247)	-	(50,248,311)	(50,248,311)	-
Employees' benefits	(13,407,584)	(3,091,148)	-	(16,498,732)	(16,498,732)	-
Trade receivables	(2,160,406)	(9,077,793)	-	(11,238,199)	(11,238,199)	-
Inventories	(212,312)	(510)	-	(212,822)	(212,822)	-
Total Liability / (Receivable) with deferred tax	563,668,200	(39,986,166)	220,819,692	744,501,726	(78,198,064)	822,699,790

16. EMPLOYEES' BENEFITS

A. Short-term employees' benefits

	31 December 2019	31 December 2018
Payroll	10,055,119	10,212,131
Other debts to personnel	1,644,345	1,997,384
The current portion of defined benefit and other long-term employee benefit obligations	9,827,377	10,316,029
Payroll contributions	8,393,679	10,329,796
Tax on income from salary	2,098,617	2,067,698
Total	32,019,137	34,923,038

B. Post-employment benefits and other long-term employees' benefits

	31 December 2019	31 December 2018
Jubilee bonuses	30,276,244	40,469,188
Benefits at retirement	39,593,071	25,115,084
Electricity benefits related to employees after retirement	7,292,792	5,678,758
Electricity benefits to retired employees	23,735,050	19,241,706
Other benefits	309,557	2,296,307
Total	101,206,714	92,801,043

(a) Obligations regarding the long - term benefits of employees

In accordance with Government Decisions no. 1041/2003 and no. 1461/2003, the Company provides in kind benefits, as free electricity, to employees who have retired from the Company.

Also, the Company provides cash benefits to employees depending on their length of service and retirement.

The long-term benefits of the employees are stipulated in the Collective Labor Agreement.

In 2019 and 2018, the obligations regarding the long-term benefits of the employees were calculated by an independent actuary by the method of the designed credit units, the benefits being calculated proportionally to the seniority.

	31 December 2019	31 December 2018
Debts on determined benefits	74,505,459	54,817,431
Other long-term employee benefits	36,219,075	48,299,640
Total	110,724,534	103,117,071
- The current portion *	9,827,377	10,316,029
- The long-term portion	100,897,157	92,801,042

* A

(i) Changing debts regarding determined benefits and other long-term benefits of employees

The following tables present the reconciliation between the initial and the final balance of the debts regarding the determined benefits and other long-term benefits of the employees and their components. There are no assets of benefits plan.

Debts on determined benefits	2019	2018
Balance on 1 January	54,817,431	39,650,992
Included in profit or loss		
The cost of current seniority	2,478,141	1,023,167
Actuarial losses	20,958,432	18,177,716
Paid benefits	(3,748,545)	(4,034,444)
Balance on 31 December	74,505,459	54,817,431
Other long-term employee benefits	2019	2018
Balance on 1 January	48,299,640	44,146,406
Included in profit or loss		
The cost of current seniority	1,622,518	4,503,030
(Profit) / actuarial losses	(7,659,335)	4,681,623
Paid benefits	(6,043,748)	(5,031,419)
Balance on 31 December	36,219,075	48,299,640

(ii) Actuarial assumptions

The main actuarial assumptions at each reporting date are the following:

(a) Macroeconomic assumptions:

- the inflation rate used on 31 December 2019 is based on the NBR forecast for the next 5 years and the long-term inflation of the Eurozone for the rest of the period (31 December 2018: statistics issued by the National Institute of Statistics and the NBR forecast in November 2018);

Year	Date of evaluation 31 December 2019	Date of evaluation 31 December 2018
2019	-	3.75%
2020	3%	3.10%
2021	3%	2.98%
2022	3%	2.86%
2023	3%	2.74%
2024	3%	2.62%
2025 – 2030	1.37%	2.50%
2030+	1.37%	2%

- the discount rate used on 31 December 2019 is based on the interest rate curve in RON without adjustments provided by EIOPA for December 2019, with values between 3.446% for 2020 and 4.381% for 2070 and after (31 December 2018: yield on bonds issued by Romanian Government with a maturity of 1-

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10 years at the end of December 2018, with values between 3.53% for 2019 and 4.74% for 2060 and after).

- the increase in the price of electricity per kWh is similar to the inflation rate. The price of electricity used in the actuarial calculation is 0.5570 RON / kWh on 31 December 2019 (31 December 2018: 0.5563 RON / kWh);
- the mortality rate used on 31 December 2019 is the rate published by the National Institute of Statistics in 2018 (31 December 2018: the rate published by the National Institute of Statistics in 2013).
- taxes and social contributions are those in force at the reporting date.

(b) *Company's specific assumptions:*

- the gross salary increase rate used on 31 December 2019 was 5% for 2020, 3% for the period 2021-2025 and 1.37% for the following years (31 December 2018: 10% in 2019 and a rate equal to the inflation rate in the following years);
- the personnel fluctuation rate used on 31 December 2019 represents the annual averages of the last 3 years differentiated by age and gender groups (31 December 2018: the annual averages of the last 5 years differentiated by age groups). The medium average fluctuation rate used on 31 December 2019 is 3.38% (31 December 2018: 4.5%).
- jubilee and retirement premiums granted according to the collective labor contract depending on the length of service, as follows:

Jubilee bonuses depending on seniority in work

<i>Seniority</i>	Number of monthly gross salaries	
	31 December 2019	31 December 2018
20 years	1	1
25 years	2	2
30 years	3	3
35 years	4	4
40 years	5	5
45 years	6	6

Retirement benefits depending on seniority within the Company

<i>Seniority</i>	Number of monthly gross salaries	
	31 December 2019	31 December 2018
Up to 10 years	1	1
Between 10 to 25 years	3	3
More than 25 years	6	6

The Company also offers a benefit of 1,200 kWh of annual free energy to employees who have retired from the Company, namely from the units that belonged to the former Regia autonoma de Electricitate „Renel” and met the seniority conditions. In the event of the death of the pensioner, the surviving spouse is entitled to receive the same assistance until he/she is getting marry again or passes away.

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(iii) Sensitivity analysis

The significant actuarial assumptions for determining the obligation are the discount rate, the expected salary increase, and the employee fluctuation. The sensitivity analyzes from below were determined based on reasonable changes in those assumptions at the end of the reporting period, under consideration of all other assumptions.

	Increase by 10%	Decrease by 10%
	2019	2019
Update rate	(3,954,485)	3,954,485
Employee rotation	(263,495)	263,495

	Increase by 1%	Increase by 1%
	2019	2019
Salary increase	5,892,892	(5,892,892)

The sensitivity analysis presented above may not be representative of the actual change in the benefit obligation, as it is unlikely that changes in assumptions to occur separately from each other, as some of the assumptions may be correlated. In the above sensitivity analysis, the present value of the benefit obligation was calculated using the unit credit method projected at the end of the reporting period, which is the same as that applied to calculate the benefit obligations recognized in the statement of financial position.

C. Employee benefits expenses

	2019
Average number of employees	3,368
Salaries and other emoluments	377,457,885
Contributions to social insurance	7,659,165
Meal tickets	11,553,787
Total	396,670,837

	2018
Average number of employees	3,305
Salaries and other emoluments	354,065,248
Contributions to social insurance	9,292,781
Meal tickets	11,121,724
Total	374,479,753

17. OTHER LIABILITIES

	31 December 2019		31 December 2018	
	Current	Long-term	Current	Long-term
Debts to the state	7,252,439	-	7,747,096	-
Dividends to be paid	-	-	137,018,231	-
Good Execution				
Guarantees	10,669,553	14,051,402	18,404,615	8,121,474
Other liabilities	2,274,207	45,060	2,257,117	4,100
Total	20,196,199	14,096,462	165,427,059	8,125,574

18. PROVISIONS

	31 December 2019		31 December 2018	
	Current	Long-term	Current	Long-term
Provisions for litigation	71,759,796	-	127,188,069	-
Provisions for decommissioning of tangible assets	-	468,459,011	-	205,417,104
Provisions for tax issues	-	114,102,083	-	81,137,890
Other Provisions	26,996,497	-	20,558,554	-
Total	98,756,293	582,561,094	147,746,623	286,554,994

	Provisions for litigation	Provisions for decommissioning of tangible assets	Provisions for tax issues	Other Provisions	Total
Balance on 1 January 2019	127,188,069	205,417,104	81,137,890	20,558,554	434,301,617
Recognized provisions	15,874,527	263,041,907	32,964,193	26,768,751	338,649,378
Provisions used	(71,302,800)	-	-	(20,319,635)	(91,622,435)
Provisions reversed	-	-	-	(11,173)	(11,173)
Balance on 31 December 2019	71,759,796	468,459,011	114,102,083	26,996,497	681,317,387

I. Provisions for litigation

As of December 31, 2019, the provisions for litigation refer mainly to:

- the arbitration file no. ICC 20540 / MHM against Voith and Andritz, for the amount of RON 35,618,248 (31 December 2018: RON 35,618,248), representing the value of a performance guarantee executed by the Company;
- the arbitration file no. ICC 22047 / MHM against Andritz, for the amount of RON 7,214,242 (December 31, 2018: RON 7,214,242), representing delay penalties;
- land expropriations, for the amount of RON 12,048,804 (December 31, 2018: RON 12,048,804);
- file no. 29762/3/2019 - litigation with employees for 9,558,648.

In 2019, the Company set up provisions in the amount of RON 15,874,528, mainly in connection with the dispute with employees (RON 12,100,000).

In 2019 the Company used provisions in the amount of RON 71,302,800 mainly for the arbitration dispute with Andritz Hydro GMBH from the ICC 19414 / MHM file as a result of the arbitral award, final pronounced on 16 January 2019. The provision was used as a result Company paying the amounts imposed by the arbitral award in the value of RON 37,377,966, respectively as a result of the recognition of a commercial debt to Andritz Hydro GMBH in the amount of RON 33,560,315.

(a) Arbitral file no. ICC 20540/MHM

Arbitral litigation regarding Contract no. 23.534 / h.700.116004 between Hidroelectrica, on the one hand, and Voith Hydro Holding GmbH & CO KG ("Voith") and Andritz Hydro GmbH ("Andritz"), on the other hand, on the refurbishment of hydroelectric power plants located on the Lower Olt: Ipotesti, Draganesti, Frunzaru, Rusanesti and Izbiceni.

Voith and Andritz have asked the Arbitral Tribunal, inter alia:

- to order the Company to pay to Andritz and Voith the amount of RON 63.9 million plus interest, representing the bank guarantee executed by the Company (RON 35.6 million), additional works (RON 17 million), equipment delivered by Andritz and Voith Company (RON 11.3 million);
- alternatively, to reject the Company's claims regarding the replacement of the works with deficiencies, the financial compensation and the reimbursement of the price of the works with deficiencies, and, only with respect to the corroded parts and affected by the linear and round indications, order the repair works, subject to payment by the Company to the parties increasing the cost of repair in relation to those which the parties would have incurred at the time the deficiencies occurred
- to award the costs incurred in connection with arbitration and 6% per annum interest.

The company has estimated the value of claims made by Voith and Andritz at RON 63.9 million.

The company also made some claims (see full description of the dispute in the Note 25.1).

In March 2018, the final pleadings of the parties took place. Subsequently, the Arbitral Tribunal asked the parties for a series of clarifications.

In August 2019, one of the three arbitrators was recused and replaced at the request of the Company, as he became, during the arbitration proceedings, an employee of the legal consultant at Voith and Andritz.

Following the recusation, the parties provided the Tribunal with comments on the arbitrator's recusation and the possible resumption of the proceedings in the context in which the events leading up to the arbitrator's recusation could have been influenced by the violation of the arbitrator's principle of independence. The tribunal did not return until the date of the financial statements with a decision. The decision that could be taken is either to resume the arbitration procedure in the new component of the arbitrators, or to decide on the adjudicated case.

On 31 December 2019, the Company recorded a provision for the letter of guarantee executed, in the amount of **RON 35,618,284** (31 December 2018: RON 35,618,248).

Regarding the balance of Voith and Andritz (RON 28.3 million), considering the uncertainties generated by the complexity of the file, the Company presents a contingent liability (see Note 25.1.)

(b) Disputes concerning expropriations

The company is involved in some legal disputes over expropriation of land used in current business.

The Management of the Company periodically analyzes the status of the disputes in progress and, after consulting with its legal representatives, decides on the need to create provisions for the amounts involved.

(c) Litigations with employees

On 04.10.2019, the claimants, represented by the trade union, sued Hidroelectrica S.A. requesting the payment of overtime resulting from the addition of the 15 minutes necessary to take over the shift for the period October 2016 - 04.10.2019 and the increase of 100% of the due basic salary.

The company estimated the value of employees' claims based on the cumulative number of overtime hours and the average salary per employee, registering a provision of RON 9,558,648.

On 03.03.2020, the court accepted the employees' request, obliging Hidroelectrica to pay the salary rights related to the overtime hours performed commencing 01.07.2016. The sentence can be appealed.

II. Provisions for decommissioning of tangible assets

In 2018, the Company's management decided to abandon certain investment projects in progress. Consequently, on 31 December 2018, the Company set up a provision regarding decommissioning costs in the amount of RON 205,417,104 for the following investment projects: HEA Borca Poiana Teiului - Treapta Galu, HEA Cosmesti Movileni - Treapta Cosmesti, HEA Siriu-Surduc - Treapta Ciresu-Surduc, HEA Fagaras - Hoghiz, HEA Subcetate Simeria - Treptele Calan, Bacia, HEA Runcu Firiza, HEA Bistra - Treapta Scorilo, HEA Dambovita Clabucet. Decommissioning costs were estimated based on studies performed by an external technical expert.

On December 31, 2019, an additional provision was established regarding the decommissioning costs related to HEA Valea Sadului in the amount of RON 263,041,907.

III. Provisions for tax issues

Provisions for fiscal aspects represent the estimate on the VAT adjustment deducted in connection with the capitalized costs in the value of the investment projects for which the abandonment decision mentioned in point II above was taken.

IV. Other Provisions

As of December 31, 2019, other provisions mainly refer to the employees' participation in the profit, in the amount of RON 17,000,000 (2018: RON 15,110,718).

In 2019, were established provisions in the amount of RON 26,768,751 (of which RON 17,000,000 for employees' participation in profit), provisions in the amount of RON 20,319,635 (of which RON 15,110,718 were used for employees' participation in profit related to 2018, paid in 2019) and provisions were reversed in the amount of RON 11,173.

19. SALES OF ELECTRICITY

	2019	2018
Electricity delivered	3,469,971,574	3,693,867,129
Electricity supplied to final consumers	217,717,658	121,166,225
Ancillary services	454,757,761	436,981,278
Total	4,142,446,993	4,252,014,632

During 2019, the Company produced 15,205 GWh (2018: 17,232 GWh). In 2019 the Company sold an amount of 15,879 GWh (2018: 17,861 GWh).

20. PURCHASED ELECTRICITY

The company purchases electricity from the balancing market to cover the deficit between the electricity notified to be produced and the electricity obtained.

21. OTHER OPERATING REVENUES

	2019	2018
Resumption of deferred income	5,526,866	5,539,422
Net profit / (losses) from the sale of tangible assets	(253,525)	120,410
Other revenues	29,488,207	15,458,266
Total	34,761,548	21,118,098

22. OTHER OPERATING EXPENSES

	2019	2018
Transport and distribution of energy	64,229,887	58,884,430
Rent	1,648,626	6,933,177
Fees	3,421,121	3,099,783
Expenditure on guarding	15,893,137	14,095,326
Transport expenses	1,967,446	531,244
Expenses on local taxes	49,580,260	52,127,129
Contribution paid to ANRE according to GEO 114/2018	83,570,045	-
Expenses with penalties	11,376,338	414,927
Expenses from the revaluation of tangible assets	-	5,434,388
Other expenses	79,112,876	43,971,667
Total	310,799,736	185,492,071

Other expenses increased in 2019 compared to 2018 as a result of the increase of the ancillary services (2019: RON 11,019,590; 2018: RON 6,638,222), sponsorships granted (2019: RON 10,871,186; 2018: RON 247,355), respectively of the expenses with the maintenance of the ceased investment objectives (2019: RON 8,555,419; 2018: RON 4,733,918).

23. FINANCIAL RESULTS

	2019	2018
Interest income	86,126,778	58,376,605
Other financial income	27,649,527	19,252,011
Financial income	113,776,305	77,628,616
Interest expenses	(344,101)	(322,495)
Other financial expenses	(336,055)	(207,609)
(Net Loss / profit from exchange rate differences	(7,144,191)	(97,903)
Financial expenses	(7,824,347)	(628,007)
Financial result, net	105,951,958	77,000,609

24. COMMITMENTS

24.1. Contractual commitments

The Company has the following contractual commitments on 31 December 2019:

	<u>RON</u>
Acquisition of tangible and intangible assets	<u>805,047,130</u>

24.2 Granted and received guarantees

a. Granted guarantees

On December 31, 2019, the Company granted performance bonds and good payment bonds in value of RON 142,140,387 mainly for guaranteeing the obligation to deliver electricity on the Centralized Market of Bilateral Contractors (CMBC) and the Centralized Market of Universal Service (CMUS), the guarantee payment obligations related to energy purchase transactions made on the Next Day Market (NDM) and the Intraday market (IM).

b. Guarantees received

Guarantees received from suppliers: RON 261,414,641 - representing performance bond, insurance policies and funds in guarantee accounts opened in favor of Hidroelectrica SA in order to ensure the fulfillment of the obligations incumbent on the partners within the procurement contracts, goods and services.

Guarantees received from clients: RON 386,009,990 - representing letters of good payment bank guarantee received from the partners within the electricity sales contracts.

25. CONTINGENCIES

25.1 Litigations

The main litigations in which the Company is involved on December 31, 2019 with a total potential exposure of RON 870.1 million are the following:

a) Litigation on file 3200/2/2018 against Ministry of Energy

The dispute concerns the Concession Contract no. 171/2004 regarding public assets.

Petitioner: Ministry of Energy

Defendant: Hidroelectrica SA

Potential exposure: RON 373 million.

The Ministry of Economy, Energy and Business Environment requested the following from the court:

- (i) Supplementing Hidroelectrica's consent to conclude an addendum to the concession contract, whereby the contract is modified so that:
 - The Ministry of Energy, as a concession provider, can unilaterally modify the amount of the royalty; and
 - amend the amount of the royalty at the value of the annual amortization of assets received in concession.
- (ii) Subsequently, the Ministry of Energy (ii) supplemented the action in court, requesting Hidroelectrica to pay RON 373 million, representing the difference between the amortization of the assets received in concession and the royalty paid for 2013-2018.

The action in court of the Ministry was initiated following a inspection and a report of the Court of Accounts at the Ministry of Economy, Energy and Business Environment. According to this report, the method of establishing the royalty for the concession agreement violate Law no. 15/1994 regarding the amortization of the fixed capital in tangible and intangible assets and the methodological application norms, applicable to the economic agents. According to the provisions of the mentioned law, the amortization of the concessional assets belongs to the owner, in this case, in charge of the Ministry. This depreciation is recovered by royalty.

The company has as arguments against the request of the Ministry the provisions of Ordinance no. 81/2003 on the revaluation and depreciation of fixed assets in the patrimony of public institutions, according to which the goods belonging to the public domain are not subject to depreciation. This category also includes the goods granted by the Ministry to the Company. Thus, the value of the depreciation that the Ministry has in its charge, as the owner of some concessional public domain assets, is invalid, consequently the value that should be recovered through the royalty is zero.

On November 6, 2019, the court appointed an independent expert to determine the amount of depreciation, namely the difference between the determined depreciation and the royalty paid by the Company.

The next term is April 29, 2020, when the independent expert is expected to submit the accounting expertise report. Following the submission of the report, the parties will be able to dispute its content.

Based on the arguments presented above, the Company estimates that it is highly probable that the dispute will be finalized in favor of the Company, consequently, it did not register a provision in connection with this dispute.

b) Litigations against ANAF

The litigation opened by Hidroelectrica regarding the cancelling of the Decision for solving the preliminary fiscal appeal no. 406 / 18.12.2014 and the cancelling of the Tax Decision no. F-MC 851 / 21.01.2014

Potential exposure: RON 214.4 million

As presented in note 8, points i. - ii., The company was under general fiscal inspection, following which ANAF issued the Tax Decision no. F-MC 851 / 21.01.2014 on additional fiscal payment obligation in the amount of RON 232.6 million. The Company challenged the tax decision, and through the Decision for solving the preliminary fiscal appeal no. 406 / 18.12.2014, the General Directorate for Solving Appeals within ANAF partially admitted the appeal filed by the Company, for the amount of RON 18.2 million. Thus, the obligations imposed by decision F-MC 851 / 21.01.2014 were reduced to RON 214.4 million. The Company requested in court the annulment of both decisions. The litigation is in the stage of administration of evidences, respectively the elaboration by the experts designated by the court of the financial-accounting expertise report.

The company analyzed possible future events considering the following:

- The final decision of the Bucharest Court of Appeal, within the insolvency file of the Company, according to which ANAF is deprived of the right to request the payment of tax claim generated by the tax decision (more information is presented in note 8 - point iii).
- in case the court considers that the fiscal decisions are valid, the court will have to analyze the forfeiture of ANAF's rights regarding the fiscal claim, in order to decide if the Company owes the imposed amounts.

Considering the analysis performed, the Company estimates that it is highly probable that the dispute will be finalized in favor of the Company, consequently, it did not register a provision in connection with this dispute.

c) The arbitral file no. ICC 20540/MHM

Arbitral litigation regarding Contract no. 23.534/H.700.116004 regarding the refurbishment of hydroelectric power plants located on the Lower Olt: Ipotesti, Draganesti, Frunzaru, Rusanesti and Izbiceni.

Petitioner: Hidroelectrica SA

Defendant: Voith Hydro Holding GmbH & CO KG („Voith”) and Andritz Hydro GmbH („Andritz”)

Potential exposure: RON 28.3 million.

Hidroelectrica has asked the arbitral tribunal to issue a ruling by which:

- (i) to oblige the defendants to replace the works with deficiencies with ones conforming the Contract or, alternatively, to pay the amount of RON 166 million representing contract's value of the works with deficiencies plus the related interest;
- (ii) order the parties to pay damages for the damage suffered as a result of the non-fulfillment of the object of the Contract, in the form:
 - Petitioner will have full ownership of the works with deficiencies; and;
 - payment of damages for any damage suffered as a result of failing to fulfill the object of the Contract, namely (a) RON 83 million if the defendants will be obliged to replace the works with deficiencies or, if not, (b) RON 573 million.

Voith and Andritz applied to the arbitral tribunal for reconvening the following:

- (i) reject entirely the claims of the Company;
- (ii) require the Company to pay to Voith and Andritz the amount of RON 63.9 million representing a bank guarantee executed by the Company (RON 35.6 million), additional works (RON 17 million), equipment delivered by Voith and Andritz RON 11.3 million) plus due interest;
- (iii) alternatively, to reject the Company's claims regarding the replacement of the works with deficiencies, the financial compensation and the reimbursement of the price of the works with deficiencies and, only with regard to the corroded parts and affected by the linear and round indications, order the repair, subject to the Company increasing repair costs, compared to those the petitioners would have had to pay if that reparations would have been recorded at the time of deficiency;
- (iv) to grant the costs incurred in connection with arbitration and interest at 6% per year.

In March 2018, the final pleadings took place. Subsequently, the arbitral tribunal called on the parties for a series of clarifications.

In August 2019, one of the three arbitrators was challenged and replaced at the request of the Company, as he became, during the arbitration proceedings, an employee of the legal consultant of Voith and Andritz.

Following the recusation, the parties provided the Tribunal with comments on the arbitrator's recusation and the possible resumption of the proceedings in the context in which the events leading up to the arbitrator's recusation could have been influenced by the violation of the arbitrator's principle of independence. The tribunal did not return until the date of the financial statements with a decision. The decision that could be taken is either to resume the arbitration procedure in the new structure of the arbitrators, or to decide on the case.

On December 31, 2019, the Company has registered a provision related to the executed letter of guarantee, in the amount of RON 35,618,248 (December 31, 2018: RON 35,618,248). Regarding the amount remaining from the request of Voith and Andritz (RON 28.3 million), taking into account the uncertainties generated by the complexity of the case, the Company estimates that the arbitral award will oblige both parties involved to pay

damages. The company could not reliably estimate the value of these compensations in order to recognize a provision.

b) *The arbitral file no. 20901/MHM*

Arbitral litigation regarding Contract no. 16636 / 31.10.1997 on the upgrading and the increase of the power of the 6 hydroelectric units of HPP Portile de Fier I.

Petitioner: Hidroelectrica SA

Defendant: ANDRITZ HYDRO AG („Andritz”)

Potential exposure: RON 72.5 million.

Hidroelectrica has asked the arbitral tribunal to issue a ruling by which:

1.A. Mainly: to order Andritz to pay the Company damages for the loss suffered as a result of failing to fulfill the object of the Contract, amounting to RON 1,582 million plus 6% interest per year, calculated up to the payment day. The amount also includes replacement of work according to the MWH Quantum Replacement Program.

1.B. Alternatively, to the extent that Arbitral Tribunal considers that the MWH Quantum Replacement Program will satisfy the Company's right to a hydroelectric power plant in accordance with the contractual provisions, order Andritz to pay the Company the amount of RON 1,204 million plus the 6% interest per year, calculated to the payment day.

In the counterclaim, Andritz asked the arbitral tribunal to force the Company to pay the amount of RON 72.5 million, representing costs incurred by Andritz to repair the damage caused by the cavitation.

During 2019, all the hearings scheduled within the arbitration procedure took place.

In January 2020 and March 2020, the parties submitted their conclusions after the hearing.

It is estimated that the Tribunal will issue a final decision around May and June 2020.

Considering the uncertainties generated by the complexity of the case, on 31 December 2019 the Company estimates that the arbitral decision will oblige both parties involved to pay damages. The Company could not reliably estimate the value of these compensations in order to recognize a provision.

d) *The arbitration file no. ICC 22482/MHM*

Arbitral litigation regarding Contract no. 21/50765/09.11.2001 on capital repairs and the modernization of the hydropower plant Portile de Fier II.

Petitioner: Andritz Hydro GmbH and Andritz Hydro GmbH (together „Andritz”)

Defendant: Hidroelectrica

Potential exposure: RON 60.7 million.

Andritz asks the Arbitral Tribunal to order Hidroelectrica to pay the amount of RON 60.7 million plus the 6% interest per year, representing Andritz's works after Hidroelectrica's unilateral termination of the contract.

Hidroelectrica filed a counterclaim requesting RON 16.2 million, representing the difference between the advance paid by the Company and the interim payments to Andritz and unjustified by works executed according to the contractual provisions, plus the related interest.

In April 2018, the arbitral tribunal decided to divide the procedure into two stages

- Stage of exclusion on the lack of competence and admissibility of the action, exceptions filed by Hidroelectrica motivating that Andritz did not fulfill the contractual steps regarding the pre-arbitration stage and that Andritz lost the right to these claims, considered to be current in the insolvency procedure because it has not applied for payment of these amounts during the insolvency period; and
- Stage of the fund.

During 2019, the Arbitral Tribunal decided on the stage regarding the exceptions invoked by the Company. The tribunal rejected its objections.

According to the procedure schedule for the substantive stage, the hearings will take place in June 2020. The estimated date for the completion of the file is the end of 2020.

Considering the analysis performed, the Company estimates that it is highly probable that the dispute will be finalized in favor of the Company, consequently, it did not register a provision in connection with this dispute.

f) File no. 44443/3/2016 against Hidroconstructia SA

Petitioner: Hidroconstructia SA

Defendant: Hidroelectrica SA

Potential exposure: RON 32.8 million.

Hidroconstructia SA filed claims in amount of RON 32.8 million, representing the equivalent of the costs generated by the ceasing of the construction works related to some of the investment projects under execution. The company has asked the court to reject Hidroconstructia's request, motivating the following:

- the claims made by Hidroconstructia does not represent costs of preserving the works during the period of their ceasing, but the costs incurred by the Hidroconstructia before the Company's insolvency;
- thus, as a claim prior to the insolvency proceedings, it had to be declared at the creditors' group within the preemptive term stipulated in the Law no. 85/2006, in the case of the Company the term being 06.08.2012; and
- failure to submit the claim in the legal term means that Hidroconstructia is losing the right to request the collection of the debt.

In March 2018, the tribunal of the Bucharest Court of Appeal rejected Hidroconstructia SA request, the decision being endorsed by both parties.

In April 2019 the Bucharest Court of Appeal upheld the appeals made by the parties and sent the case back to the Bucharest Tribunal.

Hidroelectrica filed an appeal against this solution, which is pending before the High Court of Cassation and Justice, being under the filter procedure. The term for the meeting is to be set.

Considering the favorable decision from the substantive stage, the Company estimates that it is highly probable that the dispute will be finalized in favor of the Company, consequently, it has not registered a provision in connection with this dispute.

g) File no. 40314/3/2013* against Consortium Romelectro SA, Hidroconstructia SA and ISPH Project Development SA („Consortium”)

The dispute concerns the execution contract no. 21DI/26.01.2004 on achieving the investment *Hydroelectric development of Jiu River on the sector Livezeni-Bumbesti*.

Petitioner: Consortium Romelectro SA, Hidroconstructia SA and ISPH Project Development SA

Defendant: Hidroelectrica SA

Potential exposure: RON 88.4 million.

The Consortium asked the court:

- (i) To give a court decision as to replace an addendum to the execution contract, an addendum having as object additional works executed by the Consortium from 2010 until now and establishing the value of the respective works in the amount of RON 88.4 million; and
- (ii) To oblige Hidroelectrica to pay the amount of RON 88.4 million representing the liabilities resulting from the execution of the works.

Subsequently, the claims in point (ii) have been dispelled, being finally settled in the Hidroelectrica insolvency file, where the syndic judge decided to reject them. Therefore, the subject of the case is represented only by the court's decision that should be considered as addendum.

In November 2015, the court of first instance rejected the Consortium's request, the decision being contested by the Consortium.

In December 2016, the Court of Appeal upheld the appeal brought by the Consortium and referred the case back to the court.

After re-examining the substance, in April 2018, the court rejected the request of the Consortium.

The current appeal of the Consortium against the decision of April 2018 is judged. The next hearing is on 30.04.2020.

The company analyzed the possible future events taking into consideration the following:

- if the final decision of the court is unfavorable to the Company, an addendum will be concluded in accordance with the request mentioned in point (i) above;
- Consortium Romelectro - Hidroconstructia - ISPH will initiate the foreclosure procedure for the amount of RON 88.4 million;
- The Company will challenge the foreclosure procedure, arguing that the Consortium has been denied the right to claim this debt by the syndic judge's decision.

Considering the favorable decision from the substantive stage, the Company estimates that it is highly probable that the dispute will be finalized in favor of the Company, consequently, it has not registered a provision in connection with this dispute.

25.2 The ongoing investigation of the Competition Council at Hidroelectrica

There is an ongoing investigation at Hidroelectrica ordered based on the Order of the President of the Competition Council no. 1079 / 24.08.2018 having as object a possible violation of art. 6 paragraph (1) letter (b) 1 of the Competition Law no. 21/1996, with subsequent amendments and completions ("Competition Law") by Hidroelectrica S.A. on the market of production and sale of electricity in Romania by limiting the sale of

electricity.

By court decision no. 22 / 03.09.2018 pronounced by the Bucharest Court of Appeal, an unexpected inspection was authorized at Hidroelectrica and at the Compania Națională de Transport a Energiei Electrice Transelectrica S.A. ("Transelectrica"), the Competition Council invoking the fact that, in 2017, the Romanian electricity market was characterized by an increase in the price of electricity on each of the centralized markets managed by OPCOM, especially in January, June and July. 2017. In addition, the suspicions of the competition authority were based on the price increases registered on the balancing market, where, against the background of the large volume of energy selected for the increase, the prices registered very high hourly values in January and February 2017.

Thus, the request of the competition authority was based on a possible anti-competitive act committed by Hidroelectrica, consisting in limiting the sale of electricity on the market of production and sale of electricity in Romania, achieved by withdrawing available capacity or selling offers at prices above market (physical and / or financial withdrawal of capacity).

On September 5, 2018, based on the court decision authorizing the inspection, as well as the Order of the President of the Competition Council no. 1112 / 04.09.2018, the Competition Council inspected the headquarters of Hidroelectrica S.A. in Bucharest. The inspection took place over a single day, and no seals were required. At the end, the inspectors picked up a series of documents in physical format, in electronic format, as well as scanned documents.

At this date, the investigation is ongoing, without any measures being ordered against Hidroelectrica, Directors or managers.

25.3 Tax Legislation Framework

Tax inspections are common in Romania, consisting in detailed checks of taxpayers' accounting registers. Such inspections occur sometimes after months or even years subsequent the payment obligations have been established. As a result, companies may be subject to significant taxes and fines. In addition, tax legislation is subject to frequent changes, and authorities are inconsistent in interpreting the legislation.

Income tax may be subject to revisions and corrections performed by fiscal authorities, generally for a period of five years after their date of completion.

Romanian tax authorities have carried out inspections regarding the calculation of the corporate tax until June 20, 2012.

The Company's management believes that adequate reserves have been set up in the financial statements for all significant tax liabilities, however there is still a risk that the tax authorities will have different positions.

25.4 Environmental issues

On 31 December 2019, the hydropower objectives hold an environmental permit within the validity period or are in the renewal procedure, respectively all those in operation, except those taken out of use. Environmental permits for heritage objectives are issued without compliance programs. The validity terms are between 2018 and 2025. For 20 authorizations, with expired validity in 2018 and 2019, renewal applications and the necessary documents were submitted within the legal term, and at this date are under the reauthorization procedure.

Following the amendment of the legislation on the validity of environmental permits, at the end of 2018, it became mandatory to apply the annual visa by the local Environmental Protection Agencies.

During 2019, 129 visa applications for environmental permits were submitted to the county Environmental Protection Agencies.

The operating conditions imposed by the environmental authorizations refer to the monitoring of the environmental factors and to the observance of the requirements of the environmental legislation applicable to the hydropower objectives. In order to monitor the environmental factors, actions are carried out to measure the physico-chemical quality indicators of the waters in the lakes, of the turbinated waters, of the wastewater, but also to measure the noise level at site limit. During 2019, all the necessary measurements were performed and no exceedances of the legal limits for the measured indicators were registered. The reporting of the stage of accomplishment of these actions and the results of the monitoring were performed at the required terms.

25.5 Obligations regarding the disassembly and restoration of the site

Note 2.3 a4) describes in detail the obligations identified by the Company regarding the disassembly and restoration of the site. The Company estimates that until the end of the concession contract (34 years remaining) the probability of situations requiring the transfer to post-use or abandonment of public domain assets or hydroelectric power plants owned by the Company (other than those in current assets) is reduced described in Note 5), given the long life of the dams, which can be significantly extended over 100 years through maintenance works and improvements.

Also, given that the rate of degradation and lifespan of a dam varies significantly from case to case (some can reach hundreds of years), as well as the complexity and variety of works that may be required for post-use or abandonment, which depend on the actual situation of each dam at the time of post-use or abandonment, the works and costs that may be required cannot be reliably estimated for such a long time. Also, there are significant uncertainties regarding the evolution of the degree of degradation and determination of the real life of a dam, these being dependent on natural phenomena (floods, landslides, earthquakes, etc.) and the behavior over time of the construction itself.

Consequently, the Company recognizes decommissioning provisions when management has made the decision to abandon an asset or move to post-use. The provisions are recognized based on the costs resulting from the technical documentation prepared by specialists employed by the Company.

26. AFFILIATED PARTIES

a) Main shareholders

The shareholders of the Company are the Romanian State which holds through the Ministry of Economy, Energy and Business Environment 358,842,926 shares, representing 80.06% of the share capital, and Fondul Proprietatea which holds 89,396,405 shares representing 19.94% in the share capital.

a) Remuneration of Company's Management

Remuneration of Directorate	2019	2018
Fixed component	2,359,103	1,645,585

The remuneration of the executive members consists of a fixed monthly indemnity that cannot exceed six times the average for the last 12 months of the average gross monthly salary for the activity carried out according to the main object of activity registered by the Company, at class level according to the classification of economic activities, communicated by NIS prior to the appointment and from a variable component calculated based on financial and non-financial performance indicators, negotiated and approved by the general meeting of shareholders.

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The variable component of the remuneration of the Supervisory Board for 2019 approved by the GMS decision no. 20 / 25.07.2019, is limited to 3.5 times the fixed allowance for the period June - December 2019 according to the mandate contracts. The maximum value of the variable component is RON 4,784,115.

On December 31, 2019, the Company recorded the amount of RON 4,784,115 representing the variable component of the remuneration of the Supervisory Board in "Provisions" - Note 18.

The company has no contractual obligations regarding the payment of pensions to the former managers.

	<u>2019</u>	<u>2018</u>
Remuneration of the members of the Supervisory Board	893,328	792,091

The Supervisory Board consists of 7 members. The remuneration of the members of the supervisory board was approved by the GMS by decision no. 5 / 05.02.2019.

According to this, the remuneration of non-executive members consists of a fixed monthly allowance that cannot exceed twice the average for the last 12 months of the average gross monthly earnings for the activity carried out according to the main object of activity registered by the Company, at class level according to activity classification from the national economy, communicated by NIS prior to the appointment. The amount of the variable component may not exceed a maximum of 12 fixed monthly allowances.

On December 31, 2019, the Company recorded the amount of RON 951,285 representing the variable component related to the Supervisory Board, which is included in the "Provisions" line.

No loans were granted to managers and Directors in 2019 and 2018. No guarantees were granted / received to / from managers and Directors.

b) Information regarding the relations with the entities in which the Company holds shares

(i) Investments

	<u>31 December</u> <u>2019</u>	<u>31 December</u> <u>2018</u>
Hidroserv SA	70,576,810	70,576,810
Hidroelectrica Trading Doo	-	2,423,685
Adjustments for investments in subsidiaries	(70,576,810)	(73,000,495)
Total	<u>-</u>	<u>-</u>

The company has fully adjusted the value of investments in Hidroserv SA, which is under insolvency proceedings, and in Hidroelectrica Trading Doo, whose liquidation procedure was completed on August 31, 2019, because it considers the investments to be irrecoverable.

Hidroserv SA entered the insolvency procedure in October 2016. In February 2018, the syndic judge decided to cancel the administration right of Hidroserv SA by the special administrator and assign it to the official receiver, appointed by the syndic judge. Consequently, the Company no longer prepares consolidated financial statements as of December 31, 2019.

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(ii) Balances of receivables and liabilities from / to the entities in which the Company holds shares

	Balance receivables from		Liabilities balance to	
	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Hidroserv	863,742	271,431	31,186,467	26,036,065
Total	863,742	271,431	31,186,467	26,036,065

Hidroserv's liabilities include debts from the provision of maintenance services by Hidroserv.

(iii) Transactions with the entities in which the Company holds shares

	Sales in 2019	Sales in 2018	Acquisitions in 2019	Acquisitions in 2018
Hidroserv	1,964,639	1,454,329	123,185,652	135,989,093
Total	1,964,639	1,454,329	123,185,652	135,989,093

Transactions mainly relate to procurement of maintenance services.

c) Transactions with other companies in which the State holds significant control or influence

In the normal course of its business, the Company has transactions with other entities in which the State has significant control or influence, mainly related to the tax on turbinated water, acquisition of electricity, transmission and ancillary services and electricity sales as follows:

Supplier	Acquisitions (without TVA)		Balance (with TVA)	
	2019	2018	31 December 2019	31 December 2018
Administratia Nationala Apele Romane	317,793,757	359,758,634	42,369,117	40,439,207
Transelectrica	79,608,723	70,938,338	7,181,016	7,762,480
Electrica Distributie Muntenia Nord	7,556,106	4,352,427	197,368	389,405
OPCOM	1,489,004	79,175,941	93,498	188,818
Others	16,183,010	20,177,304	1,545,779	564,713
Total	422,630,600	534,402,644	51,386,778	49,344,623

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Client	Sale (without VAT)	Balance, Gross value (including VAT)	Adjustment (including VAT)	Balance, Net value (including VAT)
	2019	31 December 2019		
Transelectrica SA	786,033,013	88,915,987	-	88,915,987
E ON Energie Romania	122,486,356	8,550,388	-	8,550,388
Electrica Furnizare	269,149,017	24,408,338	-	24,408,338
Enel Energie SA	194,158,477	15,456,711	-	15,456,711
Enel Energie Muntenia	231,728,545	26,286,030	-	26,286,030
Engie Romania	224,251,309	15,374,381	-	15,374,381
Metrorex	64,329,434	30,652,291	-	30,652,291
Electrica Distributie Muntenia Nord	50,803,698	56,489	-	56,489
STB Bucuresti	34,577,607	21,771,259	-	21,771,259
OPCOM	679,479,766	-	-	-
CET Brasov	-	18,724,742	(18,724,742)	-
Others	36,095,068	2,622,785	-	2,622,785
Total	2,693,092,290	252,819,401	(18,724,742)	234,094,659

Client	Sale (without VAT)	Balance, Gross value (including VAT)	Adjustment (including VAT)	Balance, Net value (including VAT)
	2018	31 December 2018		
Transelectrica SA	962,712,967	195,284,067	-	195,284,067
E ON Energie Romania	216,310,744	15,818,742	-	15,818,742
Electrica Furnizare	194,660,645	7,897,440	-	7,897,440
Enel Energie SA	168,674,897	15,660,356	-	15,660,356
Enel Energie Muntenia	244,403,305	14,466,142	-	14,466,142
Engie Romania	137,777,172	21,348,318	-	21,348,318
Metrorex	50,055,368	11,231,852	-	11,231,852
RATB Bucuresti	32,918,351	8,153,109	-	8,153,109
OPCOM	270,360,872	750,074	-	750,074
CET Brasov	-	18,724,742	(18,724,742)	-
Others	114,982,957	23,951,395	-	23,951,395
Total	2,392,857,278	333,286,237	(18,724,742)	314,561,495

27. FINANCIAL INSTRUMENTS - FAIR VALUES AND RISK MANAGEMENT

(a) Accounting classifications and fair values

In accordance with IFRS 9, the Company's financial assets and liabilities are measured at amortized cost. They are held within a business model in order to collect contractual cash flows and these cash flows consist exclusively of principal payments and related interest.

The Company has determined that the carrying amount is a reasonable approximation of the fair value of financial assets and liabilities.

b) Financial risk management

Credit risk

Credit risk is the risk when the Company might suffer a financial loss as a result of failing to fulfill contractual obligations by a client or a counterparty regarding a financial instrument, and this risk is mainly due to trade receivables, cash and cash equivalents and bank deposits.

Cash and bank deposits (representing deposits with an initial maturity of more than 3 months) are placed in financial institutions that are considered to have a high credit standing.

Exposure to credit risk

The carrying amount of financial assets is the maximum exposure to credit risk.

	<u>31 December 2019</u>	<u>31 December 2018</u>
Trade receivables	327,536,263	445,823,203
Other receivables	214,385,212	214,385,212
Cash and cash equivalents	222,976,476	75,763,691
Restricted cash	10,257,471	10,257,471
Bank deposits	1,736,855,286	2,496,667,070
Total	<u>2,512,010,708</u>	<u>3,242,896,647</u>

Trade receivables

The exposure of the Company to credit risk is mainly influenced by the individual characteristics of each client. The company has established a credit policy under which each new client is individually analyzed in terms of creditworthiness before concluding a contract, so that the sale is made to the clients with the appropriate creditworthiness. Adjustment for impairment of trade receivables is the amount of expected losses, calculated based on loss rates.

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The following table provides information on the exposure to credit risk and expected loss rates at 31 December 2019:

	Average losses	Gross value	Adjustment for depreciation	Net trade receivables
Non-past due	0%	299,379,580	-	299,379,580
Overdue - from 1 to 3 months	0.00%	23,807,019	(555)	23,806,464
Overdue - from 3 to 6 months	1.99%	2,920,626	(58,209)	2,862,417
Overdue - from 6 months to 1 year	49.47%	1,252,892	(619,745)	633,147
Overdue - more than 1 year	98.84%	77,599,183	(76,744,528)	854,655
Total		404,959,300	(77,423,037)	327,536,263

The following table provides information on the exposure to credit risk and expected loss rates at 31 December (ECL) on 31 December 2018:

	Average losses	Gross value	Adjustment for depreciation	Net trade receivables
Non-past due	0%	439,829,638	-	439,829,638
Overdue - from 1 to 3 months	16.06%	739,614	(118,585)	621,029
Overdue - from 3 to 6 months	10.57%	831,852	(87,929)	743,922
Overdue - from 6 months to 1 year	28.42%	5,851,689	(1,662,835)	4,188,854
Overdue - more than 1 year	99.43%	77,310,723	(76,870,964)	439,759
Total		524,563,516	(78,740,313)	445,823,203

Loss rates are based on the real experience of credit losses over the last four years.

Details of the main impairment adjustments are presented in Note 7.

Liquidity risk

Liquidity risk is the risk when the Company may encounter difficulties in meeting the obligations associated with financial liabilities that are settled by the transfer of cash or another financial asset. The Company has significant cash and cash equivalents, so that it does not face the liquidity risk.

The Company monitors the level of expected cash inflows from the collection of trade receivables, as well as the expected cash outflows for the payment of loans, commercial debts and other debts. The company seeks to maintain a level of current bank accounts that exceed the expected cash outflows for the payment of financial debts.

Exposure to liquidity risk

The following table shows the contractual maturities of financial liabilities at reporting date. Amounts are presented as gross and outdated value and include estimated interest payments

Financial liabilities	Accounting value	Contractual cash flows		
		Total	Less than 1 year	Between 1 to 5 years
31 December 2019				
Trade payables	175,163,370	175,163,370	161,425,822	13,737,548
Loans	70,006,725	70,199,291	43,728,436	26,470,855
Leasing	19,594,386	20,268,682	4,409,536	15,859,146

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	Accounting value	Contractual cash flows		
		Total	Less than 1 year	Between 1 to 5 years
Financial liabilities				
Total	264,764,481	265,631,343	209,563,794	56,067,549
31 December 2018				
Trade payables	171,181,820	171,181,820	155,933,031	15,248,789
Loans	110,825,604	112,414,427	43,423,873	68,990,554
Total	282,007,424	283,596,247	199,356,904	84,239,343

Market risk

Market risk is the risk that changes market prices - the exchange rate and interest rate - will affect the Company's profit or the value of the financial instruments held. The objective of market risk management is to manage and maintain exposures within acceptable limits and optimize results.

(i) *Interest rate risk*

The Company has long-term loans with variable interest rates that may expose the Company to interest rate risk. The company considers the potential impact is low given the low level of loans.

	31 December 2019	31 December 2018
Fixed interest rate instruments		
Financial assets		
Restricted cash	10,257,471	10,257,471
Deposits	1,736,855,286	2,496,667,070
Total	1,747,112,757	2,506,924,541
Instruments with variable interest rate		
Financial liabilities		
Loans	(70,006,725)	(110,825,604)
Leasing	(19,594,386)	-
Total	(89,601,111)	(110,825,604)

The sensitivity analysis of the fair value of instruments with the fixed interest rate

The Company does not record financial assets and financial liabilities with a fixed interest rate recognized at fair value through profit or loss. Therefore, a change in interest rates at the reporting date would not affect profit or loss.

Sensitivity analysis of the cash flows of instruments with variable interest rate

A reasonably possible increase/reduction in interest rates by 50 basis points on the reporting date would have increased (reduce) the pre-tax profit by the amounts below. This analysis implies that all other variables, especially currency exchange rates, remain constant.

	Profit before tax	
	increase by 50 basis points	reduce by 50 basis points
31 December 2019		
Instruments with variable interest rate	(448,006)	448,006

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	Profit before tax	
	increase by 50 basis points	reduce by 50 basis points
31 December 2018		
Instruments with variable interest rate	(554,128)	554,128

(i) *Foreign exchange risk*

The Company is exposed to currency risk to the extent that there is an imbalance between the currencies in which it carries out sales and purchases and in which the loans and the functional currency of the Company are denominated. The functional currency of the Company is the Romanian Leu (RON).

The currency in which these transactions are denominated are mainly RON. Certain debts are denominated in foreign currency (EUR and USD). The Company's policy is to use as much as possible the local currency in the transactions it carries out. The Company does not use derivatives or hedging instruments.

	31 December 2019			
	EUR	USD	CHF	HUF
Cash and cash equivalents	347,138	173,963	307,018	217,530
Trade receivables	(53,254,443)	(176,190)	-	(723)
Loans	(70,006,725)	-	-	-
Leasing	(4,198,184)	-	-	-
Net exposure to the statement of financial position	(127,112,214)	(2,227)	307,018	216,807

	31 December 2018			
	EUR	USD	CHF	HUF
Cash and cash equivalents	241,226	202,183	289,836	217,915
Trade receivables	(19,594,292)	-	-	-
Loans	(110,825,604)	-	-	-
Net exposure to the statement of financial position	(130,178,670)	202,183	289,836	217,915

The following exchange rates were applied during the year:

	31 December 2019	31 December 2018
RON / EUR	4.7793	4.6639
RON / USD	4.2608	4.0736
RON / CHF	4.4033	4.1404
RON / 100 HUF	1.4459	1.4527

Sensitivity analysis:

A 10% appreciation of the RON against the following foreign currencies on 31 December 2019 and 2018 would have increased the profit by the amounts indicated below. This analysis assumes that all other variables remain constant.

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	Profit before tax 31 December 2019	Profit before tax 31 December 2018
EUR	12,711,221	13,017,867
USD	223	(20,218)
CHF	(30,702)	(28,984)
100 HUF	(21,681)	(21,792)
Total	12,659,061	12,946,873

A 10% depreciation of the leu against foreign currencies on December 31, 2019 and 2018 would have had a similar but opposite effect on the above amounts, assuming that all other variables remained constant.

	Profit before tax 31 December 2019	Profit before tax 31 December 2018
EUR	(12,711,221)	(13,017,867)
USD	(223)	20,218
CHF	30,702	28,984
100 HUF	21,681	21,792
Total	(12,659,061)	(12,946,873)

28. FURTHER EVENTS

COVID-19 – influences on Company's activity

On March 11, 2020, the World Health Organization declared the coronavirus epidemic as a pandemic, and the President of Romania declared a state of emergency on March 16, 2020. To respond to the potentially serious threat posed by COVID-19 to public health, the Romanian government authorities have taken measures to control the epidemic, including the introduction of restrictions for movement of persons across the borders, restrictions on foreign visitors and the "blocking" of certain industries, until new developments of the situation. Specifically, airlines have suspended the transport of people to and from countries affected by the COVID-19 crisis, and schools, universities, restaurants, cinemas, theaters, museums, and sports facilities, except grocery stores, and pharmacies were closed. In addition, the major manufacturers in the automotive industry have decided to close operations both in Romania and in other European countries. Some Romanian companies have also asked employees to stay home and have temporarily reduced or suspended work.

The economic impact of these events includes:

- Disruption of commercial operations and economic activity in Romania, with a cascading effect on supply chains;
- Significant disturbances of the activity in certain sectors, both in Romania and on the markets with a high dependence on a foreign supply chain, as well as the disturbance of the export-oriented businesses that largely depend on the external markets. Affected sectors include trade and transport, the travel and tourism sector, entertainment, production, construction, retail, insurance, education and the financial sector;
- Significant decrease in demand for non-essential goods and services;
- Increasing economic uncertainty, reflected in the increased volatility of asset prices and exchange rates.

On March 21, 2020, an emergency government ordinance on certain economic and fiscal-budgetary measures entered into force to counteract the negative effects of the COVID-19 epidemic, especially on small and medium-sized entities.

The company operates in a strategic sector, the electricity generation sector which has not been significantly affected by the COVID-19 epidemic.

The company achieved relatively stable sales, and its operations, including deliveries, were not interrupted. Based on publicly available information at the date these financial statements were authorized to be issued, management considered a number of serious but plausible scenarios regarding the potential evolution of the epidemic and its estimated impact on the entity and the economic environment in which the entity operates.

To mitigate the risks arising from potential adverse scenarios, management has begun to implement measures, which include in particular:

- implementation of the work-from-home program based on rotation for a significant group of support and administrative personnel;
- employees in the production department were trained to comply with very strict prevention rules, including social distance;
- reducing expenses by purchasing products and services strictly necessary during this period.

To develop a likely scenario, management has considered the following issues that may adversely affect the Company:

- The recession of the Romanian economy, which would significantly reduce the need for electricity and the purchasing power of consumers, as well as regulations issued by the government in the emergency period - leading to lower energy prices and total sales estimated with impact by the Company, in the analyzed scenario estimated at about 10% revenue reduction for 2020 compared to 2019.
- Increase in operational expenses due to the measures taken to reduce the effects of COVID-19 and for the protection and health of employees, as well as the isolation of the operating personnel of hydroelectric power plants, with estimated effect, in the analyzed scenario, of increasing total operating expenses by 0.5% year 2020;
- Reducing the debt recovery rate from certain clients.

These above aspects will affect both the Company's cash flows for 2020 and its profitability. The Company estimates that the effects on the economy of the COVID-19 crisis will affect the Company's estimates for the following year in terms of valuing tangible assets and receivables.

The financial position of the Company as of December 31, 2019, as well as in March 2020 is very solid: the cash and bank deposits of the Company as of December 31, 2019 were in the amount of approximately RON 2 billion; the unused available credit lines were in value of RON 100 million. Also, the Company's capital expenditure commitments for the next 12 months were reduced by 50% in March 2020, mainly due to the inability of construction contractors to sustain the pace of work due to the effects of COVID-19, limiting themselves to unavoidable replacements of production equipment and essential maintenance costs.

Based on the calculations of the evolution of cash flows using the above assumptions, the Company concluded that there will be a reduction in cash flows without having a major disruptive impact on the Company's activity or timely payments of debts for the analyzed period, of at least 12 months from the balance sheet's date. The scenario that the Company has considered for the assessment of the impact on financial resources assumes that energy demand and energy prices will be affected for a period of 3 months starting with April 2020. However, in the case of an alternative scenario where the effects on the economy will be extended for a period

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of more than 3 months, the Company will still have enough financial resources.

In the management's opinion, the above factors reinforce that the Company will have enough financial resources to continue its activity for a period of at least 12 months from the reporting date. Management concluded that the range of possible outcomes considered to reach this conclusion does not give rise to significant uncertainties related to events or conditions that could significantly call into question the Company's ability to continue operating. Management does not anticipate an immediate and significant direct adverse impact of the Covid - 19 epidemic on the Company, its operations, financial position and results of operations. However, we cannot exclude the possibility that prolonged quarantine periods, an intensification of the severity of these measures or a secondary negative impact of these measures on the economic environment in which we operate will have a negative effect on the Company and on the financial position and operating results on medium and longer term. We will continue to monitor situations closely and will react to mitigate the impact of such events and circumstances as they occur.

Bogdan BADEA
President of
Directorate

Marian BRATU
Member of
Directorate

Razvan PATALIU
Member of
Directorate

Radu POP
Member of
Directorate

Cristian VLADOIANU
Member of
Directorate

Marian FETITA
Manager of Accounting Department

Prepared by
Gabriela VASILESCU
Chief of reporting, control, and planning
department